

**HAMILTON COUNTY "911" EMERGENCY  
COMMUNICATIONS DISTRICT**

**Chattanooga, Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

**June 30, 2009 and 2008**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

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## HAMILTON COUNTY “911” EMERGENCY COMMUNICATIONS DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hamilton County “911” Emergency Communications District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2009. This should be read in conjunction with the District’s financial statements.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statements of net assets and statements of revenues, expenses and changes in net assets provide information about the activities of the District as a whole and present an overview of the District’s finances.

### THE STATEMENTS OF NET ASSETS AND THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

One of the most important questions asked about an entity’s finances is “How did we do this year?” The 2009 statement of net assets and statement of revenues, expenses and changes in net assets report information in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in it. Net assets, the difference between assets and liabilities, is one way to measure the District’s financial health, or its financial position. Over time, increases or decreases to the District’s net assets are an indicator of whether its financial health is improving or deteriorating. Net assets and changes in net assets are analyzed on the following page.

### ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As a result of excess expenses over revenues for the fiscal year ended June 30, 2009, the District’s net assets decreased by approximately \$400 thousand from the previous year. This decrease was primarily as a result of the unification of communication employees. If the District had not recorded an expense for compensated absences of transferred employees, the results of operations would have been break-even.

### THE DISTRICT’S NET ASSETS

The District completed the year with net assets of \$18,474,078, which is approximately \$400 thousand less than the prior year ending net assets of \$18,857,921. Unrestricted net assets includes approximately \$1,300,000, which is designated by the Board for specific uses and is not available to fund future operations or capital improvements.

Net assets and changes in net assets for the years ended June 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
<b>NET ASSETS:</b>		
Current and other assets	\$18,254,034	\$13,740,425
Capital assets	<u>4,850,762</u>	<u>5,295,550</u>
Total assets	23,104,796	19,035,975
Current liabilities	<u>(4,630,718)</u>	<u>(178,054)</u>
Net assets	<u>\$18,474,078</u>	<u>\$18,857,921</u>
Summary of net assets -		
Invested in capital assets	\$ 4,850,762	\$ 5,295,550
Unrestricted	<u>13,623,316</u>	<u>13,562,371</u>
	<u>\$18,474,078</u>	<u>\$18,857,921</u>
<b>CHANGES IN NET ASSETS:</b>		
Operating revenues	\$ 8,105,965	\$ 5,329,802
Operating expenses	<u>8,793,851</u>	<u>3,886,765</u>
Operating income	(687,886)	1,443,037
Nonoperating revenues, net of expenses	<u>304,043</u>	<u>453,196</u>
Changes in net assets	(383,843)	1,896,233
<b>NET ASSETS:</b>		
Beginning	<u>18,857,921</u>	<u>16,961,688</u>
Ending	<u>\$18,474,078</u>	<u>\$18,857,921</u>

## **BUDGETARY HIGHLIGHTS**

In order to fund unanticipated, changing needs and to prevent budget overruns, the budget for June 30, 2009, was amended between expense line items, as well as in total.

The line item for contingency is planned during budget preparation to cover unplanned or unusual expenses, and to fund unanticipated increases in other line items, so that the overall budget does not require an increase. Budget revisions decreased the contingency of \$200,000 to \$0. Due to major budget revisions required by unification in January 2009, net of a decrease in service charges from local telephone companies, budgeted revenues and expenditures were increased by \$2,198,765 and \$2,724,785, respectively.

The actual charges to appropriations (expenses) were approximately \$380 thousand below the final budgeted amount. Salaries and other personnel costs were under the amount budgeted by approximately \$70,000, primarily as a result of retirement being less than anticipated. Public education expenses were under budget by \$60,000, as certain, planned public education was not completed; maintenance and warranty expense was under budget by \$70,000 as a result of certain maintenance agreements not being finalized; and capital outlay expense was under budget by approximately \$70,000. Other budget variances of approximately \$110,000 are not considered individually significant and, therefore, are not addressed here.

Expenses of \$8,793,851, reported on page 10, differ from the District's budgeted expenses of \$8,379,496. This difference arises because depreciation and amortization, which are expensed for generally accepted accounting purposes, are not budget items, and capital outlay, which is not expensed for generally accepted accounting purposes, is a budget line item.

Actual revenues, in total, exceeded budgeted revenues by approximately \$170,000, with operating revenues being over budget by approximately \$200,000, and interest income being under budget by approximately \$30,000.

## **CAPITAL ASSETS**

At June 30, 2009, the District had \$11,198,774 invested in capital assets such as telecommunications equipment, office equipment, and building improvements. This amount represents a net increase of \$644,011, consisting of purchases of approximately \$680,000 and retirements of approximately \$40,000.

