

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2009

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
TABLE OF CONTENTS
June 30, 2009

FINANCIAL SECTION

Board Members and Management Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-6
Financial Statements	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8-9
Statement of Cash Flows	10-11
Notes to the Financial Statements	12-17

SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule	18
Schedule of Funding Progress	19
Schedule of Information Required by the Tennessee Emergency Communications Board	20

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Schedule of Findings and Questioned Costs	23-26

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF BOARD MEMBER AND MANAGEMENT OFFICIALS
June 30, 2009**

BOARD MEMBERS:

Kevin Cassidy
Andrew Bradley
Stanley Case
Patrick Fraley
Roger Christian
Gary Murrell
Bill Henderson
Stanley Arnold
Freddy Short
Tammy Davis
Roy Charles

MANAGEMENT OFFICIALS

DIRECTOR: Rita Gay Murrell
CHAIRMAN: Kevin Cassidy
V-CHAIRMAN: Andrew Bradley
SECRETARY: Stanley Case
TREASURER: Patrick Fraley

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hawkins County
Emergency Communications District

I have audited the accompanying financial statements of the business-type activities of Hawkins County Emergency Communications District, a discretely presented component unit of Hawkins County, Tennessee, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of Hawkins County Emergency Communications District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hawkins County Emergency Communications District as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 25, 2010, on my consideration of Hawkins County Emergency Communications District's internal control over financial reporting and my 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 my 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 the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and Schedule of Funding Progress on pages 4 through 6 and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on pages 18 and 20 is presented for purposes of additional analysis and is not a required part of these financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "David M. Ellis". The signature is written in black ink and is positioned above the printed name and title.

David M. Ellis
Certified Public Accountant

March 25, 2010

Management's Discussion and Analysis

As management of the Hawkins County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. Please note, the District presents prior comparative financial information when available.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$266,022 (net assets). Of this amount, \$107,532 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District reported ending net assets of \$266,022, a decrease of \$93,792 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) fund financial statements, and (2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one fund, a proprietary fund, which is considered to be an enterprise fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12 through 17 of this report.

Financial Analysis of the District's Funds

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.

Hawkins County Emergency Communications District Statement of Net Assets

	2009	2008
Current and Other Assets	\$ 165,779	\$ 235,034
Capital Assets	<u>1,006,490</u>	<u>243,833</u>
Total Assets	<u>\$ 1,172,269</u>	<u>\$ 478,867</u>

Total Liabilities	\$ 906,247	\$ 119,053
Net Assets:		
Invested in capital assets	158,490	132,253
Unrestricted	<u>107,532</u>	<u>227,561</u>
Total Liabilities and Net Assets	<u>\$ 1,172,269</u>	<u>\$ 478,867</u>

The balance of unrestricted net assets, \$107,532, may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report a positive balance in the net assets category.

The District's net assets decreased by \$93,792 during the current fiscal year.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2009:

**Hawkins County Emergency Communications District
Statement of Revenues, Expenses, and Change in Net Assets**

	2009	2008
Revenues:		
Operating Revenues:		
Charges for services	\$ 488,415	\$ 514,807
Non-Operating Revenues:		
Government appropriations	14,575	130,449
Other	140,610	140,259
Interest income	<u>748</u>	<u>586</u>
Total Revenues	644,348	786,101
Total Expenses	<u>738,140</u>	<u>646,903</u>
Change in net assets	(93,792)	139,198
Beginning Net Assets	<u>359,814</u>	<u>220,616</u>
Ending Net Assets	<u>\$ 266,022</u>	<u>\$ 359,814</u>

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one fund, a proprietary fund, which is considered to be an enterprise fund.

Budgetary Highlights

There were no changes to the original budget.

Capital Asset Administration

The District's investment in capital assets for its activities as of June 30, 2009, amounts to \$1,006,490 (net of accumulated depreciation). This investment in capital assets includes improvements, machinery and equipment, and software.

Hawkins County Emergency Communications District's Capital Assets

	2009	2008
Furniture and fixtures	\$ 5,007	\$ 16,874
Vehicles	15,500	15,500
Office Equipment	17,440	21,130
Building	540,734	0
Communications system	<u>701,926</u>	<u>427,054</u>
Total capital assets	<u>\$ 1,280,607</u>	<u>\$ 480,558</u>

Additional information on the District's capital assets can be found in Note 3 on page 14 of this report.

