

Financial Statements

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

Year Ended June 30, 2008

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Emergency Communications District of
Anderson County, Tennessee
Clinton, Tennessee

We have audited the accompanying statement of net assets of Emergency Communications District of Anderson County, Tennessee, a component unit of Anderson County, Tennessee, as of June 30, 2008, and the related statement of revenue, expenses and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Emergency Communications District of Anderson County, Tennessee as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2008 on our consideration of Emergency Communications District of Anderson County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mitchell Emert & Hill

November 5, 2008

**EMERGENCY COMMUNICATIONS DISTRICT
OF ANDERSON COUNTY, TENNESSEE**

101 S. MAIN STREET SUITE 440

CLINTON, TN 37716

PHONE (865) 463-8160 FAX (865) 457-1748

Our discussion and analysis of the Emergency Communications District of Anderson County, Tennessee's (the District) financial performance provides an overview of the District's activities for the year ended June 30, 2008. Please read it in conjunction with the District's financial statements, as listed in the Table of Contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the District as a whole and present a long-term view of the District's finances.

**THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS**

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets report information about the District and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

FINANCIAL HIGHLIGHTS

The operations of the Anderson County Emergency Communications District (a component unit of Anderson County, Tennessee) are primarily funded as follows:

Telephone and Wireless companies "911" fees
Interest income

Total operational costs for the District were \$225,879 for the fiscal year ended June 30, 2008.

NET ASSETS

The analysis below focuses on the net assets and changes in net assets of the District:

	<u>2008</u>	<u>2007</u>
NET ASSETS		
Current assets	\$ 581,914	\$ 417,494
Capital assets	<u>312,308</u>	<u>342,444</u>
Total assets	<u>\$ 894,222</u>	<u>\$ 759,938</u>
Current liabilities	\$ 0	\$ 11,255
Net assets:		
Invested in capital assets	312,308	342,444
Unrestricted	<u>581,914</u>	<u>406,239</u>
	<u>894,222</u>	<u>748,683</u>
Total net assets	<u>\$ 894,222</u>	<u>\$ 759,938</u>
CHANGES IN NET ASSETS		
Operating revenue	\$ 354,672	\$ 345,741
Operating expenses	<u>225,879</u>	<u>228,189</u>
Operating income	128,793	117,553
Non-operating income	<u>16,746</u>	<u>3,629</u>
Change in net assets	145,539	121,182
Beginning net assets	<u>748,683</u>	<u>627,501</u>
Ending net assets	<u>\$ 894,222</u>	<u>\$ 748,683</u>

Net assets of the District increased by 18% during 2008 and 19% during 2007. Unrestricted net assets, the portion of the net assets that can be used to finance day-to-day operations, increased by \$164,420 or 39% for 2008 and \$127,942 or 42% for 2007. The net assets at July 1, 2006 have been restated for a payable not previously recorded.

FINANCIAL RATIOS

The ratios of Working Capital and Days Cash demonstrate the continuing ability to finance operations with cash. The stability of the current ratio and the liabilities to net assets ratio demonstrate that the District has not financed its working capital and days cash with an increased proportion of debt. The following is a related schedule of ratios:

	<u>2008</u>	<u>2007</u>
Working Capital (the amount by which current assets exceed current liabilities)	\$ 581,914	\$ 406,239
Days Cash and Investments (represents the number of days' normal operations could continue with no revenue collections)	1133 days	559 days
Return on Assets – illustrates to what extent there will be sufficient funds to replace assets in the future	18%	19%

CAPITAL ASSETS

At the fiscal year end of June 30, 2008, the District had \$312,308 invested in capital assets as outlined below (a \$30,135 or 9% decrease over the last year).

