

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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INTRODUCTORY SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2009

BOARD OF DIRECTORS

Jim Keesling	Chairman
Craig Dye	Vice-Chairman
Barbara Peavler	Secretary
John Moser	Treasurer
Conner Caldwell	Director
Gale Osborne	Director
Vivian Crymble	Director
Farris Jackson	Director
Kenneth Calvert	Director

MANAGEMENT

Jerry Mowl	Communications Manager
Joe May	Attorney

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE

BOARD MEMBER ADDRESSES

PANEL ENDING 1-1-2010

John Moser
413 Arlington Court
Kingsport, TN 37663
239-4140 (H)
384-6779 (Cell)
jmoser413@charter.net

Vivian Crymble
2964 Cliffside Rd.
Kingsport, TN 37664
378-3782 (H)
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vcrymble@yahoo.com

PANEL ENDING 1-1-2012

Conner Caldwell
2104 Windy Place
Kingsport, TN 37660
343-8820 (H)
(336) 877-2200 (Mt.H)
jandccaldwell@chartertn.net

Barbara Peavler
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288-8484 (H)
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Kenneth Calvert
P.O. Box 2084
Kingsport, TN 37662
392-4465 (H)
245-9721 (W)
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lcalvert@aol.com

PANEL ENDING 1-1-2013

Farris Jackson
110 Periwinkle Place
Kingsport, TN 37660
343-7755 (H)
343-7714 (FAX)
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farris@chartertn.net

Jim Keesling
712 Chippendale
Kingsport, TN 37660
378-5055 (H)
914-6055 (Cell)

By Virtue of Office

Gale Osborne, Chief of Police
200 Shelby Street
Kingsport, TN 37660
229-9423 (W)
224-2786 (Fax)
osborne@ci.kingsport.tn.us

Craig Dye, Fire Chief
130 Island St
Kingsport, TN 37660
229-9444 (W)
384-1911
dye@ci.kingsport.tn.us

MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009 AND 2008

As financial management of the Emergency Communications District of the City of Kingsport, Tennessee (the "District"), a component unit of the City of Kingsport, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

Operating income for the Emergency Communications District was \$26,452 for fiscal year 2009, compared to \$80,275 for fiscal year 2008 and \$94,402 for fiscal year 2007. This decrease in cash from operating activities was due principally to lower operating revenues and a significant increase in contracts with the local government expense in fiscal 2009 and higher operating expenses in fiscal 2008. Net income produced an increase in net assets of \$107,487 in 2009, and \$180,315 in 2008. The term "net assets" refers to the difference between assets and liabilities. At the close of the fiscal year 2009, the District had net assets of \$2,158,784, an increase of 5% over the prior year, and at the close of the fiscal year 2008, the District had net assets of \$2,051,297, an increase of 10% over the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. Since the District is comprised of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report also contains other supplementary information concerning the District's budget to actual comparisons and certain non-financial information required by the Tennessee Emergency Communications Board.

Basic financial statements: The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

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. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets which indicates an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event 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.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget to actual comparison and certain non-financial information required by the Tennessee Emergency Communications Board.

Financial Analysis

Net assets may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$2,158,784 at the close of June 30, 2009. This represents an increase of \$107,487 (5%) over the previous year. The unrestricted net assets were \$1,933,161. At the close of June 30, 2008, assets exceeded liabilities by \$2,051,297 and represented an increase of \$180,315 (10%) over the previous year. The unrestricted net assets were \$1,737,956.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

By far, the largest portion of the District's net assets reflects its investment in Certificates of Deposit. These Certificates of Deposit are in various local financial institutions all of which are members of the Tennessee State Collateral Pool. Interest rates on these certificates range from 1.75% to 4.25%. Maturity dates range from September 2009 to June 2011. Much of the funds invested in certificates of deposits are expected to be used to purchase capital assets over the next few years. The Board considers the upgrade of the 911 system to be an ongoing process to stay current with technological advances.

