

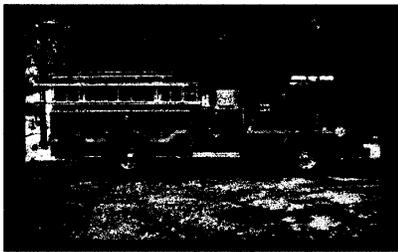
Knoxville-Knox County

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COUNTY AUDIT

Emergency Communications District



FINANCIAL STATEMENTS
JUNE 30, 2008 and JUNE 30, 2007

Prepared By:
Knox County Finance Department

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

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**INTRODUCTORY
SECTION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

BOARD OF DIRECTORS
June 30, 2008

Mr. Nathan Rothchild, Chair

Mayor Bill Haslam, Vice Chair

Chief Robert Key, Secretary and Treasurer

Mayor Mike Ragsdale

Mrs. Sharon Gerkin

Commissioner Ivan Harmon

Mr. Rick Harrington

Sheriff Jimmy "J.J." Jones

Chief Sterling Owen, IV

Mrs. Sheryl Rollins

Mr. Mike Cuddy

FINANCIAL SECTION



KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Knoxville – Knox County Emergency Communications District:

We have audited the accompanying financial statements of the Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox County, Tennessee, as of and for the year ended June 30, 2008, as listed in the table of contents. 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. The accompanying financial statements of Knoxville – Knox County Emergency Communications District as of June 30, 2007, were audited by other auditors whose report thereon dated December 18, 2007, expressed an unqualified opinion on those statements.

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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knoxville – Knox County Emergency Communications District as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009, on our consideration of the District's internal control over financial reporting and 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 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.

The information in the management's discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the introductory and supplementary information sections listed in the table of contents are presented for purposes of additional analysis and are not required as part of the District's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory information has not been subjected to auditing procedures in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

January 22, 2009



Knox County Emergency Communications District
605 Bernard Avenue, Knoxville, TN 37921

J. Robert Coker, Executive Director

Phone: 865-215-1100

Fax: 865-215-1134

The first CALEA certified 9-1-1 center in Tennessee

Management's Discussion and Analysis

As management of the Knoxville - Knox County Emergency Communications District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2008 and June 30, 2007. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements, and supplementary information when reviewing the District's financial activities and condition.

Financial Highlights

- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,857,758 (*net assets*). Of this amount, \$3,774,037 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- ❖ The District's total net assets increased by \$1,741,719. This increase is primarily the result of the ongoing principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$918,619 out of the State of Tennessee's collected wireless fees.
- ❖ The District's total capital assets before depreciation increased by \$75,082. This increase is comprised of construction in process relating to improvements made to the 911 facility by Knox County and the purchase of a new vehicle.
- ❖ The District's total debt decreased by \$1,624,309. This decrease reflects \$1,479,309 in principal paid on the capital leases as well as \$145,000 paid to the County to reduce the Districts' indebtedness to the County for long-term funds previously advanced to the District. These items are discussed in Notes 6 and 7 of the Notes to the Financial Statements.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: 1) financial statements comprised of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements. The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the last two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (full accrual accounting), regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected user service fees, uncollected subsidy payments, and earned but unused vacation leave).

The Statement of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the District for the last two fiscal years.

The financial statements can be found on pages 10-14 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-26 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on pages 27-31 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. As of June 30, 2008, the District's assets exceeded its liabilities by \$8,857,758 (*net assets*). At June 30, 2007, the District's net assets totaled \$7,116,039. The majority of the District's net assets reflect its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District utilizes these capital assets to provide services to citizens and other user groups. As a result, these net assets, which currently amount to 57.39% of total net assets, are not available for future spending. Also, while the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$3,774,037 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.

As the following table shows, the District reported an increase in net assets of \$1,741,719 for the current fiscal year ended June 30, 2008. As previously noted, this increase is primarily the result of the principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$918,619 out of the State of Tennessee's collected wireless fees. The increase of \$253,194 invested in capital assets, net of related debt, is primarily due to a combination of three items: 1) an increase in invested in capital assets, net due to an decrease in associated debt of \$1,479,309; 2) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$1,301,197; 3) an increase in invested in capital assets, net due to the construction in process and the purchase of a new vehicle totaling \$75,082.

During the fiscal year ended June 30, 2007, the District reported an increase in net assets of \$961,163. This increase was primarily the result of the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$918,619 out of the State of Tennessee's collected wireless fees. The decrease of \$104,313 invested in capital assets, net of related debt, results chiefly from a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$1,142,613; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the 2006 fiscal year totaling \$1,305,821; 3) an increase in invested in capital assets, net due to purchase of new communicator equipment totaling \$58,895.