Economic Factors and Next Year's Budget and Rates

Short-term interest rates on investments for the District's operating funds improved slightly during fiscal year 2009. Appropriations from Hawkins County will remain at the same level during fiscal year 2009. These factors were considered in preparing the District's budget for fiscal year 2010.

Rates were not increased for fiscal year 2009.

Requests for Information

This financial report is designed to provide a general overview of the Hawkins County Emergency Communications District's finances for all 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 Hawkins County Emergency Communications District, 2291 E. Main Street, Rogersville, TN 37857

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009**

ASSETS

Current Assets		
Cash and Equivalents	\$ 154,252	
Prepaid Expenses	<u>11,527</u>	
Total Current Assets		\$ 165,779
Non-current Assets		
Capital Assets		
Land	126,314	
Building and Improvements	540,734	
Communications Equipment	701,926	
Office Equipment	17,440	
Furniture and Fixtures	5,007	
Vehicles	<u>15,500</u>	
Total Capital Assets	1,406,921	
Accumulated Depreciation	<u>(400,431)</u>	
Net Capital Assets		<u>1,006,490</u>
Total Assets		<u><u>\$ 1,172,269</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 24,903	
Notes Payable - Current	34,340	
Payroll Deductions Payable	28,492	
Compensated Absences Payable	<u>4,852</u>	
Total Current Liabilities		\$ 92,587
Non-current Liabilites		
Note Payable - Long-term		813,660
Net Assets		
Invested in Capital Assets, Net of Related Debt		158,490
Restricted Net Assets		-
Unrestricted Net Assets		<u>107,532</u>
Total Liabilities and Net Assets		<u><u>\$ 1,172,269</u></u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2009

Operating Revenues		
Emergency Telephone Service Charge	\$ 278,938	
Tennessee Emergency Comm. Board - Shared Wireless Charge	109,443	
Tennessee Emergency Comm. Board- Operational Funding	100,034	
Other program revenues	<u>610</u>	
Total Operating Revenue		\$ 489,025
Operating Expenses		
Salaries and Wages	441,945	
Employee Benefits	73,222	
Addressing/Mapping Expenses	831	
Advertising	128	
Audit Services	12,210	
Bank Charges	6,752	
Custodial Supplies	1,155	
Dues and Subscriptions	1,536	
Insurance	14,654	
Internet Charges	1,400	
Lease/Rental - Communications Equipment	55,395	
Legal Services	1,500	
Maintenance Agreements	12,960	
Maintenance and Repairs - Buildings and Facilities	8,094	
Maintenance and Repairs - Communications Equipment	7,900	
Maintenance and Repairs - Office Equipment	1,162	
Maintenance and Repairs - Vehicle	423	
NCIC/TBI/TIES Expenses	7,757	
Office/General Supplies	4,847	
Postage	42	
Small Equipment	4,338	
Training Expenses	2,136	
Travel Expenses	5,909	
Uniforms and Shirts	1,492	
Utilities - General Telephone	9,952	
Utilities - Water and Sewer	595	
Utilities - Electric	1,171	
Depreciation	52,036	
Other Expenses	<u>1,366</u>	
Total Operating Expenses		<u>732,908</u>
Operating Loss		(243,883)

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2009**

Non-Operating Revenue and (Expenses)		
Contributions from Other Governments and Agencies	14,575	
Contributions from Primary Government	140,000	
Interest Income	748	
Interest Expense	<u>(5,232)</u>	
Total Non-Operating Revenue		<u>150,091</u>
Change in Net Assets		(93,792)
Net Assets June 30, 2008		<u>359,814</u>
Net Assets June 30, 2009		<u><u>\$ 266,022</u></u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2009

Cash Flows from Operating Activities

Cash Received from Surcharges and Other Revenues	\$ 489,025
Cash Payments to Payroll, Taxes and Related Benefits	(415,323)
Cash Payments to Suppliers for Goods and Services	<u>(231,632)</u>
Net Cash Used by Operating Activities	(157,930)

Cash Flows from Capital and Related Financing Activities

Purchase of Capital Assets	(926,363)
Principal Paid on Notes Payable	(13,110)
Interest Paid on Notes Payable	(5,232)
Proceeds from Bank Loan	<u>741,750</u>
Net Cash Used by Capital and Related Financing Activities	<u>(202,955)</u>

Cash Flows from Non-Capital Financing Activities

Contributions from Primary Government	140,000
Grants/Reimbursements TECB	<u>14,575</u>
Net Cash Provided by Non-Capital Financing Activities	<u>154,575</u>