Emergency Communications District's Net Assets are as follows for the fiscal years ended June 30, 2009, 2008 and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 1,991,213	\$ 1,743,542	\$ 1,529,247
Capital Assets	<u>225,623</u>	<u>313,341</u>	<u>348,174</u>
Total Assets	2,216,836	2,056,883	1,877,421
Current Liabilities	58,052	5,586	6,439
Long-Term Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>58,052</u>	<u>5,586</u>	<u>6,439</u>
Net Assets:			
Invested in Capital Assets	225,623	313,341	348,174
Unrestricted	<u>1,933,161</u>	<u>1,737,956</u>	<u>1,522,808</u>
Total Net Assets	\$ <u>2,158,784</u>	\$ <u>2,051,297</u>	\$ <u>1,870,982</u>

Emergency Communications District's Changes in Net Assets are as follows for the fiscal years ended June 30, 2009, 2008, and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 599,032	\$ 617,932	\$ 542,520
Operating Expenses	<u>572,580</u>	<u>537,657</u>	<u>448,118</u>
Income from Operations	26,452	80,275	94,402
Non-Operating Revenues (Expenses):			
Interest Income	54,208	87,902	53,504
State Grants and Reimbursements	26,827	14,575	132,981
(Loss) on Disposal of Equipment	<u>0</u>	<u>(2,437)</u>	<u>0</u>
Net Non-Operating Revenue (Expenses)	<u>81,035</u>	<u>100,040</u>	<u>186,485</u>
Change in Net Assets	107,487	180,315	280,887
Net Assets, Beginning of Year	<u>2,051,297</u>	<u>1,870,982</u>	<u>1,590,095</u>
Net Assets, End of Year	\$ <u>2,158,784</u>	\$ <u>2,051,297</u>	\$ <u>1,870,982</u>

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant Events

During the year ended June 30, 2007, the District purchased a net clock system for \$7,004. This system synchronizes all the computers on the same time. The District received a grant for \$5,000 from the State of Tennessee to fund the purchase of the net clock system. The District also upgraded the ECS-1000 controller for \$117,981 utilizing a grant received from the State of Tennessee.

The District replaced operator workstations and servers in the year ended June 30, 2008, as part of its ongoing policy of updating technologies.

During 2009, the District was awarded a grant from the state ECB for training purposes in the amount of \$16,827. This amount was paid to the City of Kingsport after June 30, 2009, under the terms of the grant. Additionally, the District incurred an obligation to pay \$36,411 of the cost of Sullivan County's upgrade of the 800MHz radio system to the City of Kingsport.

Cash Flows

Net cash provided by operating activities during the year ended June 30, 2009, was \$117,708, a decrease of \$37,904 from the prior year amount. This decrease was principally due to lower operating revenues. Net cash from financing activities involving the receipt of monies from grants during the year ended June 30, 2009. Net cash from investing activities during the year ended June 30, 2009, decreased to \$52,203 due to interest income earned on CDs.

Net cash provided by operating activities during the year ended June 30, 2008 increased by \$155,612 due to increased emergency telephone service charges. Net cash used by financing activities during the year ended June 30, 2008, was \$39,766 which consisted of \$14,626 of grant monies received and proceeds from the sale of used equipment less \$54,392 used to purchase new equipment. Net cash provided by investing activities during the year ended June 30, 2008, increased by \$55,145 due to several CD's maturing during the year.

Budgeting Highlights

The original budgets were approved in June 2008 for the fiscal year ended June 30, 2009; and in June 2007 for the fiscal year ended June 30, 2008, and were amended as needed throughout each year. The original and final budgets are presented as separate columns in the required supplementary information.

Capital Asset and Debt Administration

Capital Assets: The District's investment in capital assets amounts to \$225,623, net of accumulated depreciation as of June 30, 2009, a decrease of \$87,718. Capital assets primarily include communications equipment and computer hardware and software used in 911 communications.

Long-Term Debt: The District had no long-term debt as of June 30, 2009; and no long-term debt as of June 30, 2008.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Emergency Communications District of the City of Kingsport, Tennessee, Suite 100, 200 Shelby Street, Kingsport, Tennessee 37660.

FINANCIAL SECTION

Lewis & Associates P.C.