	<u>2008</u>	<u>2007</u>
Communications equipment	\$ 370,690	\$ 364,489
Furniture and fixtures	50,407	44,936
Vehicle	19,425	19,425
Leasehold improvements	50,240	50,240
Other fixed assets	<u>70,963</u>	<u>62,976</u>
	561,725	542,006
Less accumulated depreciation	<u>(249,417)</u>	<u>(199,622)</u>
	<u>\$ 312,308</u>	<u>\$ 342,444</u>

DEBT

At the fiscal year end, the District had no outstanding bonds payable, notes payable or lease obligations outstanding. During the next year, the District does not plan substantial additions to the District's capital assets.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability to the money it receives. If you have any questions about this report or need additional financial information, please contact Mark Lucas, Chairman of the Board of the Anderson County Emergency Communications District, 101 S. Main Street, Suite 440, Clinton, TN 37716.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

CURRENT ASSETS

Cash		\$ 227,705
Certificate of deposit		319,243
Accounts receivable		32,276
Prepaid insurance		<u>2,690</u>

TOTAL CURRENT ASSETS 581,914

PROPERTY AND EQUIPMENT

Communications equipment	\$ 370,690	
Furniture and fixtures	50,407	
Vehicle	19,425	
Leasehold improvements	50,240	
Other fixed assets	<u>70,963</u>	
	561,725	
Accumulated depreciation	<u>(249,417)</u>	<u>312,308</u>

TOTAL ASSETS \$ 894,222

NET ASSETS

Invested in capital assets		\$ 312,308
Unrestricted		<u>581,914</u>
		<u>894,222</u>

TOTAL NET ASSETS \$ 894,222

See the accompanying notes to the financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2008

REVENUE

Emergency telephone service charges		\$ 170,918
State emergency communications		
board-shared wireless charge		79,674
TECB operational funding program		<u>104,081</u>
		354,672

EXPENSES

Salaries and wages:		
Full-time personnel		48,237
Employee benefits:		
Social security	\$ 3,188	
Medicare	<u>502</u>	3,690
Contracted services:		
Addressing/mapping	9,120	
Audit services	3,375	
Accounting services	2,500	
Maintenance agreements	10,063	
Impact payments to cities	<u>7,500</u>	32,558
Lease/Rental:		
Communications equipment		70,590
Maintenance and repairs:		
Building and equipment	1,433	
Vehicle expense	<u>209</u>	1,642
Supplies and materials:		
Office supplies	645	
Other supplies and materials	1,987	
Postage	<u>164</u>	2,796

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

(continued)

Year Ended June 30, 2008

Utilities:		
Gasoline and diesel fuel	841	
General telephone	3,927	
Cell phones and pagers	<u>754</u>	5,522
Other charges:		
Board meetings	152	
Dues and subscriptions	550	
Insurance	4,837	
Training	30	
Travel	5,092	
Other charges	<u>389</u>	11,050
Depreciation		<u>49,795</u>
		<u>225,879</u>
	INCOME FROM OPERATIONS	128,793
OTHER INCOME		
State emergency communications board-grant		5,425
Interest income		<u>11,321</u>
	CHANGE IN NET ASSETS	145,539
NET ASSETS AT THE BEGINNING OF THE YEAR, as restated		<u>748,683</u>
	NET ASSETS AT THE END OF THE YEAR	<u><u>\$ 894,222</u></u>

See the accompanying notes to the financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

CASH PROVIDED(USED) BY OPERATING ACTIVITIES	
Cash received from telephone charges	\$ 351,927
Cash paid to suppliers	(139,055)
Cash paid to employees	<u>(48,237)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	164,635
CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(19,660)
CASH PROVIDED BY NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
State emergency communications board-grant	5,425
CASH PROVIDED(USED) BY INVESTING ACTIVITIES	
Interest received	\$ 11,321
(Increase) in certificate of deposit	<u>(210,997)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(199,676)</u>
NET DECREASE IN CASH	(49,276)
CASH AT THE BEGINNING OF THE YEAR	<u>276,980</u>
CASH AT THE END OF THE YEAR	<u>\$ 227,705</u>

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2008

**RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Income from operations		\$ 128,793
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	\$ 49,795	
(Increase) in accounts receivable	(2,745)	
(Decrease) in payroll taxes payable	<u>(11,209)</u>	
		<u>35,841</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 164,635</u>

See the accompanying notes to the financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

NOTE A - DESCRIPTION OF ORGANIZATION

Emergency Communications District of Anderson County, Tennessee (the District) was created by a countywide referendum on November 6, 1990. The Anderson County Board of Commissioners appointed the District's initial Board of Directors pursuant to Tennessee Code Annotated Section 7-86-101. The District is responsible for the installation and maintenance of the emergency communications network of Anderson County, Tennessee (Enhanced 911 Service).