**Knoxville-Knox County Emergency Communications District
Net Assets**

	FYE June 30, 2008	FYE June 30, 2007	FYE June 30, 2006
Current and Other Assets	\$ 8,156,579	\$ 6,847,088	\$ 5,855,686
Capital Assets	7,013,721	8,239,836	9,486,762
Total Assets	<u>\$ 15,170,300</u>	<u>\$ 15,086,924</u>	<u>\$ 15,342,448</u>
Long-term Liabilities Outstanding	\$ 5,061,247	\$ 6,132,584	\$ 7,600,932
Other Liabilities	1,251,295	1,838,301	1,586,640
Total Liabilities	<u>\$ 6,312,542</u>	<u>\$ 7,970,885</u>	<u>\$ 9,187,572</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 5,083,721	\$ 4,830,527	\$ 4,934,840
Unrestricted	3,774,037	2,285,512	1,220,036
Total Net Assets	<u>\$ 8,857,758</u>	<u>\$ 7,116,039</u>	<u>\$ 6,154,876</u>

The next table shows the key elements from ongoing operations that contributed to the increase in net assets of \$1,741,719 during the current fiscal year. This increase compares to the fiscal year 2007 increase of \$961,163. There were two basic reasons for this year's increase as opposed to last year's increase. Operating revenues, comprised mainly of user service fees, increased by \$1,060,263 or approximately more than 24.59% during fiscal year 2008, operating expenses increased by \$135,932 or 2.26%, a result of increases in costs of sales and services, and administration. Also, Nonoperating Revenues decreased by \$187,370 or 6.35%, the result of decreased appropriations from the Subsidy from Primary Government and less grant revenue, while Nonoperating Expenses also decreased by \$43,595 or 15.39%, due to interest payments on debt. In fiscal year 2007 operating revenues increased by \$905,567, while Nonoperating Revenues decreased by \$381,149. The fiscal year 2007 operating revenue increase reflects the State of Tennessee's additional lump sum payment out of the collected wireless fees of \$918,619.

For fiscal year 2008 Nonoperating Revenues decreased by \$187,370, that decrease is the combination of: the dispatch subsidies from the City of Knoxville and Knox County decreasing by \$90,000 in total, decrease of the Tennessee Emergency Communications Board grant totaling \$160,000, combined with an increase of \$64,285 in miscellaneous revenue which is comprised chiefly of charges for tower and facility rental, radio maintenance fees, and tape fees, and interest earnings decreased by \$1,655 primarily as a result of lower interest rates during FY 2008.

Total expenses for FY 2008 increased by \$92,337, with the increase being comprised of an increase of \$113,535 in costs of sales and services, \$27,021 in increased costs of administration, combined with decreased interest costs, and a slightly lower depreciation expense. The difference in depreciation from the current fiscal year and the previous fiscal year amounted to \$4,624. The fiscal year 2008 decrease in interest expense was \$43,595. This decrease is the result of additional payments on debt. The District did pay off the debt related to the 800 MHz emergency radio system. During FY 2007, total expenses decreased by \$165,592, with the decrease being comprised of decreased costs of sales and services, combined with reduced interest costs, and slightly higher depreciation expense.

**Knoxville-Knox County Emergency Communications District
Changes in Net Assets**

	FYE June 30, 2008	FYE June 30, 2007	FYE June 30, 2006
Revenues:			
Operating Revenues:			
User Service Fees	\$ 4,453,253	\$ 3,392,990	\$ 3,406,042
State Wireless Fee Surplus	918,619	918,619	-
Nonoperating Revenues:			
Subsidies from City of Knoxville, Knox County Governments, and Rent	2,280,968	2,370,968	2,761,330
TN Emergency Comm. Board	40,000	200,000	-
Miscellaneous Revenue	164,633	100,348	264,610
Interest/Other	278,995	280,650	175,703
Capital Contributions	-	-	131,472
Total Revenues	8,136,468	7,263,575	6,739,157
Expenses:			
Operating Expenses:			
Cost of Sales and Services	3,911,668	3,798,133	3,983,445
Administration	942,250	915,229	843,859
Depreciation	1,301,197	1,305,821	1,305,717
Nonoperating Expenses:			
Interest	239,634	283,229	334,983
Total Expenses	6,394,749	6,302,412	6,468,004
Increase in Net Assets	1,741,719	961,163	271,153
Net Assets July 1	7,116,039	6,154,876	5,883,723
Net Assets June 30	\$ 8,857,758	\$ 7,116,039	\$ 6,154,876

Budgetary Highlights

Differences between the original budget and final amended budget for ongoing operations were relatively minor. The only revisions to the budget were within the major budget categories to cover individual line items that exceeded budget and also included the reappropriation of amounts reserved at the end of the previous fiscal year. Amendments to the budget increased the total revenue budget for the District in the amount of \$377,061, and amendments increased the total expense budget for the District in the amount of \$649,900. The Schedule of Revenues and Expenses – Budget to Actual (Budget Basis), which is found in the supplementary information section of this report on pages 27, 28, and 29, details the original budget, budget amendments, amended budget, and actual revenues and expenditures, as well as the variances from the final amended budget. None of the departments exceeded their original total budgets at the level of budgetary control, which is at the individual line item level.