— Certified Public Accountants —

Kenneth L. Lewis, C.P.A.,
President

John Hunter, CPA
T. Craig Ratliff, CPA
Lisa Estep Winkle, CPA
T. Wayne Turbyfield, CPA
Jeff Jennings, CPA
Mary Shelton, CPA

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Emergency Communications District
of the City of Kingsport, Tennessee
Kingsport, Tennessee

We have audited the accompanying basic financial statements of the Emergency Communications District of the City of Kingsport, Tennessee, a component unit of the City of Kingsport, Tennessee, as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of the Emergency Communications District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of the City of Kingsport, Tennessee, as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009 on our consideration of the Emergency Communications District of the City of Kingsport'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 audits.

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 5, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



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Virginia Society of Certified Public Accountants

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Emergency Communications District of the City of Kingsport, Tennessee. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Associates P.C.
Lewis & Associates, P.C.

Johnson City, Tennessee
November 19, 2009

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash - Checking	\$ 263,983	\$ 236,195
Cash - Savings and Certificates of Deposit	1,555,674	1,403,551
Accrued Interest Receivable	34,761	32,757
Accounts Receivable	37,607	31,193
Due From TN Emergency Communications Board	76,938	18,070
Prepaid Expenses	<u>22,250</u>	<u>21,776</u>
Total Current Assets	1,991,213	1,743,542
Capital Assets		
Furniture and Fixtures	16,546	16,546
Office Equipment	61,755	61,755
Communications Equipment	588,459	588,459
Other Fixed Assets	<u>28,780</u>	<u>28,780</u>
	695,540	695,540
Less: Accumulated Depreciation	<u>(469,917)</u>	<u>(382,199)</u>
Net Capital Assets	<u>225,623</u>	<u>313,341</u>
Total Assets	<u>2,216,836</u>	<u>2,056,883</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	<u>58,052</u>	<u>5,586</u>
Total Current Liabilities	<u>58,052</u>	<u>5,586</u>
Total Liabilities	<u>58,052</u>	<u>5,586</u>
NET ASSETS		
Invested in Capital Assets	225,623	313,341
Unrestricted Net Assets	<u>1,933,161</u>	<u>1,737,956</u>
Total Net Assets	\$ <u>2,158,784</u>	\$ <u>2,051,297</u>

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

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenue		
Emergency Telephone Service Charge	\$ 378,081	\$ 410,081
Tennessee Emergency Communications Board -Shared Wireless Charge	116,870	103,600
Tennessee Emergency Communications Board -Operating Fund	104,081	104,081
Other Income	<u>0</u>	<u>170</u>
 Total Operating Revenue	 599,032	 617,932
Operating Expenses		
Advertising	143	565
Audit Services	4,562	3,015
Accounting Services	3,860	1,320
Administrative Fees	13,363	10,432
Contracts with Government Agency	319,739	266,500
Fees Paid to Service Providers	61,720	69,011
Legal Fees	1,896	2,232
Maintenance/Communication Equipment	57,884	56,305
Office Supplies	1,787	1,140
Postage	42	41
Board Meeting Expenses	395	436
Dues and Memberships	742	4,457
Surety Bonds	2,173	3,189
Travel Expenses	14,923	22,850
Training Expenses	1,633	8,950
Other Charges	0	477
Depreciation	<u>87,718</u>	<u>86,737</u>
 Total Operating Expenses	 <u>572,580</u>	 <u>537,657</u>
 Net Operating Income	 26,452	 80,275
Non-Operating Revenues (Expenses)		
Interest Income	54,208	87,902
Tennessee Emergency Communications Board Grants and Reimbursements	26,827	14,575
(Loss) on Disposal of Equipment	<u>0</u>	<u>(2,437)</u>
 Net Non-Operating Revenues (Expenses)	 <u>81,035</u>	 <u>100,040</u>
 Total Net Income	 107,487	 180,315
Net Assets - Beginning	<u>2,051,297</u>	<u>1,870,982</u>
Net Assets - Ending	\$ <u>2,158,784</u>	\$ <u>2,051,297</u>

