

Loudon County Emergency Communications District

**Financial Statements with Accompanying Information
Year Ended June 30, 2009**

with
Independent Auditors' Report

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

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Independent Auditors' Report

Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

We have audited the accompanying balance sheet of the Loudon County Emergency Communications District, a component unit of Loudon County, Tennessee, as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loudon County Emergency Communications District as of June 30, 2009, and the changes in financial positions and its cash flows for the year 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 the Loudon County Emergency Communications District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Loudon County Emergency Communications District taken as a whole. The supplementary information and the schedule of expenditures of federal and state awards listed in the table of contents are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis on pages 3 through 6 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 that 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.

HGA Associates, P.C.

January 13, 2010

Loudon County Emergency Communications District

500 Johns Parris Drive, Loudon, Tennessee 37774
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Management's Discussion and Analysis

Our discussion and analysis of the Loudon County Emergency Communications District's (the "District") financial performance provides an overview of the District's activities for the year ended June 30, 2009. Please read it in conjunction with the District's financial statements, as listed in the table of contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The balance sheet and the statement of revenues, expenses and changes in net assets provide information about the District as a whole and present a long-term view of the District's finances.

THE BALANCE SHEET AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

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

CONDENSED BALANCE SHEET

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

	<u>2009</u>	<u>2008</u>
Current assets	\$ 367,475	589,580
Capital assets	<u>2,367,548</u>	<u>1,079,662</u>
Total Assets	\$ <u>2,735,023</u>	<u>1,669,242</u>
Current liabilities	\$ 133,219	585,321
Noncurrent liabilities	<u>1,468,492</u>	<u>-</u>
Total Liabilities	<u>1,601,711</u>	<u>585,321</u>
Net assets:		
Invested in capital assets	869,922	585,190
Unrestricted	<u>263,390</u>	<u>498,731</u>
Total Net Assets	<u>1,133,312</u>	<u>1,083,921</u>
Total Liabilities and Net Assets	\$ <u>2,735,023</u>	<u>1,669,242</u>

Net assets of the District increased approximately 4.6% during the current year, which is a much smaller increase than in past years. Unrestricted net assets, the part of net assets used to finance day-to-day operations, decreased by approximately 47.2% from the prior year. The reduced increase in net assets was due primarily to the higher depreciation costs from the new building and equipment completed in the fiscal year. The decrease in unrestricted net assets is primarily due to the District's use of unrestricted cash assets to complete the construction and equipping of the District's new facility.

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

	<u>2009</u>	<u>2008</u>
Revenues:		
Emergency telephone charges	\$ 231,533	239,917
Tennessee ECB shared wireless charges	101,725	90,175
Other income	<u>920</u>	<u>1,965</u>
Total operating revenues	334,178	332,057
Total operating expenses	<u>428,129</u>	<u>341,356</u>
Operating loss	(93,951)	(9,299)
Non-operating revenues	66,499	92,791
Non-operating expenses	(27,238)	-
Capital contributions	<u>104,081</u>	<u>104,081</u>
Change in net assets	49,391	187,573
Net assets – beginning of year	<u>1,083,921</u>	<u>896,348</u>
Net assets – end of year	<u>\$ 1,133,312</u>	<u>1,083,921</u>

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

Emergency telephone surcharges	48.0%
State of Tennessee shared wireless fee	21.1%
State of Tennessee Communications Board – grants	12.7%
Capital contributions	21.6%
Other income (loss)	(4.5%)
Interest income	<u>1.1%</u>
Total funding	<u>100.0%</u>

Operational costs for the E911 Center were \$428,129 for the fiscal year ended June 30, 2009, an increase of \$86,773 from the prior year. The increase was primarily from the \$61,670 increase in depreciation expense for the newly constructed building and purchased equipment that became operational in this fiscal year.

CAPITAL ASSETS

At the fiscal year ended June 30, 2009, the District had \$2,791,321 in capital assets, an increase of 95.3% over the last year's balance of \$1,429,399. This change is a result of the completed construction costs incurred thru June 30 for District's new facility and the related new equipment to furnish the facility. Additional information concerning the capital assets of the District can be found on page 13 of this report.