The District's fiscal year 2010 capital budget calls for it to spend approximately \$939,000, for capital projects, including upgrades to equipment, as well as additional equipment and building improvements necessary as a result of the plans for unified dispatching.

More detailed information about the District's capital assets is presented in Note 5 to the financial statements.

## **ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS**

Hamilton County "911" Emergency Communications District has a policy of being pro-active by making and prioritizing long-range goals, and continues to make extensive financial plans to meet these goals. The implementation of unified dispatching was completed during the 2009 fiscal year, and is expected to improve operational performance of 911 services for Hamilton County. As a result of the planned unification, the District has plans for a new dispatch center to accommodate current operational needs, as well as the need for additional space under unified emergency communications operations. The District also is in the process of replacing CAD system software and hardware, and plans for the subsequent year include the replacing of communication consoles with ergonomic sit/stand consoles.

As discussed further in Note 8, the District has radio communication agreements with the City of Chattanooga and Hamilton County, the purpose of which is to partially reimburse the City and County for the District wide 800 MHz radio system. The annual cost of these agreements is \$1,008,759 for the years ending June 30, 2010, \$400,000 for the year ending June 30, 2011, and \$200,000 for the year ending June 30, 2012. The completion of these agreements will enable the District to absorb the additional unification costs within its budget.

## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of**

**Hamilton County "911" Emergency Communications District:**

We have audited the accompanying financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Hamilton County "911" 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 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 the 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 financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County "911" Emergency Communications District, as of June 30, 2009 and 2008, and the results of its operations and 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 January 13, 2010, on our consideration of Hamilton County "911" Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.



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To the Board of Directors of

**Hamilton County "911" Emergency Communications District:**

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County "911" Emergency Communications District, as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of operating expenses and schedule of budget to actual have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole. The information relative to operations has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Johnson, Nicky & Menckson, P.C.*

January 13, 2010

## **FINANCIAL STATEMENTS**

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENTS OF NET ASSETS  
JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>ASSETS:</b>		
Cash	\$ 2,068,131	\$ 877,260
Certificates of deposit and money market accounts	12,659,827	12,359,920
Accounts receivable - telephone service charges	313,604	356,310
Account receivable - other	3,125,816	37,979
Prepaid expenses	-	25,852
Accrued interest receivable	86,656	83,104
Capital assets, net of accumulated depreciation and amortization	4,850,762	5,295,550
Total assets	23,104,796	19,035,975
<b>LIABILITIES:</b>		
Accounts payable	4,012,022	109,163
Accumulated leave	618,696	68,891
Total liabilities	4,630,718	178,054
<b>NET ASSETS:</b>		
Invested in capital assets	4,850,762	5,295,550
Unrestricted	13,623,316	13,562,371
Total net assets	\$ 18,474,078	\$ 18,857,921

(The accompanying notes are an integral part of these statements.)

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES:</b>		
Emergency telephone service charges	\$ 3,312,862	\$ 3,706,321
State Emergency Communications Board -		
Shared wireless charge	794,175	700,287
Operational funding	918,619	918,619
Operational grants	474,239	-
Funding from local governments	2,605,135	-
Other income	935	4,575
Total operating revenues	8,105,965	5,329,802
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	5,223,531	574,297
Contracted services	679,133	665,478
Supplies and materials	624,955	539,166
Other	157,607	98,881
Depreciation and amortization	1,099,866	1,000,184
Countywide 800 MHz project	1,008,759	1,008,759
Total operating expenses	8,793,851	3,886,765
<b>OPERATING INCOME (LOSS)</b>	<b>(687,886)</b>	<b>1,443,037</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	304,477	453,196
Loss on settlement for damaged dispatch chairs	(434)	-
	304,043	453,196
<b>CHANGE IN NET ASSETS</b>	<b>(383,843)</b>	<b>1,896,233</b>
<b>NET ASSETS:</b>		
Beginning	18,857,921	16,961,688
Ending	<b>\$ 18,474,078</b>	<b>\$ 18,857,921</b>

(The accompanying notes are an integral part of these statements.)