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

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Receipts from Emergency Telephone Service Charges	\$ 358,303	\$ 407,209
Receipts from TN ECB Shared Wireless Charges	92,177	102,133
Receipts from TN ECB Operating Fund	86,734	104,081
Other Receipts	0	170
Payments for Contracts with Government Agency	(266,500)	(266,500)
Payments to Service Providers	(62,484)	(69,011)
Payments to Suppliers for Goods and Services	<u>(90,522)</u>	<u>(122,470)</u>
Net Cash Provided by Operating Activities	<u>117,708</u>	<u>155,612</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	0	(54,392)
Proceeds from Sale of Equipment	0	51
State Grant and Reimbursement	<u>10,000</u>	<u>14,575</u>
Net Cash Used by Capital and Related Financing Activities	<u>10,000</u>	<u>(39,766)</u>
Cash Flows from Investing Activities:		
Interest Income	<u>52,203</u>	<u>55,145</u>
Net Cash Provided by Investing Activities	<u>52,203</u>	<u>55,145</u>
Net Cash Increase	179,911	170,991
Cash - Beginning of Year	<u>1,639,746</u>	<u>1,468,755</u>
Cash - End of Year	\$ <u>1,819,657</u>	\$ <u>1,639,746</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 26,452	\$ 80,275
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	87,718	86,737
(Increase) Decrease in Accounts Receivable	(6,414)	(2,872)
(Increase) Decrease in Prepaid Expenses	(474)	(1,467)
(Increase) Decrease in Due from TN ECB	(42,040)	(6,208)
Increase (Decrease) in Accounts Payable	<u>52,466</u>	<u>(853)</u>
Net Cash Provided by Operating Activities	\$ <u>117,708</u>	\$ <u>155,612</u>

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

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The Emergency Communications District of the City of Kingsport, Tennessee was created by a referendum held on January 11, 1994, the results of which were certified on January 20, 1994, as required by Tennessee Code Annotated Title 7 Chapter 86 "Emergency Communications District" section 7-86-104. The purpose of the Emergency Communications District is to oversee the operations of the 911 emergency telephone services. Their Board consists of nine members, all of whom are appointed by the Board of Mayor and Aldermen of the City of Kingsport, Tennessee.

Reporting Entity

The criteria set forth in Governmental Accounting Standards Board Statement 14 *The Financial Reporting Entity* was used to determine that the Emergency Communications District is a component unit of the City of Kingsport, Tennessee. The basic - but not the only - criterion for including a potential component unit within the primary government's reporting entity is the primary government's financial accountability for the potential component unit. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. The Board of Mayor and Aldermen of the City of Kingsport appoints all nine members of the Board of Directors of the Emergency Communications District of the City of Kingsport, Tennessee. Traditionally, two of the Board members are employees of the City of Kingsport who serve on the Board as part of their duties as Police Chief and Fire Chief. In addition, all personnel performing the daily operations of the Emergency Communications District are employees of the City of Kingsport. The City of Kingsport therefore has the ability to impose its will on the Emergency Communications District of the City of Kingsport. Based upon the application of these criteria, the Emergency Communications District is a component unit of the City of Kingsport, Tennessee.

Basis of Accounting

The financial statements of the Emergency Communications District have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. As required by Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the Emergency Communications District follows all GASB pronouncements and FASB Statements issued on or before November 30, 1989 except those that conflict with a GASB pronouncement. The District follows only GASB guidance issued after November 30, 1989 and does not follow any FASB guidance issued after that date.

Income Taxes

The Emergency Communications District is an agency organized and existing pursuant to the provisions of Tennessee Code Ann. 7-86-101 which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

Revenue

The Emergency Communications District receives the service charges billed and collected by telephone companies operating within the District's area of responsibility directly from those telephone companies. The State of Tennessee collects and remits a percentage of wireless charges to the District.

Expenses

The City of Kingsport, Tennessee provides the physical facilities, employees, and administrative services necessary to fulfill the purpose of the District on a reimbursement basis.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of the Statement of Cash Flows, the Emergency Communications District considers all bank and certificate of deposits and any highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Bank balances exceeding Federal Deposit Insurance Corporation insurance limits are collateralized by the Tennessee State Collateral Pool.

Depreciation

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the useful lives using the straight-line method of depreciation.

Uncollectibles

Uncollectibles are deducted from the service charges collected by the telephone companies and represent uncollected service charges from disconnected customers.