DEBT

At the fiscal year end the District's outstanding debt consists of revenue bonds held by the USDA office of Rural Development. The \$1,500,000 of proceeds from the issuance of Emergency Communications District Revenue Bonds, Series 2007 in May 2009 were used to retire the draws on the interim financing construction loan used to partially pay for the costs of the District's new facility and furnished equipment completed in this current year. The total amount outstanding on the revenue bonds at June 30 totaled \$1,497,626. Additional information can be found on pages 14 and 15 of this report.

BUDGETS

In order to prevent budget overruns, various line items of the District were amended by Board approval from \$436,681 in operating expenses to \$1,030,356. The increase was primarily related to the budgeting of the capital costs related to completion of the new facility in 2009.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of the Loudon County Emergency Communications District, 500 John Parris Drive, Loudon, Tennessee 37774.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Balance Sheet

June 30, 2009

<u>Assets</u>	
Current assets:	
Cash	\$ 224,680
Certificates of deposit	56,518
Accounts receivable:	
Surcharges and wireless commissions	85,305
Prepaid expenses	972
Total current assets	367,475
Capital assets:	
Building and improvements	1,663,504
Furniture and fixtures	90,440
Office equipment	89,738
Communication equipment	909,095
Vehicles	38,544
	2,791,321
Less: allowance for depreciation	423,773
Total capital assets	2,367,548
	\$ 2,735,023
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable	\$ 104,085
Bonds payable - current	29,134
Total current liabilities	133,219
Bonds payable - long-term	1,468,492
Total liabilities	1,601,711
Net assets:	
Invested in capital assets, net of related debt	869,922
Unrestricted net assets	263,390
Total net assets	1,133,312
	\$ 2,735,023

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2009

Operating revenue:	
Emergency telephone surcharges	\$ 231,533
State Emergency Communications Board - shared wireless charge	101,725
Other	920
	<u>334,178</u>
Operating expenses:	
Salaries and wages	100,122
Contracted services	95,654
Supplies and materials	56,011
Depreciation	128,396
Other charges	47,946
Total operating expense	<u>428,129</u>
Operating loss	<u>(93,951)</u>
Nonoperating revenue (expenses):	
Interest income	5,379
Interest expense	(5,171)
Loss on disposal of capital assets	(22,067)
State Emergency Communications Board - grants	61,120
Total nonoperating revenue	<u>39,261</u>
Loss before contributions	<u>(54,690)</u>
Capital contributions:	
State Emergency Communications Board	<u>104,081</u>
Change in net assets	49,391
Total net assets - beginning of year	<u>1,083,921</u>
Total net assets - end of year	<u>\$ 1,133,312</u>

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from customers	\$ 291,209
Cash payments for goods and services	(187,307)
Cash payments for employees	(100,162)
Net cash provided by operating activities	<u>3,740</u>
Cash flows provided by noncapital financing activities:	
Contributions from State Emergency Communications Board	<u>61,120</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,438,349)
Cash received for capital contributions	104,081
Proceeds on bonds payable	1,005,528
Payments on bonds payable	(2,374)
Interest paid on bonds payable	(5,171)
Net cash used in capital and related financing activities	<u>(336,285)</u>
Cash flows from investing activities:	
Interest received	5,379
Maturities of certificates of deposit	<u>316,594</u>
Net cash provided by investing activities	<u>321,973</u>
Net increase in cash	50,548
Cash - beginning of the year	<u>174,132</u>
Cash - end of the year	<u><u>\$ 224,680</u></u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Statement of Cash Flows (continued)
For the Year Ended June 30, 2009

Reconciliation of operating income to net
cash used in operating activities:

Operating loss	\$ <u>(93,951)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	128,396
Changes in operating assets and liabilities:	
Increase in accounts receivable	(42,969)
Increase in prepaid expenses	(972)
Increase in accounts payable	<u>13,236</u>
Total adjustments	<u>97,691</u>
Net cash provided by operating activities	\$ <u><u>3,740</u></u>