Cash Flows from Investing Activities

Interest income	<u>748</u>
Net Cash Provided by Investing Activities	<u>748</u>

Net Increase in Cash and Equivalents	(205,562)
Cash and Equivalents, Beginning of Year	<u>359,814</u>
Cash and Equivalents, End of Year	<u><u>\$ 154,252</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2009**

Reconciliation of Operating Income to Net Cash Used by Operating Activities:

Operating Income	\$ (243,883)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities	
Depreciation	52,036
Increase in receivables	-
Increase in prepaid expenses	(11,527)
Increase in accrued liabilities	26,622
Increase in accounts payable	<u>18,822</u>
Net Cash Used by Operating Activities	<u><u>\$ (157,930)</u></u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation of Hawkins County Emergency Communications District (the District) was approved in a countywide referendum in August 1990. In accordance with Chapter 86 of the Tennessee Code Annotated, members of the District's Board of Directors were appointed by the Hawkins County Commission. Customer surcharges were initiated, collected and remitted by telephone companies serving Hawkins County soon thereafter.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Under this accounting basis, revenues are recognized when earned and expenses are recorded when incurred.

The financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reporting Entity

Hawkins County Emergency Communications District is a component unit of the county government of Hawkins County. Per T.C.A. 7-86-114, the District cannot "issue its negotiable bonds, notes and debt obligations for lease and/or lease purchases in anticipation of the collection of revenues for the purpose of constructing, acquiring, reconstructing, improving, bettering or expanding any facility or service authorized by this chapter or any combination thereof, and to pledge to the payment of the interest and principal of such bonds, notes or debt obligations all or any part of the revenues derived from the operation of such facility, service or combination thereof without the approval of the legislative body of Hawkins County."

Property, Plant and Equipment

Capital Assets are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Property, plant and equipment are accounted for at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

Compensated Absences

The District allows employees to accumulate unlimited sick leave at the rate of eight hours per month or twelve days per year. Unused vacation days (180 hours maximum) are redeemable for cash or may be accumulated. Unused sick days will not be paid upon early termination. However, sick days may be accumulated and taken as early time off prior to an employee's normal retirement. Since the employee's accumulating rights to receive compensation are contingent upon the absences being caused by future illnesses and since such amounts cannot be reasonably estimated, a liability for unused sick days is not recorded in the financial statements.

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009**

Cash and Cash Equivalents

The District includes cash and cash equivalents in the presentation of the Statement of Cash Flows. Cash equivalents for this purpose are highly liquid investments with an original maturity of three months or less when purchased.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

General

Under the guidance of GASB No. 20, pronouncements of the FASB issued before November 30, 1989 are applicable to proprietary funds unless they conflict with or contradict GASB guidance. After November 30, 1989, there are two options for a proprietary fund: 1) Follow GASB guidance only and not follow any FASB guidance issued after that date or 2) Continue to apply all future FASB guidance that does not conflict with or contradict GASB guidance. The District has adopted as policy option one, as required by the Office of the Comptroller of the Treasury.

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

The District is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Tennessee or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Tennessee or the United States; (4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks, domiciled in Tennessee, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date. Cash (all in checking account) was covered by FDIC insurance or the Tennessee Collateral Pool. There were no certificates of deposit.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and estimated useful lives used for depreciation purposes consisted of the following at June 30, 2009:

	<u>2008</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>2009</u>	<u>ESTIMATED USEFUL LIFE</u>
Capital assets, not being depreciated:					
Land	\$ 126,314	\$ 0	\$ 0	\$ 126,314	
Capital assets, being depreciated:					
Building	0	540,734	0	540,734	40 years
Furniture & Fixtures	16,874	5,007	16,874	5,007	5 years
Vehicles	15,500	0	0	15,500	5 years

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009

Office Equipment	21,130	0	3,690	17,440	5 years
Communications System	<u>427,054</u>	<u>274,872</u>	<u>0</u>	<u>701,926</u>	5-10 years
Total depreciable assets:	480,558	820,613	20,564	1,280,607	
Less Accumulated Depreciation:					
Building	0	1,186	0	1,186	
Furniture & Fixtures	16,874	162	16,874	162	
Vehicles	1,550	3,100	0	4,650	
Office Equipment	5,084	2,788	3,690	4,182	
Communications System	<u>345,452</u>	<u>44,800</u>	<u>0</u>	<u>390,252</u>	
Total Accumulated Depreciation:	<u>368,960</u>	<u>52,036</u>	<u>20,564</u>	<u>400,431</u>	
Net Fixed Assets	<u>\$ 237,913</u>	<u>\$768,577</u>	<u>\$ 0</u>	<u>\$1,006,490</u>	