Concentrations of Credit Risk

Financial instruments that potentially subject the Emergency Communications District to concentrations of credit risk are primarily cash, and accounts receivable. The Emergency Communications District's cash is insured by the FDIC or collateralized by the bank's membership in the Tennessee Bank Collateral Pool. Although the District could be affected by changes in general economic conditions of the area, management does not believe that significant credit risk exists at June 30, 2009.

NOTE 2—CASH AND INVESTMENTS

At June 30, 2009 and 2008, total demand deposits and certificates of deposit for the Emergency Communication District were insured and/or collateralized in one of the following ways. Deposits were insured by the FDIC up to \$250,000. Deposits in excess of FDIC limits were held in a financial institution, which is a member of the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool (the pool) is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the pool if the value of collateral is inadequate to cover a loss. The District's deposits in the financial institutions were entirely insured or collateralized at June 30, 2009 and 2008.

At June 30, 2009, the District's carrying amount of deposits was \$1,819,657 and the bank balance was \$1,829,788. Of the bank balance, \$1,187,742 was covered by federal depository insurance, with the remaining balance of \$642,046 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the District's name. At June 30, 2008, the District's carrying amount of deposits was \$1,639,746, and the bank balance was \$1,651,974. Of the bank balance, \$500,000 was covered by federal depository insurance, with the remaining balance of \$1,151,974 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the District's name.

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3—PROPERTY, PLANT, AND DEPRECIATION

Capital Assets activity for the year ended June 30, 2009 was as follows:

	<u>June 30,</u> <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2009</u>
Furniture & Fixtures	\$ 16,546	\$ 0	\$ 0	\$ 16,546
Office Equipment	61,755	0	0	61,755
Communications Equipment	588,459	0	0	588,459
Other Fixed Assets	<u>28,780</u>	<u>0</u>	<u>0</u>	<u>28,780</u>
Total	<u>695,540</u>	<u>0</u>	<u>0</u>	<u>695,540</u>
Less Accumulated Depreciation:				
Furniture & Fixtures	7,443	1,539	0	8,982
Office Equipment	8,640	12,321	0	20,961
Communications Equipment	351,469	70,003	0	421,472
Other Fixed Asset	<u>14,647</u>	<u>3,855</u>	<u>0</u>	<u>18,502</u>
Total Accumulated Depreciation	<u>382,199</u>	<u>87,718</u>	<u>0</u>	<u>469,917</u>
Capital Assets, Net	\$ <u>313,341</u>	\$ <u>(87,718)</u>	\$ <u>0</u>	\$ <u>225,623</u>

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

	<u>June 30,</u> <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2008</u>
Furniture & Fixtures	\$ 16,546	\$ 0	\$ 0	\$ 16,546
Office Equipment	8,622	54,392	1,259	61,755
Communications Equipment	595,614	0	7,155	588,459
Other Fixed Assets	<u>28,780</u>	<u>0</u>	<u>0</u>	<u>28,780</u>
Total	<u>649,562</u>	<u>54,392</u>	<u>8,414</u>	<u>695,540</u>
Less Accumulated Depreciation:				
Furniture & Fixtures	5,795	1,648	0	7,443
Office Equipment	2,699	7,200	1,259	8,640
Communications Equipment	282,101	74,035	4,667	351,469
Other Fixed Asset	<u>10,793</u>	<u>3,854</u>	<u>0</u>	<u>14,647</u>
Total Accumulated Depreciation	<u>301,388</u>	<u>86,737</u>	<u>5,926</u>	<u>382,199</u>
Capital Assets, Net	\$ <u>348,174</u>	\$ <u>(32,345)</u>	\$ <u>2,488</u>	\$ <u>313,341</u>

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4—INSURANCE

The capital assets of the Emergency Communications District are insured by the City Of Kingsport's Blanket Insurance Policy. However, the City has a \$50,000 deductible on each loss per occurrence. The City is self-insured regarding the \$50,000 deductible. In addition, the Emergency Communications District is listed as an additional named insured on the City of Kingsport's general liability policy. There were no settlements in excess of insurance coverage related to the Emergency Communications District for the year ended June 30, 2009 or for any of the four preceding years.