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

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies

(a) Nature of Business

The Loudon County Emergency Communications District (the "District"), commonly referred to as E-911, was established to provide services under the Emergency Communications District Law, Tennessee Code Annotated, Chapter 86. The District was created by a resolution of the Loudon County Commissioners on September 12, 1989, and subsequently approved by public referendum. Under its enabling legislation, the District is a municipality with powers of perpetual success but without any power to levy or collect taxes. Charges for services authorized shall not be considered as taxes. The powers of the District are vested in and exercised by a majority of the members of the board of directors of the District who are appointed by the District's primary government.

The District is a discretely presented component unit of Loudon County, Tennessee and the financial statements are presented in both the District's separate financial report and within the Loudon County, Tennessee report. The District is considered a discretely presented component unit of Loudon County, Tennessee as defined under the criteria set forth in Governmental Accounting Standards Board Statement 14 because the District is unable to issue debt without going through Loudon County, Tennessee.

(b) Basis of Accounting

The financial statements of the District are reported on the accrual basis. In accordance with the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts issued by the Tennessee Office of the Comptroller of the Treasury, the District is required to apply all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with those of the Governmental Accounting Standards Board. After November 30, 1989 the District is required to follow only GASB guidance and not follow any FASB guidance issued after that date.

(c) Cash and Cash Equivalents

The District considers all unrestricted deposits and highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Receivables

The accounts receivable balance of \$85,305 primarily represents amounts due from AT&T for the surcharge on Loudon County telephone services for the month of June 2009 and wireless commissions due from the State of Tennessee for May through June, 2009.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies (continued)

(e) Capital Assets

Capital assets, which include a building, communications equipment, office furnishings and equipment and vehicles, are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are stated at historical cost, less accumulated depreciation computed on the straight-line method over their estimated useful lives as follows: buildings – forty years; office equipment and furnishings - three to seven years; communications equipment – five to ten years. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost, less any salvage value, is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to earnings as incurred.

(f) Estimates

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

(g) Tax Status

Because the District was incorporated as a political subdivision under the Tennessee Emergency Communications District Law, it is exempt from federal income taxes.

2. Budgetary Control

The District's Board approves the annual budget prepared by the E-911 Director 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 certain capital assets. Budgeted expenses may be amended, as needed to meet changing needs.

3. Deposits

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2009, the carrying amount of deposits was \$281,198 and the bank balances were \$286,512. As required by state statutes, the District's policy is to require financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2009, none of the District's bank balances was exposed to credit risk.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2009

4. Revenue

The District's primary sources of revenues are from surcharges imposed on Loudon County telephone services (net of administrative fees paid to the telephone companies) and from surcharges imposed on cell phone services, which are collected and disbursed by the Tennessee Emergency Communications Board.

5. 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. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2009 from those in effect in 2008 and 2007. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

6. Capital Assets

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

<u>Cost</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 767,805	1,435,623	(2,203,428)	-
Capital assets, being depreciated:				
Building and improvements	-	1,663,504	-	1,663,504
Vehicles	38,544	-	-	38,544
Furniture and fixtures	27,545	62,895	-	90,440
Office equipment	98,967	1,942	(11,171)	89,738
Communication equipment	496,538	477,878	(65,321)	909,095
	<u>661,594</u>	<u>2,206,219</u>	<u>(76,492)</u>	<u>2,791,321</u>
Less accumulated depreciation for:				
Building and improvements	-	(20,794)	-	(20,794)
Vehicles	(12,121)	(7,709)	-	(19,830)
Furniture and fixtures	(15,496)	(8,010)	-	(23,506)
Office equipment	(70,863)	(9,478)	11,171	(69,170)
Communication equipment	(251,257)	(82,405)	43,189	(290,473)
	<u>(349,737)</u>	<u>(128,396)</u>	<u>54,360</u>	<u>(423,773)</u>
Total assets being depreciated	<u>311,857</u>	<u>2,077,823</u>	<u>(22,132)</u>	<u>2,367,548</u>
Capital assets, net	<u>\$ 1,079,662</u>	<u>3,513,446</u>	<u>(2,225,560)</u>	<u>2,367,548</u>