Operating Revenues were \$735,276 over budget, while Other Nonoperating Revenues were a combined \$170,879 over budget. Expenses related to ongoing operations in Administration, Call Processing (PSAP), and Dispatch were a combined total of \$743,711 under budget, and of the reserved and reappropriated amounts that were budgeted for Capital Outlay and the repayment of debt \$966,740 was spent, including \$64,184 in the Equipment Project budget. The net result of these budgetary variations was that the Fund Balance increased by \$1,343,525 compared with the budgeted net decrease of \$471,653 in the final amended budget.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets as of June 30, 2008, amounts to \$5,083,721 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, communications and office equipment, software and leasehold improvements. The District's investment in capital assets, net increased for the current fiscal year by 5%, or \$253,194, due chiefly to a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$1,479,309; 2) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$1,301,197; 3) an increase in invested in capital assets, net due to the construction in process and the purchase of a new vehicle totaling \$75,082. As of June 30, 2007, the District's net assets invested in capital assets amounted to \$4,830,527 (net of accumulated depreciation and related debt). For the fiscal year ending June 30, 2007, the District's investment in capital assets, net decreased 2.1%, or \$104,313, from the FY 2006 balance of \$4,934,840. This fiscal year 2007 decrease resulted chiefly from a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$1,142,613; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the 2007 fiscal year totaling \$1,305,821; 3) an increase in invested in capital assets, net due to purchase of new communicator equipment totaling \$58,895. For a detailed schedule of the District's capital assets, see Note 5: Capital Assets on pages 21 and 22 in the Notes to the Financial Statements.

Long-term Debt. At the end of the current fiscal year, the District had capital lease obligations of \$1,930,000. This amount decreased by \$1,479,309 during FY 2008, representing the final payment of principal on the 800 MHz capital lease and payment of principal on the CAD/CTI capital lease. At June 30, 2007 the District had capital lease obligations totaling \$3,409,309, or \$1,142,613 less than at June 30, 2006, resulting from the payment of principal on the 800 MHz capital lease and the CAD/CTI capital lease. Compensated absences payable increased by a net of \$9,212 in FY 2008, and decreased by a net of \$6,471 in FY 2007. For a detailed schedule of the District's long term debt, see Note 7: Long Term Liabilities on pages 24 and 25 in the Notes to the Financial Statements.

Requests for Information

This financial report is designed to provide a general overview of the Knoxville - Knox County Emergency Communications District's finances for all of those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Knoxville - Knox County Emergency Communications District, 605 Bernard Avenue, Knoxville, Tennessee, 37917.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET ASSETS
June 30, 2008 and June 30, 2007**

	2008	2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,170,936	\$ 6,124,710
Accounts Receivable	957,646	630,293
Due from Primary Government	12,026	25,872
Prepaid Items	15,971	66,213
Total Current Assets	8,156,579	6,847,088
 Noncurrent Assets:		
Capital Assets:		
Land	56,089	56,089
Buildings	5,081,324	5,081,324
Construction in Process	107,525	58,895
Communications and Office Equipment	12,335,887	12,309,435
Computer Software	29,345	29,345
Leasehold Improvements	207,735	207,735
Subtotal	17,817,905	17,742,823
Less: Accumulated Depreciation	(10,804,184)	(9,502,987)
Total Capital Assets (Net of Accumulated Depreciation)	7,013,721	8,239,836
Total Assets	\$ 15,170,300	\$ 15,086,924

The accompanying notes are an integral part of these financial statements.

continued . . .

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET ASSETS - (Continued)
June 30, 2008 and June 30, 2007**

	<u>2008</u>	<u>2007</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 49,679	\$ 112,611
Accrued Payroll Payable	154,099	158,230
Compensated Absences Payable	161,796	153,908
Due to Primary Government	3,196	28,009
Deferred Revenue	107,525	58,895
Advances from Primary Government - Current	150,000	145,000
Capital Lease Obligations Payable - Current	625,000	1,181,648
Total Current Liabilities	<u>1,251,295</u>	<u>1,838,301</u>
Noncurrent Liabilities:		
Compensated Absences Payable	19,997	18,673
Advances from Primary Government	3,736,250	3,886,250
Capital Lease Obligations Payable	1,305,000	2,227,661
Total Noncurrent Liabilities	<u>5,061,247</u>	<u>6,132,584</u>
Total Liabilities	<u>6,312,542</u>	<u>7,970,885</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	5,083,721	4,830,527
Unrestricted	3,774,037	2,285,512
Total Net Assets	<u>\$ 8,857,758</u>	<u>\$ 7,116,039</u>