NOTE 5—SURETY BOND

The Emergency Communications District maintains a surety bond for \$500,000 on their treasurer, \$100,000 for the chair, and \$100,000 for the vice-chair. These policies run on a calendar year.

SUPPLEMENTAL INFORMATION SECTION

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenue:				
Emergency Telephone Service				
Charges	\$ 385,000	\$ 350,000	\$ 378,081	\$ 28,081
TN ECB Shared Wireless Charges	120,000	120,000	116,870	(3,130)
TN ECB Operating Fund	104,000	104,000	104,081	81
Other Revenue	<u>1,000</u>	<u>100</u>	<u>0</u>	<u>(100)</u>
Total Operating Revenue	610,000	574,100	599,032	24,932
Operating Expenses:				
Advertising	3,000	3,000	143	2,857
Auditing Services	5,000	5,000	4,562	438
Accounting Services	3,000	4,300	3,860	440
Administrative Fees	15,000	12,000	13,363	(1,363)
Contracts with Government Agency	266,000	305,700	319,739	(14,039)
Fees Paid to Service Providers	85,000	73,000	61,720	11,280
Legal Fees	4,500	3,000	1,896	1,104
Maintenance/Communication				
Equipment	90,000	75,000	57,884	17,116
Mapping/Data Base Consultants	2,375	2,300	0	2,300
Other Consultants	3,375	3,300	0	3,300
Office Supplies	2,000	2,400	1,787	613
Postage	250	100	42	58
Utilities Telephone	2,000	1,000	0	1,000
Board Meeting Expenses	4,000	1,500	395	1,105
Dues and Memberships	7,000	2,500	742	1,758
Surety Bonds	4,500	2,000	2,173	(173)
Service Awards	2,500	0	0	0
Travel Expenses	30,000	7,500	14,923	(7,423)
Training Expenses	10,000	1,000	1,633	(633)
Other Charges	6,500	20,000	0	20,000
Uncollected Service Charges	4,000	2,500	0	2,500
Depreciation	<u>60,000</u>	<u>86,737</u>	<u>87,718</u>	<u>(981)</u>
Total Expenses	<u>610,000</u>	<u>613,837</u>	<u>572,580</u>	<u>41,257</u>
Net Operating Income (Loss)	0	(39,737)	26,452	66,189
Non-Operating Revenues (Expenses)				
Interest	60,000	60,000	54,208	(5,792)
TN ECB Grants and Reimbursements	0	0	26,827	26,827
(Loss) on Disposal of Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Non-Operating Revenues (Expenses)	<u>60,000</u>	<u>60,000</u>	<u>81,035</u>	<u>21,035</u>
Net Income	\$ <u>60,000</u>	\$ <u>20,263</u>	\$ <u>107,487</u>	\$ <u>87,224</u>

See Independent Auditors' Report

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenue:				
Emergency Telephone Service Charges	\$ 381,000	\$ 381,000	\$ 410,081	\$ 29,081
TN ECB Shared Wireless Charges	175,000	100,100	103,600	3,500
TN ECB Operating Fund	0	104,000	104,081	81
Other Revenue	<u>1,000</u>	<u>1,000</u>	<u>170</u>	<u>(830)</u>
Total Operating Revenue	557,000	586,100	617,932	31,832
Operating Expenses:				
Advertising	3,000	3,000	565	2,435
Auditing Services	4,000	4,000	3,015	985
Accounting Services	2,000	2,000	1,320	680
Administrative Fees	14,000	14,000	10,432	3,568
Contracts with Government Agency	266,000	266,500	266,500	0
Fees Paid to Service Providers	80,000	80,000	69,011	10,989
Legal Fees	4,500	4,500	2,232	2,268
Maintenance/Communication Equipment	60,000	85,000	56,305	28,695
Mapping/Data Base Consultants	4,000	4,000	0	4,000
Other Consultants	4,400	4,400	0	4,400
Office Supplies	1,500	1,500	1,140	360
Postage	250	250	41	209
Utilities Telephone	1,900	1,900	0	1,900
Board Meeting Expenses	4,000	3,500	436	3,064
Dues and Memberships	5,000	6,000	4,457	1,543
Surety Bonds	4,000	4,000	3,189	811
Service Awards	2,950	2,950	0	2,950
Travel Expenses	20,000	23,100	22,850	250
Training Expenses	9,000	9,000	8,950	50
Other Charges	6,500	6,500	477	6,023
Depreciation	<u>60,000</u>	<u>60,000</u>	<u>86,737</u>	<u>(26,737)</u>
Total Expenses	<u>557,000</u>	<u>586,100</u>	<u>537,657</u>	<u>48,443</u>
Net Operating Income (Loss)	0	0	80,275	80,275
Non-Operating Revenues (Expenses)				
Interest	10,000	10,000	87,902	77,902
TN ECB Grants and Reimbursements	0	0	14,575	14,575
(Loss) on Disposal of Equipment	<u>0</u>	<u>0</u>	<u>(2,437)</u>	<u>(2,437)</u>
Net Non-Operating Revenues (Expenses)	<u>10,000</u>	<u>10,000</u>	<u>100,040</u>	<u>90,040</u>
Net Income	\$ <u>10,000</u>	\$ <u>10,000</u>	\$ <u>180,315</u>	\$ <u>170,315</u>