NOTE 4 - ECONOMIC DEPENDENCY

Tennessee state law mandates collection of a surcharge by telephone companies from their customers to fund established E-911 agencies. Hawkins County Emergency Communications District received approximately 33% of its total revenue from surcharges collected by Embarq and AT&T. Another \$ 222,205, or 34%, comes from the State Emergency Communications Board from cellular telephone charges and grants. These revenues are insufficient to pay the costs of District operations. For the agency to function, it also depends on appropriations from the county, which this year amounted to \$140,000, or 22%, of total (operating and non-operating) revenues.

NOTE 5 - RISK MANAGEMENT

Significant losses in the areas of employee health, accident, general liability, errors and omissions and auto liability are covered through commercial insurance policies. There have been no reductions in coverage, and settlement amounts have not exceeded insurance coverage for the current year or three prior years.

NOTE 6 - RETIREMENT PLAN

Plan Description

Employees of Hawkins County ECD are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009**

Assembly. Political subdivisions such as Hawkins County ECD participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Hawkins County ECD requires employees to contribute 5.0 percent of earnable compensation. Hawkins County ECD is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 6.56% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hawkins County ECD is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2009, Hawkins County ECD's annual pension cost of \$23,202 to TCRS was equal to Hawkins County ECD's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hawkins County ECD's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 16 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 23,020	100.00%	\$0.00
June 30, 2008	\$ 20,819	100.00%	\$0.00
June 30, 2007	\$ 16,517	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 81.14% percent funded. The actuarial accrued liability for benefits was \$0.29 million, and the actuarial value of assets was \$0.24 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0 million, and the ratio of the UAAL to the covered payroll was 21.13% percent.

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009**

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTE 7 - EQUIPMENT RENTAL

The District rents equipment from telephone companies for use in daily operations. These rents are paid on a month-to-month basis with no minimum requirements, no terms and no buy-out provisions.

NOTE 8 - NOTES PAYABLE

During the current fiscal year, the District received a loan in the amount of \$848,000 from First Community Bank. This note was used to consolidate an existing line of credit and existing loan secured by equipment. This note bears a 6.5% interest rate payable monthly for fifteen years through 2024. The District made no principal and interest payments during the year. Balance at year-end is \$848,000 with \$34,340 being classified as current.

Scheduled principal payments for the next five years and in the aggregate on the above notes:

2010	\$	34,340
2011		36,640
2012		38,990
2013		41,778
2014		44,816
2015-2019		272,263
2020-2024		<u>379,173</u>
	<u>\$</u>	<u>848,000</u>

NOTE 9 - SUBSEQUENT EVENTS

In May 2009, the FASB issued SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the statement of financial condition is issued or is available to be issued. SFAS 165 defines the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of net assets date in the financial statements, and the disclosures that an entity should make about events or transactions that occurred

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
Notes to the Financial Statements
June 30, 2009**

after the statement of net assets date. In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through March 25, 2010, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2009