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from telephone companies	\$ 3,355,568	\$ 3,720,769
Receipts from State for shared wireless revenues and operational funding	1,712,794	1,618,906
Receipts from others	10,935	169,342
Payments to suppliers and others	(1,400,471)	(1,229,775)
Payments for employees	(824,702)	(485,558)
Payments to City and County	(1,008,759)	(1,008,759)
Net cash provided by operating activities	1,845,365	2,784,925
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(685,511)	(809,456)
Proceeds from settlement for damaged dispatch chairs	30,000	-
Net cash used by capital and related financing activities	(655,511)	(809,456)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	300,924	462,559
Investment in certificates of deposit and money market accounts	(299,907)	(2,411,281)
Net cash provided (used) by investing activities	1,017	(1,948,722)
<b>NET INCREASE IN CASH</b>	1,190,871	26,747
<b>CASH:</b>		
Beginning	877,260	850,513
Ending	\$ 2,068,131	\$ 877,260

(The accompanying notes are an integral part of these statements.)

	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income (loss) from operations	\$ (687,886)	\$ 1,443,037
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities -		
Depreciation and amortization	1,099,866	1,000,184
Net (increase) decrease in operating assets:		
Accounts receivable	(3,045,131)	173,954
Prepaid expenses	25,852	36,167
Net increase (decrease) in operating liabilities:		
Accounts payable	3,946,312	28,323
Accrued payroll and payroll taxes	(43,453)	43,319
Accumulated leave and related benefits	<u>549,805</u>	<u>59,941</u>
Net cash provided by operating activities	<u>\$ 1,845,365</u>	<u>\$ 2,784,925</u>

(The accompanying notes are an integral part of these statements.)

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization -**

Public chapter No. 867 of the 1984 Tennessee Public Acts ("The Emergency Communications District Law") was enacted to establish local emergency telephone service; to provide for the funding of such services and such district; and to provide for the funding of a telephone service charge. On November 6, 1984, the voters of Hamilton County, Tennessee approved the establishment of such a district.

**Financial reporting entity -**

The District is a component unit of Hamilton County, Tennessee. Members of the Board of Directors of Hamilton County "911" Emergency Communications District are appointed by the County Mayor of Hamilton County, Tennessee, with the approval of the County Board of Commissioners. The Board of Commissioners must also approve bonds and notes which pledge District revenue.

**Basis of accounting -**

The District is a governmental unit, subject to accounting directives issued by the Governmental Accounting Standards Board (GASB), and anticipates recovering the cost of its services in a manner similar to a private business enterprise. Therefore, the District uses the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. Operating revenues are those that result from the activities of the District, including telephone service charges, expense reimbursements, and grants for operations. Revenue from other sources is considered nonoperating.

In addition to GASB pronouncements, the District is subject to all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District does not follow FASB pronouncements issued subsequent to November 30, 1989.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Estimates -**

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Accounts receivable -**

Accounts receivable for telephone service charges and other is reported at the outstanding principal amount. Uncollectible accounts, if any, are accounted for by the direct write-off method, which would produce no material differences from the allowance method.

**Capital assets -**

The District capitalizes significant purchases of capital assets which are recorded at cost. Depreciation is provided over the estimated useful lives of individual assets by the straight-line method.

Capital assets include the "911" database and other software. Amortization is recorded over periods of 5 to 20 years, based upon the estimated service period.

Depreciation and amortization expense was \$789,537 and \$310,329, respectively, for the year ended June 30, 2009; and \$701,135 and \$299,049, respectively, for the year ended June 30, 2008.

The amount budgeted for acquisitions for the years ended June 30, 2009 and 2008, was \$751,900 and \$1,384,764, respectively. Actual acquisitions for the same years were \$685,511 and \$809,456, respectively.

**Cash and cash equivalents -**

For purposes of these financial statements, the District considers money market accounts with banks and the State of Tennessee Local Government Pool, as well as certificates of deposit, to be cash equivalents.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009 AND 2008**

**(2) BUDGETARY CONTROL:**

The District's Board approves an annual budget based upon anticipated revenues and estimated operating expenses. In accordance with the level of control established by the Tennessee Comptroller of the Treasury, operating expenses may not exceed the amount budgeted in each line item. The District does not budget depreciation, as its intent is to budget the use of anticipated, available resources. It does, however, budget for acquisitions of capital assets. Budgeted expenses may be amended, as needed, to meet changing needs.

**(3) CASH AND INVESTMENTS:**

The District has implemented GASB Statement Number 40, "Deposit and Investment Risk Disclosures", which eliminated or modified portions of the disclosures previously required by GASB Statement Number 3. GASB Statement Number 40 is designed to improve financial reporting of deposit and investment risks.