The District is considered a component unit of Anderson County, Tennessee because the Anderson County Board of Commissioners appoints a majority of the District's Board of Directors and must approve any debt issued by the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District uses the accrual basis of accounting. Revenue is recognized when earned and measurable, and expenses are recognized when the liability is incurred. The District follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The District has not elected to follow FASB pronouncements issued after November 30, 1989.

The District's resources are classified for accounting and reporting purposes into the following three net asset groups:

Invested in capital assets: This category includes capital assets, net of accumulated depreciation. Invested in capital assets at June 30, 2008 has been calculated as follows:

Capital assets	\$ 561,725
Accumulated depreciation	<u>(249,417)</u>
	<u>\$ 312,308</u>

Restricted: Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. The District had no restricted net assets as of June 30, 2008.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS
(continued)

June 30, 2008

Unrestricted: This category includes net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets". Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Accounts Receivable

Accounts receivable which are deemed uncollectible based upon a periodic review of the accounts are charged to revenue. At June 30, 2008, no allowance for uncollectible accounts was considered necessary.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives, which range from five to twenty-five years.

Operating Budget

The District is required by state law to adopt an annual operating budget. The budget is prepared on the accrual basis of accounting. All appropriations lapse at the end of the year.

Compensated Absences

The District's full-time employees are granted vacation leave in varying amounts. In the event of termination, the employee is paid for any unused vacation leave.

NOTE C - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including general liability and workers' compensation coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2008

NOTE D - LEASES

The District occupies its facilities provided by Anderson County, Tennessee on a month-by-month basis. Anderson County provides the facilities without charge.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/08</u>
<u>Capital assets being depreciated</u>				
Communications equipment	\$ 364,489	\$ 6,201	\$ 0	\$ 370,690
Furniture and fixtures	44,936	5,471	0	50,407
Vehicle	19,425	0	0	19,425
Leasehold improvements	50,240	0	0	50,240
Other fixed assets	<u>62,976</u>	<u>7,987</u>	<u>0</u>	<u>70,963</u>
	542,066	19,660	0	561,725
<u>Accumulated depreciation</u>				
Communications equipment	(126,844)	(29,727)	0	(156,571)
Furniture and fixtures	(25,654)	(3,707)	0	(29,361)
Vehicle	(19,425)	(0)	0	(19,425)
Leasehold improvements	(13,214)	(2,168)	0	(15,383)
Other fixed assets	<u>(14,485)</u>	<u>(14,193)</u>	<u>0</u>	<u>(28,677)</u>
	<u>(199,622)</u>	<u>(49,795)</u>	<u>0</u>	<u>(249,417)</u>
	<u>\$ 342,444</u>	<u>\$ (30,135)</u>	<u>\$ 0</u>	<u>\$ 312,308</u>

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2008

NOTE F - CASH ON DEPOSIT

Cash and the certificate of deposit are stated at cost. These balances were entirely insured through the Federal Deposit Insurance Corporation or through the State of Tennessee Bank Collateral Pool. The District considers all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

The State of Tennessee authorizes the District to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the state treasurer's investment pool.

The pool contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool. Although the District may participate in the state investment pool, it elects not to. District policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the state collateral pool or be deposited in an escrow account in another institution for the benefit of the District and must be a minimum of 105% of the value of the deposits placed in the institution less the amount protected by federal deposit insurance.