The accompanying notes are an integral part of these financial statements.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and June 30, 2007**

	2008	2007
Operating Revenues:		
Emergency Telephone Service Charges	\$ 4,453,253	\$ 3,392,990
TECB - Operational Funding Program	918,619	918,619
Total Operating Revenues	5,371,872	4,311,609
Operating Expenses:		
Cost of Sales and Services	3,911,668	3,798,133
Administration	942,250	915,229
Depreciation and Amortization	1,301,197	1,305,821
Total Operating Expenses	6,155,115	6,019,183
Operating Loss	(783,243)	(1,707,574)
Nonoperating Revenues (Expenses):		
City of Knoxville Subsidy	1,719,140	1,719,140
Subsidy From Primary Government	492,828	582,828
Rent - E911 Facility	69,000	69,000
Grant Revenue - Tennessee		
Emergency Communications Board	40,000	200,000
Miscellaneous Revenue	164,633	100,348
Interest Income	278,995	280,650
Interest Expense	(239,634)	(283,229)
Total Nonoperating Revenues (Expenses)	2,524,962	2,668,737
Change in Net Assets	1,741,719	961,163
Total Net Assets, July 1	7,116,039	6,154,876
Total Net Assets, June 30	\$ 8,857,758	\$ 7,116,039

The accompanying notes are an integral part of these financial statements.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and June 30, 2007**

	2008	2007
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 5,093,149	\$ 4,314,962
Payments to Vendors	(1,390,357)	(1,176,590)
Payments to Employees	(3,482,137)	(3,372,340)
	220,655	(233,968)
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Noncapital Financing Activities		
Subsidy from City of Knoxville	1,719,140	1,719,140
Subsidy from Primary Government	492,828	582,828
Rent - E911 Facility	69,000	69,000
Grant Revenue	40,000	200,000
Miscellaneous Revenue	164,633	100,348
	2,485,601	2,671,316
Net Cash Provided by Noncapital Financing Activities		
Cash Flows from Capital and Related Financing Activities		
Purchase of Equipment	(75,082)	(58,895)
Principal Paid on Capital Leases Payable	(1,479,309)	(1,142,613)
Interest Paid on Capital Leases Payable	(239,634)	(283,229)
Payment to Primary Government for Debt Service	(145,000)	(141,000)
	(1,939,025)	(1,625,737)
Net Cash Used by Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Interest Received	278,995	280,650
	278,995	280,650
Net Increase in Cash and Cash Equivalents	1,046,226	1,092,261
Cash and Cash Equivalents - Beginning of Year	6,124,710	5,032,449
	\$ 7,170,936	\$ 6,124,710
Cash and Cash Equivalents - End of Year		

The accompanying notes are an integral part of these financial statements.

continued . . .

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS - (Continued)
For the Years Ended June 30, 2008 and June 30, 2007**

**Reconciliation of Operating Loss to
Net Cash Provided (Used) by Operating Activities**

	2008	2007
Operating Loss	\$ (783,243)	\$ (1,707,574)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,301,197	1,305,821
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(327,353)	3,353
(Increase) Decrease in Due from Primary Government	13,846	148,996
(Increase) Decrease in Prepaid Items	50,242	(51,490)
Increase (Decrease) in Accounts Payable	(62,932)	44,199
Increase (Decrease) in Accrued Payroll Payable	(4,131)	2,031
Increase (Decrease) in Compensated Absences Payable	9,212	(6,471)
Increase (Decrease) in Due to Primary Government	(24,813)	27,167
Increase (Decrease) in Deferred Revenue	48,630	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 220,655</u>	<u>\$ (233,968)</u>

The accompanying notes are an integral part of these financial statements.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Knoxville - Knox County Emergency Communications District (the District) was established January 1, 1985, pursuant to the provisions of Section 7-86-101, Tennessee Code Annotated. The District has established and operates a consolidated public safety answering point (PSAP) service and emergency radio dispatch service for the residents of the City of Knoxville and Knox County, Tennessee.

The District is considered a component unit of Knox County, Tennessee and is discretely presented in the Knox County Comprehensive Annual Financial Report. The District is governed by an eleven-member Board of Directors (the Board). The majority of the Board is appointed by the Knox County Commission. Debt issuances or lease agreements exceeding five years require the approval of the Knox County Commission. The District has the authority to levy an emergency telephone service charge to be used to fund the emergency telephone service. The Knox County Commission, however, may reduce the levy established by the District, provided that the reduction does not preclude the District from the authorized activities provided in the Tennessee Code Annotated.

B. Basis of Accounting

The financial statements of the District are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The District has elected not to adopt the Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Governmental Accounting Standards Board Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*".