At June 30, 2009, the District reports cash equivalents as follows -

	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>
Deposits with State of Tennessee		
Local Government Investment Pool	0.00	\$ 4,656,912
Money market accounts	0.00	2,620,514
Certificates of deposit	0.22	5,382,401
Total	0.09	\$12,659,827

Interest Rate Risk - As a means of limiting its exposure to losses resulting from rising interest rates, the District's usual policy is to invest in certificates of three years or less. The exposure to interest rate changes is presented using the weighted average maturity method. Its policy is to limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. The District's investments experienced no significant fluctuations in fair value during the year.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(3) CASH AND INVESTMENTS (Continued):**

Custodial Credit Risk - The District's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the District may participate. The District limits its investments to certificates of deposit and savings and money market accounts with local banks and the State of Tennessee local government pooled investment fund.

Credit Risk - The District's policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws. The State of Tennessee Local Government Investment Pool is a 2a7-like pool, which is not rated.

At June 30, 2009, certificates of deposit and bank money market funds consist of the following -

<u>Financial Institution</u>	<u>Type of Instrument</u>	<u>Interest</u>	<u>Maturity Date</u>	<u>Amount</u>
First Volunteer Bank	Certificate	2.32%	September 26, 2009	\$ 576,109
First Volunteer Bank	Certificate	1.88%	December 26, 2009	487,901
First Volunteer Bank	Certificate	2.27%	November 6, 2009	905,960
First Tennessee Bank	Certificate	1.55%	August 17, 2009	1,812,078
SunTrust Bank	Certificate	1.98%	March 1, 2010	968,318
Regions Bank	Certificate	2.02%	September 22, 2009	535,824
Regions Bank	Certificate	1.01%	September 14, 2009	96,211
				<u>\$5,382,401</u>
First Volunteer Bank	Money market	Variable	NA	\$1,036,735
First Tennessee Bank	Money market	Variable	NA	1,071,105
First Tennessee Bank	Money market	Variable	NA	512,674
				<u>\$2,620,514</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(4) BOARD DESIGNATED RESERVES:**

Certificates of deposit and money market accounts are funds that have been set aside by the Board for the following, specific uses -

An operational reserve has been established to provide funds for capital expansion and for operational expenses, in the event that the District needs reserved funds to enable it to carry on its operations. The assets are intended to fund future capital and operational needs, if needed, and, at June 30, 2009, consist of investments with the State of Tennessee Local Government Investment Pool in the amount of \$4,656,912, money market funds in the amount of \$1,920,514, certificates of deposit in the amount of \$4,846,577, and accrued interest in the amount of \$86,656.

A risk management reserve has been established to provide for a liability plan with limited coverage for torts and other liabilities, and error and omissions of board members, employees and authorized volunteers. The assets are intended to fund risk management claims and, at June 30, 2009, consist of a money market fund in the amount of \$700,000 and a certificate of deposit in the amount of \$535,824.

A life insurance reserve was established to provide coverage in the amount of \$10,000 on the life of each employee. After unification of operations employees, the Board considered that life insurance is provided in connection with the District's group health insurance plan, and authorized transfer of the life insurance reserve to operational reserve.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(5) CHANGES IN CAPITAL ASSETS:**

Changes in capital assets for the year ended June 30, 2009, are as follows -

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
<b>Capital assets:</b>				
Leasehold improvements	\$ 4,250,022	\$ 451,460	\$ -	\$ 4,701,482
Furniture and fixtures	189,546	102,377	41,500	250,423
Office equipment	108,235	14,869	-	123,104
Communications equipment and software	5,990,247	98,206	-	6,088,453
Vehicles	<u>16,713</u>	<u>18,599</u>	<u>-</u>	<u>35,312</u>
	<u>10,554,763</u>	<u>685,511</u>	<u>41,500</u>	<u>11,198,774</u>
<b>Less accumulated depreciation and amortization:</b>				
Leasehold improvements	1,391,725	138,162	-	1,529,887
Furniture and fixtures	140,078	12,740	11,067	141,751
Office equipment	40,336	14,491	-	54,827
Communications equipment and software	3,670,361	934,473	-	4,604,834
Vehicles	<u>16,713</u>	<u>-</u>	<u>-</u>	<u>16,713</u>
	<u>5,259,213</u>	<u>1,099,866</u>	<u>11,067</u>	<u>6,348,012</u>
	<u>\$ 5,295,550</u>	<u>\$ (414,355)</u>	<u>\$ (30,433)</u>	<u>\$ 4,850,762</u>

**(6) LEASED PREMISES:**

The District's operating premises, which include administrative offices and the primary communications center, are located on real property owned by the City of Chattanooga, Tennessee. A lease agreement between the two entities provides that no rent shall be charged the District as consideration, provided that all costs of construction and maintenance of the communications center are paid by the District. The termination of the communications agreement, referred to in Note 8, shall not be deemed a failure of consideration. The term of the lease, which originated April 5, 1994, is for a period of forty years. The District shall have the option to renew for two consecutive terms of forty years each upon the same terms and conditions as set forth in the lease agreement, subject to approval of the

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(6) LEASED PREMISES (Continued):**

City's governing body. According to the terms of the agreement, the District shall not enter into a communication agreement with any other governmental entity for a term which extends beyond the term of this lease.