The state collateral pool is administered by the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional agreement, public fund accounts covered by the pool are considered to be classified as category one insured credit risk in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

NOTE G – RESTATEMENT

Net assets at July 1, 2007 have been restated for a payable not previously recorded:

Balance at June 30, 2007 as originally reported	\$ 759,938
Taxes payable at June 30, 2007	<u>(11,255)</u>
Balance at July 1, 2007, as restated	<u>\$ 748,683</u>

SUPPLEMENTARY INFORMATION

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF REVENUE AND EXPENSES - ACTUAL AND BUDGET

Year Ended June 30, 2008

	<u>Actual</u> <u>(Accrual basis)</u>	<u>Budget</u> <u>(Cash basis)</u>	<u>Variance</u> <u>Over (Under)</u>
OPERATING REVENUE			
Emergency telephone service charges	\$ 170,918	\$ 150,000	\$ 20,918
State emergency communications board-shared wireless charge	79,674	60,000	19,674
TECB operational funding program	<u>104,081</u>	<u>104,081</u>	<u>0</u>
	354,672	314,081	40,591
OPERATING EXPENSES			
Salaries and wages:			
Full-time personnel	48,237	53,000	(4,763)
Employee benefits:			
Social security	3,188	3,286	(98)
Medicare	<u>502</u>	<u>770</u>	<u>(268)</u>
	3,690	4,056	(366)
Contracted services:			
Addressing/mapping	9,120	30,000	(20,880)
Advertising	0	100	(100)
Audit services	3,375	3,375	0
Accounting services	2,500	3,000	(500)
Maintenance agreements	10,063	12,000	(1,937)
Mapping/database consultants	0	10,000	(10,000)
Other	0	500	(500)
Impact payments to cities	<u>7,500</u>	<u>7,500</u>	<u>0</u>
	32,558	66,475	(33,917)
Lease/Rental:			
Communications equipment	70,590	85,000	(14,410)
Maintenance and repairs:			
Building and equipment	1,433	3,000	(1,567)
Vehicle expense	<u>209</u>	<u>1,000</u>	<u>(791)</u>
	1,642	4,000	(2,358)

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

STATEMENT OF REVENUES AND EXPENSES - ACTUAL AND BUDGET

(continued)

Year Ended June 30, 2008

	<u>Actual</u> <u>(Accrual basis)</u>	<u>Budget</u> <u>(Cash basis)</u>	<u>Variance</u> <u>Over (Under)</u>
Supplies and materials:			
Office supplies	645	2,000	(1,355)
Other supplies and materials	1,987	4,000	(2,013)
Postage	164	300	(136)
	<u>2,796</u>	<u>6,300</u>	<u>(3,504)</u>
Utilities:			
Gasoline and diesel fuel	841	1,500	(659)
General telephone	3,927	4,500	(573)
Cell phones and pagers	754	1,250	(496)
	<u>5,522</u>	<u>7,250</u>	<u>(1,728)</u>
Other charges:			
Board meetings	152	1,000	(848)
Dues and subscriptions	550	1,750	(1,200)
Public education	0	1,000	(1,000)
Insurance	4,837	6,750	(1,913)
Training	30	5,000	(4,970)
Travel	5,092	7,500	(2,408)
Other charges	389	500	(111)
	<u>11,050</u>	<u>23,500</u>	<u>(12,451)</u>
Depreciation	<u>49,795</u>	<u>62,500</u>	<u>(12,705)</u>
	<u>225,879</u>	<u>312,081</u>	<u>(86,202)</u>
INCOME FROM OPERATIONS	128,793	2,000	126,793
OTHER INCOME			
State emergency communications board-grant	5,425	10,000	(4,575)
Interest income	11,321	0	11,321
	<u>11,321</u>	<u>0</u>	<u>11,321</u>
CHANGE IN NET ASSETS	<u>\$ 145,539</u>	<u>\$ 12,000</u>	<u>\$ 133,539</u>

See the accompanying independent accountants' audit report.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

PUBLIC SAFETY ANSWERING POINTS

June 30, 2008

There are three public safety answering points (PSAP) utilized by the Emergency Communications District of Anderson County, Tennessee (the District).