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements

June 30, 2009

7. Interim Financing Construction Loan

The District received approval from the USDA Rural Development for a \$1,500,000 Rural Development Community Facilities Direct Loan ("Rural Development Loan") to assist in the construction and equipping of a new facility to house their operations. Until that loan was processed and the funds made available for the District an agreement was entered into with a local bank for a \$1,500,000 construction loan. This loan bore interest at an annual rate of 7.25% and matured on November 14, 2008. The loan was extended twice for an extra 90 days each with a final maturity date of May 27, 2009 and at a final interest rate of 6%. The loan allowed the District to make draws as the construction proceeded. These loan draws were retired with the proceeds of the \$1,500,000 Emergency Communications District Revenue Bond, Series 2007 upon their issuance in May 2009 (see Note 8). Interest paid on the construction loan thru June 30, 2009 totaled \$71,559 and has been included in the cost of construction of the new facility.

8. Bonds Payable

Emergency Communications District Revenue Bond, Series 2007, for \$1,500,000 was issued May 26, 2009 for the purpose of paying the majority of the costs to construct and equip a new facility to house the District's operations. The bonds are payable in three hundred thirty-six (336) monthly principal and interest payments in the amount of \$7,545, at an interest rate of 4.125%. The bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operations of the District and by a statutory lien on the District's system. Interest expense totaled \$5,171 in 2009 and the balance outstanding on the bonds at June 30, 2009 is \$1,497,626.

Changes in debt during the year ended June 30, 2009 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Short-term debt:					
Interim financing construction loan	\$ 494,472	1,005,528	1,500,000	-	-
Long-term debt:					
Revenue bonds:					
Series 2007	-	1,500,000	2,374	1,497,626	29,134
	<u>\$ 494,472</u>	<u>2,505,528</u>	<u>1,502,374</u>	<u>1,497,626</u>	<u>29,134</u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2009

8. Bonds Payable (continued)

Aggregate maturities of bonds payable are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 29,134	61,406	90,540
2011	30,363	60,177	90,540
2012	31,643	58,897	90,540
2013	32,977	57,563	90,540
2014	34,367	56,173	90,540
2015 - 2019	194,831	257,869	452,700
2020 - 2024	239,517	213,183	452,700
2025 - 2029	294,449	158,251	452,700
2030 - 2034	361,981	90,719	452,700
2035 - 2037	248,364	15,711	264,075
	<u>\$ 1,497,626</u>	<u>1,029,949</u>	<u>2,527,575</u>

9. Management Agreement

Effective March 1, 1997, the District entered into a management agreement with the Loudon County Law Enforcement Agency. Pursuant to the terms of the agreement, the District assumed all management and supervisory authority and control of the county radio communications system including the dispatching center located at the Loudon County Justice Center. All personnel of the communications system are to remain employees of Loudon County, which shall be responsible for continued payment of the employees on a basis consistent with other county employees. The payment amount may be increased during the term of the agreement by mutual consent of the parties.

The original term of this agreement was five years and was extended for an additional five years. Beginning March 1, 2008 the agreement is extended on a year-by-year basis at \$45,000 per year.

The total amount expensed by the District during the year ended June 30, 2009, relating to this agreement was \$45,000.