Additionally, the District is provided, and has renovated for its use as a backup communications center, a portion of a building owned by Hamilton County. The use is for an indeterminate period of time, and the District is responsible for all maintenance on the portion that it uses.

**(7) COMPENSATED ABSENCES:**

The District's employees are paid compensated leave benefits based upon a prescribed formula, and the benefits are accrued as employees earn the right to them.

As a result of unification, as discussed in Note 9, the District assumed the liability for unused, compensated absences for Hamilton County and City of Chattanooga employees who became employees of the District. When the agreements were reached, it was with the understanding that these two entities would reimburse the District as these employees used the vacation which had been earned while employees of the respective governments. The District planned to record the liability for the compensated absences, as well as the receivable from the City and County for the amount earned while they were the employer. Therefore, the amount payable to employees by the other governments is recorded as a liability. However, there is currently a dispute as to whether or not these benefits will be paid by the other governments, and, based on the uncertainty of collection, the receivable has not been recorded. The amount transferred from the other governments was \$475,355, and is included in salaries and benefits.

As of January 13, 2010, representatives from the two governments have agreed to reopen negotiations for resolution of this issue, and it is anticipated that the above amount may be paid in full. If the disputed amount was recorded as a receivable, assets and net assets would increase by the above amount. However, the result, as well as the time frame for resolution, is undeterminable. Therefore, any settlement which results in the District receiving all, or a portion, of the disputed amount will be recorded in the subsequent year.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009 AND 2008**

**(8) RADIO COMMUNICATION AGREEMENTS:**

In order to provide better service to the City of Chattanooga, Tennessee and Hamilton County, Tennessee, the District has radio communication agreements with the City and the County. The purpose of the agreements is to partially reimburse the City and County for their acquisition and installation of a District wide 800 MHz radio system.

An agreement entered into in 1998 requires the District to pay a total of \$3,000,000 to the City of Chattanooga, with an initial payment of \$400,000 in the year ended June 30, 1999, and \$200,000 per year for the years ended June 30, 2000 through 2011. The agreement with the City ends on August 31, 2010.

The 1998 agreement requires the District to pay a total of \$3,000,000 to Hamilton County, with an initial payment of \$200,000 in the year ended June 30, 1999, and \$200,000 per year for the years ended June 30, 2000 through 2012. The agreement with the County ends on August 31, 2011.

An agreement entered into in 2005 requires the District to pay a total of \$3,043,795 to the City or the County, with five annual payments of \$608,759, beginning July 1, 2005.

Commitments relative to these agreements are as follows -

For the year ending June 30, 2010	\$1,008,759
2011	400,000
2012	200,000
	<u>\$1,608,759</u>

**(9) TRANSACTIONS WITH OTHER GOVERNMENTS:**

The District incurs costs relative to personnel, utilities, and other, some of which are reimbursed by Hamilton County and the City of Chattanooga, and credited to the appropriate expense accounts. As of and for the years ended June 30, 2009 and 2008, these transactions and balances were as follows -

	2009	2008
Reimbursements:		
City of Chattanooga	\$ 128,185	\$ 138,631
Hamilton County	\$ 448	\$ 16,576
Accounts receivable:		
City of Chattanooga	\$ 56,442	\$ 36,520
Hamilton County	\$ -	\$ 1,405

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(9) TRANSACTIONS WITH OTHER GOVERNMENTS (Continued):**

In January 2009, the District assumed the oversight responsibility for "911" calltaking and dispatching for Hamilton County, and the Cities of East Ridge, Red Bank, Collegedale, and Signal Mountain. As a result of this unification, these other local governments contribute funds to the District to offset the personnel costs of those who were formerly employed by the individual governmental entities.