Additionally, proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are user fees for landline and wireless telephone

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

customers, as well as charges for tapes and radio maintenance fees. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The District's cash, cash equivalents and investments are pooled and managed by the Trustee of Knox County. State Statutes authorize the District to invest in obligations of the federal government, State of Tennessee, U.S. governmental agencies, the State of Tennessee Local Government Investment Pool, certificates of deposit and repurchase agreements. All investments are reported at fair value. Short-term investments, however, are reported at cost, which approximates fair value. Currently, no investments are held in the District's name. Tennessee Code Annotated Section 5-8-201 requires financial institutions to secure the District's deposits by pledging governmental securities as collateral. The market value of the securities must equal to 105 percent of the average daily balance of the District's deposits.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded at full value. Any amounts later determined to be uncollectible are written off when that determination is made. Any necessary allowance for doubtful accounts would not be material.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when paid, and expensed in the applicable future accounting period.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Assets

Capital assets, which include property, buildings, equipment, software and leasehold improvements, are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings, equipment, software and leasehold improvements are depreciated using the straight-line method over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Years</u>
Buildings	45
Communication and Office Equipment	5-15
Leasehold Improvements	15
Computer Software	7

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When capital assets are sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is charged or credited to operations.

Capital assets considered construction in progress are stated at cost and are depreciated using the straight-line method over their estimated useful lives when placed into service.

5. Compensated Absences Payable

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy that, upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees may accumulate vacation leave according to the following schedule:

<u>Years of Service</u>	<u>Maximum Accrual</u>
0-8	36 days
9-20	39 days
21 and greater	42 days

6. Fee Income

Emergency telephone user service fees are recognized on the accrual basis. They are recorded when received, but allocated to the period for which the service providers collected them.

7. Reclassifications

Certain amounts for the year ended June 30, 2007 have been reclassified to conform to the presentation for the year ended June 30, 2008.

8. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

NOTE 2: BUDGETARY INFORMATION

As required by State Statutes, the District adopts an annual operating budget. The budget proposal is prepared by the Executive Director of the District and approved by the Board. The appropriated budget is prepared by division, major category, and line item. Expenditures cannot exceed a line item or major category within a division without an amendment to the budget approved by the Board. All annual appropriations lapse at fiscal year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 2: BUDGETORY INFORMATION (Continued)

utilized.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are not reported as expenditures or liabilities because the commitments will be honored in the subsequent year. Outstanding encumbrances are reappropriated in the subsequent year. Encumbrances at June 30, 2008 and 2007 were \$73,134 and \$236,838, respectively. These encumbrances are related primarily to capital expenditures for the ongoing equipment projects. See Note 5.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The District reports a total increase or decrease in fund balance, with the equity section of the budgetary report being presented as "Fund Balance" which enables the Board to determine the funds available for appropriation.

NOTE 3: DEPOSITS AND INVESTMENTS

At June 30, 2008, and June 30, 2007, the bank collateral pool administered by the Treasurer of the State of Tennessee covered the District's cash and cash equivalents, which were pooled and managed by the Trustee of Knox County. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the District.

The amount of collateral required to secure these deposits must be equal to 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

NOTE 4: DEFERRED COMPENSATION PLAN

The District provides the opportunity for each of its employees to participate in a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Under this plan, employees may elect to reduce their salary by at least \$20 per month in tax-deferred

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 4: DEFERRED COMPENSATION PLAN (Continued)

savings to supplement retirement income. The deferred compensation is generally not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as an asset or liability of the District.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Construction in Progress	58,895	48,630	-	107,525
Total Capital Assets, Not Being Depreciated	<u>114,984</u>	<u>48,630</u>	<u>-</u>	<u>163,614</u>
Capital Assets Being Depreciated:				
Buildings	5,081,324	-	-	5,081,324
Communications and Office Equipment	12,309,435	26,452	-	12,335,887
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	<u>17,627,839</u>	<u>26,452</u>	<u>-</u>	<u>17,654,291</u>
Less Accumulated Depreciation for:				
Buildings	(394,155)	(116,345)	-	(510,500)
Communications and Office Equipment	(8,970,208)	(1,171,003)	-	(10,141,211)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	(109,279)	(13,849)	-	(123,128)
Total Accumulated Depreciation	<u>(9,502,987)</u>	<u>(1,301,197)</u>	<u>-</u>	<u>(10,804,184)</u>
Total Capital Assets Being Depreciated, Net	<u>8,124,852</u>	<u>(1,274,745)</u>	<u>-</u>	<u>6,850,107</u>
Total Capital Assets, Net	<u>\$8,239,836</u>	<u>\$(1,226,115)</u>	<u>\$ -</u>	<u>\$7,013,721</u>