10. Agreement for Office Space

The District entered into an agreement with Loudon County, Tennessee in which it received a \$140,000 contribution, in October 2006, to be used for the construction of the E-911 Center. In return, the District has made available to Loudon County offices and emergency operations space for the Emergency Management Agency (EMA), a subsidiary of Loudon County, Tennessee for up to thirty years, with an extension possible upon mutual agreement of both parties.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements

June 30, 2009

11. Operating Leases

Operating leases in place during the year are as follows;

- During fiscal year 2005, the District sold its Mobile 911 Center to Loudon County, Tennessee and then entered into a lease agreement with Loudon County, Tennessee, to lease the facility for one dollar per year.
- On October 5, 2006, the District entered into a lease agreement with Loudon Utilities Board for a ground lease on the site of its operating center. The term of the lease is for thirty years from the date of the agreement and may be extended upon mutual consent of both parties. The lease payment to Loudon Utilities Board is for one dollar per year.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget
For the Year Ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Emergency telephone surcharges	\$ 222,000	231,533	9,533
State Emergency Communications Board - shared wireless charge	96,000	101,725	5,725
Other income	870	920	50
	<u>318,870</u>	<u>334,178</u>	<u>15,308</u>
Operating expenses:			
Salaries and wages:			
Director	5,305	5,305	-
Administrative personnel	57,695	58,417	(722)
Part-time personnel	30,000	30,000	-
Pay bonuses	6,400	6,400	-
	<u>99,400</u>	<u>100,122</u>	<u>(722)</u>
Contracted services:			
Audit services	6,500	6,000	500
Contracts with government agencies	45,000	45,000	-
Fees paid to service providers	1,380	742	638
Janitorial	1,500	750	750
Legal services	9,000	8,175	825
Maintenance agreements	25,000	24,942	58
Pest control	450	245	205
Maintenance and repairs:			
Building and facilities	4,000	2,220	1,780
Vehicles	2,000	420	1,580
Communications equipment	9,000	7,160	1,840
	<u>103,830</u>	<u>95,654</u>	<u>8,176</u>
Supplies and materials:			
Office	1,500	1,252	248
Data processing supplies	550	429	121
Postage	200	163	37
Small equipment purchases	2,500	1,680	820
Utilities:			
Electric, gas, water	12,500	11,559	941
General telephone	44,500	40,928	3,572
	<u>61,750</u>	<u>56,011</u>	<u>5,739</u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Other charges:			
Dues and memberships	\$ 1,000	666	334
Employee testing and exams	2,500	2,205	295
Insurance:			
Liability	4,400	4,370	30
Building and contents	8,330	8,321	9
Equipment	250	210	40
Vehicles	6,500	6,115	385
Legal notices	250	200	50
Premium on surety bonds	800	600	200
Training	3,000	2,710	290
Travel	8,000	7,232	768
Internet charges	2,300	1,919	381
Other	728,046	446,219	281,827
	765,376	480,767	284,609
Total operating expenses	1,030,356	732,554	297,802
Excess of operating revenues over (under) operating expenses	(711,486)	(398,376)	313,110
Nonoperating revenues (expenses):			
Interest income	5,250	5,379	129
Interest expense	(50,000)	(5,171)	44,829
Loss on disposal of capital assets	-	(22,067)	(22,067)
State Emergency Communications Board - grants	50,000	61,120	11,120
Total nonoperating revenues (expenses)	5,250	39,261	34,011
Excess of revenues over (under) expenditures before capital contributions	(706,236)	(359,115)	347,121
Capital contributions:			
State Emergency Communications Board	104,081	104,081	-
Excess of revenues over (under) expenditures	\$ (602,155)	(255,034)	347,121
Adjustments to agree with financial statement - "Statement of Revenues, Expenses and Changes in Net Assets":			
Expenses unbudgeted:			
Depreciation		(128,396)	
Capital equipment purchases		432,821	
Change in net assets		\$ 49,391	