As of and for the years ended June 30, 2009 and 2008, the funding and amounts receivable from these entities were as follows -

	<b>2009</b>	<b>2008</b>
<b>Funding:</b>		
Hamilton County	\$ 804,040	\$ -
City of Chattanooga	1,565,629	-
City of East Ridge	157,567	-
City of Red Bank	46,000	-
City of Collegedale	17,500	-
City of Signal Mountain	14,399	-
	<u>\$2,605,135</u>	<u>\$ -</u>
<b>Accounts receivable:</b>		
Hamilton County	\$ 804,040	\$ -
City of Chattanooga	1,565,629	-
City of East Ridge	157,567	-
City of Red Bank	46,000	-
City of Collegedale	17,500	-
City of Signal Mountain	14,399	-
	<u>\$2,605,135</u>	<u>\$ -</u>

Also included in accounts receivable - other is \$464,239, due from the Tennessee Emergency Communications Board for an operational grant to reimburse for training.

**(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; injuries to employees; and natural disasters.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(10) RISK MANAGEMENT** (Continued):

The District has assets designated for certain aspects of risk management. The designation was established to provide for a liability plan with limited coverage to board members, employees, and authorized volunteers. In addition to assets designated for risk management, the District has designated assets to allow them to be self-insured for purposes of employee life insurance. Liabilities relative to risk management and life insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no claims for these limited areas of risk management, or for life insurance, since the inception of the Board designation.

The District has insurance coverage, subject to specified limits, for risks of other losses, including workers' compensation, general liability, personal property, and errors and omissions.

There have been no settlements in excess of insurance coverage during the three most recent fiscal years.

**(11) RETIREMENT PLAN:**

**Plan description -**

Employees of Hamilton County "911" Emergency Communications District 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 5 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 5 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 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(11) RETIREMENT PLAN** (Continued):

**Plan description** (continued) -

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 Assembly. Political subdivisions such as Hamilton County "911" Emergency Communications District 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 PSPF. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS>.

**Funding policy** -

Hamilton County "911" Emergency Communications District has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Hamilton County "911" Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 25.13% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County "911" Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**Annual pension cost** -

For the year ending June 30, 2009, Hamilton County "911" Emergency Communications District's annual pension cost of \$316,310 to TCRS was equal to Hamilton County "911" Emergency Communications District'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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(11) RETIREMENT PLAN** (Continued):

**Annual pension cost** (continued) -

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. Hamilton County "911" Emergency Communications District'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 13 years. An actuarial valuation was performed as of July 1 2007, which established contribution rates effective July 1, 2008.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2009	\$316,110	100.00%	\$0.00
6/30/2008	\$ 67,654	100.00%	\$0.00
6/30/2007	\$ 42,540	100.00%	\$0.00

**Funded status and funding progress -**

As of July 1, 2007, the most recent actuarial valuation date, the plan was 66.88% funded. The actuarial accrued liability for benefits was \$0.47 million, and the actuarial value of assets was \$0.31 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.16 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.18 million, and the ratio of the UAAL to the covered payroll was 85.25%.

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009 AND 2008**

**(11) RETIREMENT PLAN** (Continued):

**Funded status and funding progress** (continued) -

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.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liab(AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$315	\$471	\$156	66.88%	\$183	85.25%

**Required Information: Schedule of Funding Progress -**  
 (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liab(AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2007	\$315	\$471	\$156	66.88%	\$183	85.25%

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 of the most recent actuarial valuation date; therefore, only the most current year is presented.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**(12) COMMITMENTS AND CONTINGENCIES:**

At June 30, 2008, the District had a contract with a vendor for CAD and telephony expansion. The contract was approximately \$250,000, for which invoices had been submitted in the amount of \$181,936, which the District had not paid, nor recorded, based on nonperformance of the contract. The expansion project was in process at June 30, 2008, and no depreciation or amortization would have been recorded. If the invoices had been recorded, assets and liabilities would have increased by \$181,936, with no effect on net assets.

During the year ended June 30, 2009, the dispute was resolved, and the vendor is proceeding with the contracted services, with approximately \$125,000 remaining on the contract.

**(13) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through January 13, 2010, the date which this financial statement was available for issue.

**(14) RESTATEMENT OF PRIOR YEAR:**

Certain amounts in the prior year have been restated for comparative purposes, to conform to the current year presentation.

## **SUPPLEMENTARY INFORMATION**

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Salaries and Benefits -</b>		
Salaries	\$ 3,403,837	\$ 326,417
Payroll taxes	287,178	33,081
Group insurance	587,127	91,681
Retirement benefits	395,584	68,073
Compensated absences	549,805	55,045
	<u>5,223,531</u>	<u>574,297</u>
<b>Contracted Services -</b>		
Auditing and accounting	8,625	7,790
Administrative fees - service charges	53,335	58,363
Data processing services	600	61,268
Telecommunications consulting	19,127	35,993
Other consulting	145,117	9,631
Janitorial services	41,720	31,805
Legal services	32,374	30,842
Maintenance agreements	274,729	387,355
Office equipment rental	15,537	5,964
Communications equipment repair	-	162
Office equipment repair	-	302
Vehicle fuel, maintenance, and repairs	4,791	-
Building maintenance and repair	75,042	27,835
Ground and maintenance	8,136	8,168
	<u>679,133</u>	<u>665,478</u>
<b>Supplies and Materials -</b>		
Office supplies and postage	13,905	7,590
Custodial supplies	6,898	8,280
Communication supplies	13,246	10,638
Uniforms	38,028	-
Utilities	89,332	87,601
Telephone - communication	434,142	409,313
Telephone - administration	29,404	15,744
	<u>624,955</u>	<u>539,166</u>