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Construction in Progress	-	58,895	-	58,895
Total Capital Assets, Not Being Depreciated	56,089	58,895	-	114,984
Capital Assets Being Depreciated:				
Buildings	5,081,324	-	-	5,081,324
Communications and Office Equipment	12,309,435	-	-	12,309,435
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	17,627,839	-	-	17,627,839
Less Accumulated Depreciation for:				
Buildings	(284,158)	(109,997)	-	(394,155)
Communications and Office Equipment	(7,791,377)	(1,178,831)	-	(8,970,208)
Computer Software	(26,201)	(3,144)	-	(29,345)
Leasehold Improvements	(95,430)	(13,849)	-	(109,279)
Total Accumulated Depreciation	(8,197,166)	(1,305,821)	-	(9,502,987)
Total Capital Assets Being Depreciated, Net	9,430,673	(1,305,821)	-	8,124,852
Total Capital Assets, Net	\$9,486,762	\$(1,246,926)	\$ -	\$ 8,239,836

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 6: CAPITAL LEASE OBLIGATIONS PAYABLE

In the 2004 fiscal year, the District entered into a capital lease agreement totaling \$4,250,000 to finance the acquisition of the new CAD/CTI system. The lease agreement is payable over seven years in quarterly interest installments, with one principal installment annually, at an annual interest rate of 3.31%.

The assets acquired through this capital lease are as follows:

Communications and Office Equipment	\$4,050,052
Less: Accumulated Depreciation	<u>(2,651,820)</u>
Total	<u>\$ 1,398,232</u>

The future minimum lease obligations for the CAD/CTI system at June 30, 2008 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	625,000	53,539	678,539
2010	645,000	32,521	677,521
2011	<u>660,000</u>	<u>10,923</u>	<u>670,923</u>
Total	<u>\$1,930,000</u>	<u>\$ 96,983</u>	<u>\$2,026,983</u>

In the 1999 fiscal year, the District entered into a capital lease agreement totaling \$4,900,000 in order to fund the replacement and upgrade of an 800 MHz trunked emergency radio system. The lease agreement was payable over 10 years in quarterly installments of \$151,224 with an annual interest rate of 4.28%. The District paid the final installments on this lease during the current fiscal year.

The assets acquired through this capital lease are as follows:

Communications and Office Equipment	\$5,450,028
Less: Accumulated Depreciation	<u>(4,602,323)</u>
Total	<u>\$ 847,705</u>

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital leases	\$ 3,409,309	\$ -	\$(1,479,309)	\$ 1,930,000	\$ 625,000
Advances from Primary Government	4,031,250	-	(145,000)	3,886,250	150,000
Compensated absences	172,581	234,589	(225,377)	181,793	161,796
Total long-term liabilities	<u>\$ 7,613,140</u>	<u>\$ 234,589</u>	<u>\$(1,849,686)</u>	<u>\$ 5,998,043</u>	<u>\$ 936,796</u>

The Advances from Primary Government represent General Obligation Debt issued by Knox County on behalf of the District. The total debt issued by the County on the District's behalf is \$4.5 million, and as of June 30, 2004 \$4,439,250 of this debt issue had been advanced to the District. The remaining balance of \$60,750 represents closing costs paid on the issuance of the debt which reduced the total proceeds available for the District's benefit. There are no official terms of repayment between the District and the County, but it is the District's intent to repay the County for all principal, interest and closing costs incurred on its behalf according to the same debt service schedule as the County. During FY 2008, the District repaid \$145,000 in principal on this Advance.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 7: LONG-TERM LIABILITIES (Continued)

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital Leases	\$ 4,551,922	\$ -	\$(1,142,613)	\$ 3,409,309	\$ 1,181,648
Advances from Primary Government	4,172,250	-	(141,000)	4,031,250	145,000
Compensated Absences	179,052	238,931	(245,402)	172,581	153,908
Total Long-term Liabilities	<u>\$ 8,903,224</u>	<u>\$ 238,931</u>	<u>\$(1,529,015)</u>	<u>\$ 7,613,140</u>	<u>\$ 1,480,556</u>

NOTE 8: CONTRIBUTED SERVICES

Knox County provides various administrative and internal service functions to the District at no cost to the District. Since the value of such services has not been determined, no income or related expenses have been included in these financial statements.

NOTE 9: RELATED PARTY TRANSACTIONS

Under an intergovernmental cooperation agreement setting forth their mutual understandings regarding financial assistance provided to the District in return for consolidated PSAP service and emergency radio dispatch service, the City of Knoxville and Knox County make annual allocations to the District. The City of Knoxville and Knox County, Tennessee provided funding of \$2,211,968 and \$2,301,968 to the District, which amounted to 27.2 percent and 31.7 percent of total revenues for the fiscal years 2008 and 2007, respectively. The City of Knoxville and Knox County are not legally responsible for funding operational deficits of the District.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and June 30, 2007

NOTE 10: 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; and natural disasters. The District controls these various risks by purchasing commercial insurance coverage. The District purchases workers' compensation, property and liability insurance.