See Independent Auditors' Report

EMERGENCY COMMUNICATIONS DISTRICT
OF THE CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF INFORMATION REQUIRED BY
THE TENNESSEE EMERGENCY COMMUNICATIONS BOARD
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

The following information is required by the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts Effective July 1, 2004*, published by State of Tennessee Comptroller of the Treasury, Division of County Audit.

1. The number of public safety answering points (PSAP)? **One**
2. The address of each PSAP? **200 Shelby Street, Kingsport, Tennessee 37660**
3. The type of system/equipment and database used by each PSAP? **CML linked to the City's HTE public safety system/CAD.**
4. The name, address, telephone number and fax number of the Director of the Emergency Communications District? **The District does not have any employees and no director, per se. The City employee that is responsible of the direct dispatch function for the City and the District is Jerry Mowl, Communications Manager for the City of Kingsport, 200 Shelby Street, Kingsport, Tennessee 37660, telephone 423-229-9358, fax 423-224-2594.**
5. The name, address, telephone number, and fax number of the Chairman of the Emergency Communications District?

**Jim Keesling
712 Chippendale
Kingsport, TN 37660
423-378-5055 (H)
423-914-0655 (Cell)**

INTERNAL CONTROL AND COMPLIANCE SECTION

Lewis & Associates P.C.

==== Certified Public Accountants ====

Kenneth L. Lewis, C.P.A.,
President

John Hunter, CPA
T. Craig Ratliff, CPA
Lisa Estep Winkle, CPA
T. Wayne Turbyfield, CPA
Jeff Jennings, CPA
Mary Shelton, CPA

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
Emergency Communications District
of the City of Kingsport, Tennessee

In planning and performing the audit of the financial statements of the Emergency Communications District of the City of Kingsport as of and for the years ended June 30, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Emergency Communications District of the City of Kingsport, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emergency Communications District of the City of Kingsport, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Emergency Communications District of the City of Kingsport, Tennessee's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Communications District of the City of Kingsport, Tennessee'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



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objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is as follows:

Tennessee Code Annotated Section 7-86-120 states that no emergency communications district may spend money except in accordance with an adopted budget. The Schedule of Revenues and Expenses - Budget and Actual beginning on page 15 of the District's financial statements for the year ended June 30, 2009, showed six expense line items that exceeded the adopted budget.

RECOMMENDATION:

The Board should be more diligent in amending the budget to comply with *Tennessee Code Annotated* Section 7-86-120.

MANAGEMENT RESPONSE:

The District recognizes the problem. The bookkeeper will maintain the asset depreciation schedule monthly. We will be more diligent to amend the budget in order to comply with *Tennessee Code Annotated* Section 7-86-120.

We noted certain matters that we reported to management of Emergency Communications District of the City of Kingsport, Tennessee, in a separate letter dated November 19, 2009.

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

This report is intended solely for the information and use of the Board of Directors, management, the audit committee, others within the organization, and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Associates, P.C.
Lewis & Associates, P.C.
Johnson City, Tennessee

November 19, 2009