	<u>2009</u>	<u>2008</u>
<b>Other -</b>		
Dues and memberships	\$ 3,569	\$ 2,780
Insurance	28,982	32,622
Legal notices	5,141	4,103
Public education	10,457	4,780
Seminars and workshops	5,845	7,435
Training	49,627	10,844
Travel	36,899	22,900
Miscellaneous	<u>17,087</u>	<u>13,417</u>
	<u>157,607</u>	<u>98,881</u>
 <b>Payments for 800 MHz project -</b>		
City of Chattanooga	808,759	808,759
Hamilton County	<u>200,000</u>	<u>200,000</u>
	<u>1,008,759</u>	<u>1,008,759</u>
 <b>Depreciation and amortization</b>	<u>1,099,866</u>	<u>1,000,184</u>
	<u><u>\$ 8,793,851</u></u>	<u><u>\$ 3,886,765</u></u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF BUDGET TO ACTUAL  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>REVENUES:</b>				
Emergency telephone service charges	\$ 4,131,500	\$ 3,408,617	\$ 3,312,862	\$ (95,755)
State Emergency Communications Board - Shared wireless charge	640,500	640,500	794,175	153,675
Operational funding	918,619	918,619	918,619	-
Operational grants	-	-	474,239	474,239
Funding from local governments	-	2,921,648	2,605,135	(316,513)
Interest income	340,000	340,000	304,477	(35,523)
Loss on property settlement	-	-	(434)	(434)
Other income	10,000	10,000	935	(9,065)
<b>Total revenues</b>	<u>6,040,619</u>	<u>8,239,384</u>	<u>8,410,008</u>	<u>170,624</u>
<b>EXPENSES:</b>				
<b>Salaries and Benefits -</b>				
Salaries	1,217,349	3,419,196	3,403,837	15,359
Payroll taxes	94,695	290,981	287,178	3,803
Group insurance	341,389	587,137	587,127	10
Retirement benefits	305,919	452,304	395,584	56,720
Compensated absences	25,184	550,184	549,805	379
	<u>1,984,536</u>	<u>5,299,802</u>	<u>5,223,531</u>	<u>76,271</u>
<b>Contracted Services -</b>				
Auditing and accounting	7,500	8,650	8,625	25
Administrative fees - service charges	63,000	53,375	53,335	40
Data processing services	-	700	600	100
Telecommunications consulting	21,296	19,296	19,127	169
Other consulting	72,475	145,825	145,117	708
Janitorial services	61,320	43,000	41,720	1,280
Legal services	25,956	33,956	32,374	1,582
Maintenance agreements	548,000	346,900	274,729	72,171
Office equipment rental	16,000	16,000	15,537	463
Communications equipment rental	500	500	-	500
Office equipment repair	2,500	-	-	-
Communications equipment repair	2,500	-	-	-
Vehicle fuel, maintenance, and repairs	6,050	4,800	4,791	9
Building maintenance and repair	36,000	75,700	75,042	658
Grounds maintenance	10,000	8,500	8,136	364
	<u>873,097</u>	<u>757,202</u>	<u>679,133</u>	<u>78,069</u>