The District has had no significant reduction in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)
(Unaudited)
For the Year Ended June 30, 2008**

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)	YTD % of Budget
Operating Revenues						
Emergency Telephone Service Charges	\$ 3,340,916	\$ 377,061	\$ 3,717,977	\$ 4,453,253	\$ 735,276	120%
State Wireless Fee Surplus	918,619	-	918,619	918,619	-	100%
Total Operating Revenues	4,259,535	377,061	4,636,596	5,371,872	735,276	116%
Operating Expenses						
Administration:						
Full Time Wages	519,213	45,520	564,733	543,041	21,692	96%
Temporary Help Wages	31,920	(30,920)	1,000	-	1,000	0%
Social Security	42,226	-	42,226	39,444	2,782	93%
Local Retirement	41,851	-	41,851	34,014	7,837	81%
Medical Insurance	67,540	(94)	67,446	60,542	6,904	90%
Life Insurance	1,100	94	1,194	1,169	25	98%
Medical and Dental Services	50	-	50	-	50	0%
Legal Services	24,000	2,000	26,000	26,000	-	100%
Other Professional Services	4,750	11,007	15,757	15,757	-	100%
Maintenance and Repairs-Equipment	4,400	2,594	6,994	2,394	4,600	34%
Maintenance and Repairs-Vehicles	3,000	-	3,000	1,547	1,453	52%
Communications	20,000	-	20,000	7,655	12,345	38%
Other Services Related to Daily Operations	9,750	-	9,750	1,765	7,985	18%
Contracts with Other Agencies	120,960	(13,007)	107,953	66,178	41,775	61%
Space Rentals	300	-	300	35	265	12%
Travel, Education and Training	22,320	-	22,320	12,316	10,004	55%
Food Supplies	2,000	-	2,000	-	2,000	0%
Utilities and Fuel	49,500	-	49,500	47,005	2,495	95%
Office Supplies	23,500	391	23,891	11,577	12,314	48%
Supplies - Vehicles	500	-	500	-	500	0%
Educational Materials	1,000	-	1,000	998	2	100%
Other Materials Related to Daily Operations	750	-	750	324	426	43%
Debt Service - Principal	242,000	-	242,000	242,000	-	100%
Debt Service - Interest	29,558	(98)	29,460	29,458	2	100%
Capital Outlay - Equipment	-	36,000	36,000	26,452	9,548	73%
Insurance	7,000	-	7,000	4,941	2,059	71%
Workers' Compensation Charges	29,000	2,432	31,432	31,432	-	100%
Liability Charges	12,000	(2,432)	9,568	8,938	630	93%
Other - Miscellaneous	3,100	-	3,100	2,836	264	91%
Total Administration	\$ 1,313,288	53,487	\$ 1,366,775	\$ 1,217,818	\$ 148,957	89%

continued...

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)
(Unaudited)
For the Year Ended June 30, 2008**

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)	YTD % of Budget
Operating Expenses (continued)						
PSAP:						
Full Time Wages	\$ 1,098,055	\$ 3,720	\$ 1,101,775	\$ 963,070	\$ 138,705	87%
Temporary Help Wages	40,000	-	40,000	-	40,000	0%
Holiday Pay	35,078	-	35,078	23,086	11,992	66%
Overtime	106,354	25,275	131,629	131,629	-	100%
Social Security	97,922	-	97,922	79,579	18,343	81%
Local Retirement	54,543	-	54,543	46,010	8,533	84%
Medical Insurance	240,050	-	240,050	193,796	46,254	81%
Life Insurance	3,400	-	3,400	3,092	308	91%
Unemployment Compensation	-	1,405	1,405	1,405	-	100%
Medical and Dental Services	5,700	822	6,522	6,522	-	100%
Educational Services	4,000	-	4,000	3,199	801	80%
Maintenance and Repairs-Equipment	110,400	(822)	109,578	81,937	27,641	75%
Communications	242,000	-	242,000	226,035	15,965	93%
Other Services Related to Daily Operations	500	-	500	55	445	11%
Services - Maintenance of Grounds/Bldg	4,000	-	4,000	814	3,186	20%
Travel, Education and Training	7,900	120	8,020	4,690	3,330	58%
Office Supplies	10,500	-	10,500	4,845	5,655	46%
Educational Materials	7,300	1,745	9,045	2,649	6,396	29%
Other Materials Related to Daily Operations	9,000	-	9,000	4,064	4,936	45%
Total PSAP	2,076,702	32,265	2,108,967	1,776,477	332,490	84%
Dispatch:						
Full Time Wages	958,718	36,590	995,308	921,270	74,038	93%
Temporary Help Wages	60,000	(2,748)	57,252	-	57,252	0%
Holiday Pay	29,818	-	29,818	23,188	6,630	78%
Overtime	152,304	558	152,862	147,298	5,564	96%
Social Security	91,900	-	91,900	78,042	13,858	85%
Local Retirement	47,397	-	47,397	41,160	6,237	87%
Medical Insurance	180,523	-	180,523	153,599	26,924	85%
Life Insurance	3,000	-	3,000	2,778	222	93%
Medical and Dental Services	1,248	-	1,248	-	1,248	0%
Legal Services	1,000	-	1,000	17	983	2%
Maintenance and Repairs-Equipment	423,480	2,394	425,874	403,011	22,863	95%
Communications	249,999	-	249,999	240,049	9,950	96%
Other Services Related to Daily Operations	1,500	-	1,500	190	1,310	13%
Services - Maintenance of Grounds/Bldg	3,289	-	3,289	1,456	1,833	44%
Travel, Education and Training	7,900	-	7,900	2,396	5,504	30%
Utilities and Fuel	97,500	-	97,500	92,066	5,434	94%
Office Supplies	25,352	(20)	25,332	9,727	15,605	38%
Educational Materials	2,800	-	2,800	738	2,062	26%
Other Materials Related to Daily Operations	7,400	-	7,400	2,654	4,746	36%
Debt Service - Principal	508,000	-	508,000	508,000	-	100%
Debt Service - Interest	181,811	118	181,929	181,929	-	100%
Space Costs	22,242	99	22,341	22,340	1	100%
Total PSAP	\$ 3,057,181	\$ 36,991	\$ 3,094,172	\$ 2,831,908	\$ 262,264	92%