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>
Operating Revenue				
Telephone Surcharges	\$ 249,000	\$ 249,000	\$ 278,938	\$ 29,938
Operational Funding	120,000	120,000	100,034	(19,966)
Cellular Income	<u>142,537</u>	<u>142,537</u>	<u>109,443</u>	<u>(33,094)</u>
Total Operating Revenue	511,537	511,537	488,415	(23,122)
Operating Expenses				
Salaries	308,282	308,282	441,945	(133,663)
Employee Benefits	39,497	39,497	73,222	(33,725)
Addressing/Mapping Expense	-	-	831	
Advertising	-	-	128	
Audit Services	5,000	5,000	12,210	(7,210)
Bank Service Charges	-	-	6,752	
Fees Paid to Service Providers	8,300	8,300	7,757	543
Internet Charges	-	-	1,400	
Legal Services	-	-	1,500	(1,500)
Maintenance Agreements	12,011	12,011	12,960	(949)
Lease/Rental - Communications Equipment	52,321	52,321	55,395	(3,074)
Maintenance and Repairs - Communications Equipment	9,480	9,480	7,900	1,580
Maintenance and Repairs - Buildings and Facilities	-	-	8,094	(8,094)
Maintenance and Repairs - Office Equipment	3,168	3,168	1,162	2,006
Maintenance and Repairs - Vehicle	1,200	1,200	423	777
Office Supplies	3,000	3,000	4,847	(1,847)
Custodial Supplies	2,100	2,100	1,155	945
Postage	245	245	42	203
Small Equipment	11,700	11,700	4,338	7,362
Uniforms and Shirts	-	-	1,492	
Utilities - Electric, Water and Sewer	1,300	1,300	1,766	(466)
Utilities - General Telephone and Pagers	10,000	10,000	9,952	48
Dues & Subscriptions	1,200	1,200	1,536	(336)
Training	2,750	2,750	2,136	614
Travel Expenses	-	-	5,909	(5,909)
Insurance	10,938	10,938	14,654	(3,716)
Other Charges	1,670	1,670	1,366	304
Depreciation	<u>160,000</u>	<u>160,000</u>	<u>52,036</u>	<u>107,964</u>
Total Operating Expenses	644,162	644,162	732,908	(78,143)
Non-Operating Revenue/(Expenses)				
County Appropriations	140,000	140,000	140,000	-
Operating Fund	34,551	34,551	14,575	(19,976)
Miscellaneous Income	63,610	63,610	610	(63,000)
Interest Expense	-	-	(5,232)	(5,232)
Interest Income	<u>-</u>	<u>-</u>	<u>748</u>	<u>748</u>
Total Non-Operating Revenue	238,161	238,161	150,701	(87,460)
Net Assets	<u>\$ 105,536</u>	<u>\$ 105,536</u>	<u>\$ (93,792)</u>	<u>\$ (188,725)</u>

Net Assets reported on budgetary comparison \$ (93,792)

Capital assets purchased and reported on the statement of net assets instead of the statement of revenue, expenses, and changes in net assets 359,814

Change in net assets reported on statement of revenue, expenses, and changes in net assets \$ 266,022

**HAWKINS COUNTY EMERGENCY COMMUNICATION DISTRICT
SCHEDULE OF FUNDING PROGRESS
June 30, 2009**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
July 01, 2007	\$241	\$297	\$56	81.14%	\$265	21.13%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method was a change made during the year and therefore only the most current year is presented.

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF INFORMATION REQUIRED BY THE
TENNESSEE EMERGENCY COMMUNICATIONS BOARD
June 30, 2009**

Public Safety Answering Points (PSAP)

- One PSAP located in Hawkins County
- PSAP for Hawkins is located at 2291 East Main Street, Rogersville, Tennessee 37857
- The Hawkins County PSAP utilizes the ZeTron System

Director of the Hawkins County Emergency Communications District

Gay Murrell
2291 East Main Street Suite B
Rogersville, Tennessee 37857
Phone (423) 272-7532
Fax (423) 272-1694

Chairman of the Hawkins County Emergency Communications District

Kevin Cassidy
2291 East Main Street Suite B
Rogersville, Tennessee 37857
Phone (423) 272-7532

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

**INDEPENDENT AUDITOR'S 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***

To the Board of Directors of
Hawkins County Emergency Communications District
Rogersville, Tennessee

I have audited the accompanying financial statements of the Hawkins County Emergency Communications District, a discretely presented component unit of Hawkins County, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the Hawkins County Emergency Communications District's basic financial statements and have issued my report thereon dated March 25, 2010. I conducted my 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 my audit, I considered the Hawkins County Emergency Communications District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hawkins County Emergency Communications District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Hawkins County Emergency Communications District's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I 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 a combination of deficiencies, that adversely affects the Hawkins County Emergency Communications District's ability to initiate, record, process, and 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 Hawkins County Emergency Communications District's financial statements that is more than inconsequential will not be prevented or detected by the Hawkins County Emergency Communications District's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 08-01, 08-03, 09-01 and 09-02.

A material weakness is a significant deficiency, or a combination of 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 Hawkins County Emergency Communications District's internal control.

My consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Items 08-01 and 08-02 are identified as deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawkins County Emergency Communications District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 08-04.

I noted certain matters and I reported to management of the Hawkins County Emergency Communications District, in a separate letter dated March 25, 2010.

Hawkins County Emergency Communications District's response to findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Hawkins County Emergency Communications District's response and, accordingly, I express no opinion on it.