The location of the District's PSAP is as follows:

Central Dispatch
101 South Main Street
Clinton, Tennessee 37716

In addition to the PSAP, the District maintains satellite remotes at the following locations:

Oliver Springs Police Department
701 Main Street
Oliver Springs, Tennessee 37840

Lake City Police Department
104 Lawson Street
Lake City, Tennessee 37769

The District uses a Positron ANI/ALI system at each of its PSAP locations.

See the accompanying independent accountants' audit report.

EMERGENCY COMMUNICATIONS DISTRICT OF
ANDERSON COUNTY, TENNESSEE

ROSTER OF OFFICIALS

June 30, 2008

Office Manager

Regina Copeland
101 South Main Street, Suite 440
Clinton, Tennessee 37716
Telephone number-865-463-8160
Telefax number-865-457-1748

Chairman of the Board of Directors

Mark Lucas
101 South Main Street, Suite 440
Clinton, Tennessee 37716
Telephone number-865-463-8160
Telefax number-865-457-1748

Members of the Board of Directors

James Shetterly
Duane Stooksbury
Rex Lynch
Kenny Morgan
Danny Humphrey
Robert Byrd

The District does not have a director.

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Emergency Communications District of
Anderson County, Tennessee
Clinton, Tennessee

We have audited the financial statements of Emergency Communications District of Anderson County, Tennessee, a component unit of Anderson County, Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emergency Communications District of Anderson County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emergency Communications District of Anderson County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Emergency Communications District of Anderson County, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Cash Disbursements

Finding: The Internal Revenue Service notified the District that there were unpaid payroll taxes, interest, and penalties covering several years. The interest and penalties resulted from late filing of several tax returns and late payment of certain payroll taxes. The District's manager did not agree with the assessments and requested more information to verify the liability. She advised that she worked with numerous IRS employees and thought the matter had been resolved. However, the IRS placed a levy on a bank account of the District. The manager prepared four checks to the IRS totaling \$11,131.95 so the IRS would release the levy and these checks were signed by two Board members. Subsequent to June 30, 2008, a preliminary analysis of the IRS claim disclosed that approximately \$2,200 of the claim was in error and should not have been paid. In addition, the District has paid interest and penalties to the IRS that could have been avoided had timely payments been remitted. The District did not obtain assistance from outside parties to resolve the issues. The District's financial statements were materially misstated because these payments were recorded to a liability account. Since most of the assessments were related to tax periods before July 1, 2007, the payments were reclassified as a prior period adjustment and are reflected as such in the accompanying financial statements.

Recommendation: Checks should not be prepared unless adequate supporting documentation is provided for disbursements and the District understands and agrees with the amount owed. Check signers should critically review the documentation before signing the check and not sign any check without all required documentation. The District should seek assistance from outside parties as necessary to resolve such accounting or tax matters.

Management Response: We agree under most circumstance. These four checks were handled as an exception to our normal procedures. In this case, I dealt with several different people with the IRS on this matter. I had given them documentation showing these had been paid. I contacted the Taxpayer Advocate Service by the recommendation of a representative of our bookkeeping firm and was waiting on a response from them. I was also waiting to hear back from the IRS representative out of the Knoxville office. I then received a telephone call stating that there had been a levy placed on the District's bank account by a different IRS representative from the Knoxville IRS office. I then contacted the IRS agent that placed the levy and she informed me I would be given a summons to court and would have to appear unless this was taken care of immediately. We then decided to pay the amount they said we owed but to follow through with the Taxpayer Advocate Service on what steps we needed to take to get any refunds that might be due to us. A preliminary analysis subsequently prepared by our bookkeeping firm indicates that we may not receive any refunds.

In the future, we will engage outside parties to assist us in resolving issues involving the Internal Revenue Service.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Communications District of Anderson County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Emergency Communications District of Anderson County, Tennessee's response to the finding identified in our audit is described above. We did not audit Emergency Communications District of Anderson County, Tennessee's response and, accordingly, we express no opinion on it.

We noted certain other matters that we have reported to the management of Emergency Communications District of Anderson County, Tennessee in a separate letter dated November 5, 2008.

This report is intended solely for the information and use of management and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mitchell Emert & Hill

November 5, 2008