continued...

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)
(Unaudited)
For the Year Ended June 30, 2008**

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)	YTD % of Budget
Operating Expenses (continued)						
Equipment Project:						
Capital Outlay - Equipment	-	229,496	229,496	64,184	165,312	28%
Total Equipment Budget	-	229,496	229,496	64,184	165,312	28%
800 MHz Debt Service						
Debt Service - Principal	576,648	297,661	874,309	874,309	-	100%
Debt Service - Interest	28,247	-	28,247	28,247	-	100%
Total 800 MHz Debt Service Budget	604,895	297,661	902,556	902,556	-	100%
Total Operating Expenses	7,052,066	649,900	7,701,966	6,792,943	909,023	88%
Operating Loss	(2,792,531)	(272,839)	(3,065,370)	(1,421,071)	1,644,299	46%
Nonoperating Revenues (Expenses)						
City of Knoxville Subsidy	1,719,140	-	1,719,140	1,719,140	-	100%
Subsidy from Primary Government	492,828	-	492,828	492,828	-	100%
Miscellaneous Income	197,749	-	197,749	164,633	(33,116)	83%
Interest Income	25,000	-	25,000	278,995	253,995	1116%
Rent - E911 Facility	159,000	-	159,000	69,000	(90,000)	0%
Grant Revenue - TECB	-	-	-	40,000	40,000	0%
Total Nonoperating Revenues (Expenses)	2,593,717	-	2,593,717	2,764,596	170,879	107%
Net Income (Loss) (Budget Basis)	(198,814)	(272,839)	(471,653)	1,343,525	1,815,178	-285%

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Reconciliation of the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis)
To the Statement of Revenues, Expenses and Changes in Net Assets
(Unaudited)
For the Year Ended June 30, 2008**

Amounts reported in the Schedule of Revenues and Expenses - Budget to Actual
(Budget Basis) are different because:

Total net change in fund balance, (Budget Basis) (page 29) \$ 1,343,525

Capital outlays are reported as expenditures in the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis). However, in the Statement of Revenues, Expenses and Changes in Net Assets the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (1,301,197) exceeds capital outlays (75,082) in the current year. (1,226,115)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources as recognized in the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis), while the repayment of the principal of long-term debt consumes the current financial resources. However, in the Statement of Revenues, Expenses and Changes in Net Assets, neither type of transaction has any effect. This amount is the net effect of these differences in the treatment of long-term debt (1,479,309) & (145,000). 1,624,309

Change in net assets (page 12) \$ 1,741,719

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Schedule of Information Required by the Tennessee Emergency Communications Board
(Unaudited)
For the Year Ended June 30, 2008**

Number of Public Safety Answering Points (PSAP):
One

Address of PSAP:
Knoxville - Knox County Emergency Communications District
605 Bernard Avenue
Knoxville, Tennessee 37921

System Used by PSAP:
CML ES-1000 Switch

Database Used by PSAP:
Intrado External Database for MSAG

District Director:
Bob Coker, Executive Director
605 Bernard Avenue
Knoxville, Tennessee 37921

Telephone: 865-215-1100
Fax: 865-215-1134

District Board of Directors Chair:
Mr. Nathan Rothchild
8807 Kingston Pike
Knoxville, Tennessee 37923

Telephone: 865-690-0103
Fax: 865-690-0149

**INTERNAL CONTROL
AND COMPLIANCE SECTION**



KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219-2422

**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***

The Board of Directors
Knoxville – Knox County Emergency Communications District:

We have audited the financial statements of Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox County, Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 22, 2009. 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.

Internal Control over Financial Reporting

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

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 22, 2009