	<u>Original Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>Supplies and Materials -</b>				
Office supplies and postage	\$ 13,140	\$ 17,690	\$ 13,905	\$ 3,785
Custodial supplies	6,000	7,200	6,898	302
Communication supplies	14,800	17,800	13,246	4,554
Uniforms	5,000	41,000	38,028	2,972
Utilities	121,600	131,600	89,332	42,268
Telephone - communication	430,500	435,000	434,142	858
Telephone - administration	28,595	32,495	29,404	3,091
	<u>619,635</u>	<u>682,785</u>	<u>624,955</u>	<u>57,830</u>
<b>Other -</b>				
Dues and memberships	4,200	4,500	3,569	931
Insurance	44,064	44,064	28,982	15,082
Legal notices	4,000	6,500	5,141	1,359
Public education	70,000	70,000	10,457	59,543
Seminars and workshops	8,315	10,330	5,845	4,485
Training	20,000	56,200	49,627	6,573
Travel	37,631	47,482	36,899	10,583
Miscellaneous	16,460	24,860	17,087	7,773
	<u>204,670</u>	<u>263,936</u>	<u>157,607</u>	<u>106,329</u>
<b>Contingency</b>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>800 MHz project</b>	<u>1,008,759</u>	<u>1,008,759</u>	<u>1,008,759</u>	<u>-</u>
<b>Capital outlay</b>	<u>1,148,902</u>	<u>751,900</u>	<u>685,511</u>	<u>66,389</u>
<b>Total expenses</b>	<u>6,039,599</u>	<u>8,764,384</u>	<u>8,379,496</u>	<u>384,888</u>
	<u>\$ 1,020</u>	<u>\$ (525,000)</u>	<u>\$ 30,512</u>	<u>\$ 555,512</u>
<b>Total Actual Budgeted Expenses -</b>			\$ 8,379,496	
Capital outlay			(685,511)	
Deprecation and amortization			1,099,866	
Total GAAP basis expenses			<u>\$ 8,793,851</u>	

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
INFORMATION RELATIVE TO OPERATIONS  
(UNAUDITED)  
JUNE 30, 2009**

John Stuermer, Director  
3404 Amnicola Highway  
Chattanooga, TN 37406  
Telephone (423) 622-1911  
Fax (423) 495-1715

Don Allen, Chairman  
3404 Amnicola Highway  
Chattanooga, TN 37406  
Telephone (423) 622-1911  
Fax (423) 495-1715

The District has 3 public safety answering points (PSAP's), with information relative to each detailed as follows -

**Unified Operations  
3404 Amnicola Highway  
Chattanooga, TN 37406**

Employees of the unified operations of Hamilton County "911" dispatch from the "911" center at 3404 Amnicola Highway for the the Hamilton County Sheriff's Department and Emergency Services, as well as the Cities of Chattanooga, East Ridge, Red Bank, Collegedale, and Signal Mountain. This unified public safety answering uses Positron hardware and software, Avaya PBX, and a 911 MSAG database.

**Lookout Mountain Police Department  
610 N. Bragg Street  
Lookout Mountain, TN 37350**

The Lookout Mountain Police Department calltaking/dispatching is handled from their Lookout Mountain location, which uses Positron hardware and software, NEC PBX, and a 911 MSAG database.

**Soddy Daisy Department  
9835 Dayton Boulevard  
Soddy Daisy, TN 37379**

The Soddy Daisy Police Department calltaking/dispatching is handled from their Soddy Daisy location, which uses Positron hardware and software, Lucent PBX, and a 911 MSAG database.

The District also maintains a back-up public safety answering point for use by all agencies for calltaking and dispatching in the event of an emergency. The back-up PSAP uses Positron hardware and software, Avaya PBX, and a 911 MSAG database.

**INTERNAL CONTROL AND COMPLIANCE SECTION**

**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**

**Hamilton County "911" Emergency Communications District:**

We have audited the financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated January 13, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Hamilton County "911" Emergency Communications District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the 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 financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, item 2009-1, to be a significant deficiency in internal control over financial reporting.



**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**

**Hamilton County "911" Emergency Communications District:**

We have audited the financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated January 13, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Hamilton County "911" Emergency Communications District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the 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 financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, item 2009-1, to be a significant deficiency in internal control over financial reporting.

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 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. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hamilton County "911" Emergency Communications 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 audits, 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 solely intended for the information and use of the Board of Directors, management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Johnson, Nicky & Meucham, P.C.*

January 13, 2010

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2009 AND 2008**

**CURRENT YEAR FINDINGS:**

**2009-1 CONTROLS OVER THE FINANCIAL REPORTING PROCESS:**

**Condition:**

Our consideration of the internal control structure disclosed that the District has no employee with the qualifications and skills to record the end of year accrual basis adjustments and prepare the financial statements and the related footnotes in accordance with generally accepted accounting principles.

**Criteria:**

Standards relating to the internal control structure require an entity to employ someone with the qualifications and skills to perform the above tasks.

**Effect:**

Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with generally accepted accounting principles.

**Recommendation:**

Management should consider employing someone with the qualifications and training to perform the above tasks.

**Views of management:**

Management considers that the cost of correcting this significant deficiency would exceed the benefits achieved, and has no plans to employ a professional with these skills and qualifications.

**Auditor Response:**

We consider that we have reported what we view as management's responsibility, as well as recommending a correction for the deficiency.