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



David M. Ellis, CPA
March 25, 2010

**HAWKINS COUNTY EMERGENCY COMMUNICATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009**

Financial Statement Findings

Prior and Current Year Findings:

08-01 Inadequate Segregation of Duties:

Condition: The District has one employee who receives and records collections, prepares deposits, and reconciles the bank statement.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities states that responsibilities and control over related transaction sequences should be divided such that one or few employees do not have sole custody or authority over all aspects of the sequence.

Effect: Intentional or unintentional errors could occur and not be detected, resulting in loss to the District.

Recommendation: The District should take any possible steps to separate the functions outlined above.

Management's Comments: Available employees and board members are limited and optimum segregation may not be possible. This will likely be an ongoing condition.

08-02 Internal Control and Compliance Issues

Condition: Various requirements contained in the *Internal Control and Compliance Manual for Tennessee Municipalities* have not been followed.

Criteria: The *Manual* issued by the Comptroller of the Treasury of the State of Tennessee contains requirements for aspects of day to day operations that should be followed by Tennessee municipalities.

Effect: Intentional or unintentional errors could occur and not be detected.

Recommendation: The *Manual* should be reviewed by management and where possible, its provisions adhered to.

Management's Comments: Now that a copy of the *Manual* has been procured, all efforts will be made to comply with its provisions.

HAWKINS COUNTY EMERGENCY COMMUNICATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009

Financial Statement Findings

08-03 Actual Expenses over Budgeted Amounts:

Condition: Actual expenses of some line items were more than budgeted amounts.

Criteria: Tennessee Code Annotated 7-86-120 requires emergency communications districts to adopt and operate under an annual budget. Expenses must be presented at the legal level of control, which is defined to be at the line item level.

Effect: The district may spend money that has not been budgeted.

Recommendation: The district should review and amend the budget prior to purchase.

Management's Comments: The board will review and amend the budget at the meeting prior to year end.

08-04 Control over Bank Accounts

Condition: The District Chairman has the ability to transfer funds without involvement of any other member of management.

Criteria: Tennessee Code section 7-86-124 states "No member of the board of directors shall have control or custody of the financial assets of an emergency communications district. No member of the board of directors, on such member's sole authority may authorize the disbursement, transfer, withdrawal or investment of any financial assets belonging to the emergency communications district."

Effect: The District is in violation of State law.

Recommendation: All transfers and withdrawals of funds from accounts, or draws on lines of credit, should require signatures from two members of management, or two should be present at the bank at the time of the transaction. Phone transactions should be avoided.

Managements Comments: Management concurs. Care will be taken to avoid violating state law.

HAWKINS COUNTY EMERGENCY COMMUNICATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009

Prior Year Finding:

08-05 Ethics Resolution Not Passed:

Condition: No ethics resolution was passed by the June 30, 2007 deadline.

Criteria: Section 49 of the Comprehensive Governmental Ethics Reform Act of 2006, 2006 Public Chapter 1 (1st Ex. Sess.), required county legislative bodies to adopt certain ethical standards by resolution on or before June 30, 2007.

Effect: The result of not passing the resolution prior to July 1, 2007 puts the District in violation of TCA 8-17-101.

Recommendation: The board should pass a resolution to adopt ethical standards.

Management's Comments: This situation has been resolved.

Current Year Findings:

09-01 Audit Adjustments Were Required for Proper Financial Statement Presentation

Condition: At June 30, 2009, certain general ledger accounts were materially incorrect, and audit adjustments were required for the financial statements to be free of misstatements at year-end.

Criteria: Generally accepted accounting principles require the District to have adequate internal controls over the maintenance of its accounting records.

Effect: The District's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

Recommendation: The District should have appropriate processes in place to ensure that its general ledger is accurate.

Managements Comments: Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

HAWKINS COUNTY EMERGENCY COMMUNICATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2009

09-02 Inadequate Documentation of Controls

Condition: The components of internal control should be adequately documented.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1, states:

Municipal officials should ensure that a policies and procedures manual is part of the written record system of the municipality. The municipality's manual should incorporate or reference all the policies and procedures required in this manual and should include any additional policies and procedures specific to the municipality.

Effect: Verbal policies and procedures are more likely to result in intentional or unintentional errors that could be made and not be detected

Recommendation: The District should have a written procedures manual including but not limited to, policies regarding cell phones and vehicle usage.

Management's Comments: Management agrees