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Insurance in Force

June 30, 2009

<u>Description</u>	<u>Coverage</u>
Property:	
Risks of Direct Physical Loss Subject to Normal Conditions and Exclusions:	
Business personal property - \$250 property deductible; earthquake and flood deductible varies:	
Building - 500 John Parris Way	\$ 1,560,000
Personal property - 500 John Parris Way (Replacement cost)	1,000,000
Portable equipment	Guaranteed replacement cost
Automobile Liability:	
Liability - any auto	1,000,000
Uninsured motorists	1,000,000
Medical payments	2,000
Physical damage	288,000
Commercial Umbrella Liability:	
Each Occurrence	1,000,000
Aggregate	2,000,000
Retained Limit	2,000,000
General Liability:	
General aggregate limit	2,000,000
Products/completed operations aggregate limit	2,000,000
Personal and advertising injury each occurrence limit	1,000,000
Each occurrence or medical incident limit	1,000,000
Medical expense limit (any one person)	5,000
Crime:	
Public employee blanket, no deductible	50,000
Chairman of the Board - Employee Dishonesty Bond	1,000,000
Management Liability:	
Each claim limit (injunctive relief)	5,000
Each claim limit (each wrongful act)	1,000,000
Annual aggregate limit	2,000,000
Fidelity bonds (5)	150,000

Loudon County Emergency Communications District

Schedule of Information Required by the
Tennessee Emergency Communications Board
June 30, 2009

1. Number of public safety answering points (PSAP): One (1)
2. Address of each PSAP: Loudon County Emergency Communications District
500 John Parris Drive
Loudon, Tennessee 37774

3. Type of system /equipment and database used:

Zetron communications equipment used with an NT server
and work stations using Windows 98 operating system;

A computer aided dispatch (CAD) system installed and supported
by Southern Software of Southern Pine, South Carolina

A computer mapping system supported by Southern Software of
Southern Pine, South Carolina

4. Name, address, telephone number, and fax number of Executive Director:

Jennifer Estes
500 John Parris Drive
Loudon, Tennessee 37774
(865) 458-9081 (865) 458-7057 (fax)

5. Name, address, telephone number, and fax number of the Chairman of the Board:

Tim Guider
500 John Parris Drive
Loudon, Tennessee 37774
(865) 458-9081 (865) 458-7057 (fax)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2009

Grantor Agency	Program Name	CFDA #	Balance June 30, 2008	Cash Receipts	Expenditures	Repaid	Balance June 30, 2009
<u>Federal Assistance:</u>							
<u>Loans</u>							
<i>U.S. Department of Agriculture</i>							
	Water and Waste Disposal Systems for Rural Communities	10.760	\$ -	1,500,000	-	2,374	1,497,626
<u>Interim Financing</u>							
<i>U.S. Department of Agriculture</i>							
	Water and Waste Disposal Systems for Rural Communities	10.760	(494,472)	-	1,005,528	1,500,000	- (1)
Total Federal Assistance			(494,472)	1,500,000	1,005,528	1,502,374	1,497,626
<u>State Assistance Programs</u>							
Tennessee Emergency Communications District	GIS Maintenance Grant (Z-08-211957-00)	N/A	-	10,000	10,000	-	-
			\$ (494,472)	1,510,000	1,015,528	1,502,374	1,497,626

- (1) A loan agreement was entered into for interim financing for the construction of a new building. Rural Development has financed these construction expenditures and requires these expenditures to be considered Federal awards expended.



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

The Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

We have audited the financial statements of the Loudon County Emergency Communications District (the "District"), a component unit of Loudon County, Tennessee, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing 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 District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain 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 normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District'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 District's 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 questioned costs as 09-02 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 presented or detected by the District'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 considered to be a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as 09-01.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

HC & A Associates, P.C.

January 13, 2010



**Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133**

The Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

Compliance

We have audited the compliance of the Loudon County Emergency Communications District (the "District"), a component unit of Loudon County, Tennessee, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United State; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an

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opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described as 09-2 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we believe that the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs is not considered to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the District's Board of Directors, management, and others within the organization and federal awarding agencies and is not to be used by anyone other than these specified parties.

HG & A Associates, P.C.

January 13, 2010

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the District.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the auditors' report on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* and included as finding 09-2. The condition is not reported as a material weakness.
3. One instance of noncompliance material to the financial statements was disclosed during the audit and included as finding 09-1.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit as 09-2. The condition is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award program for the District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The Water and Waste Disposal Systems for Rural Communities (CFDA #10.760) was tested as the major program.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

The following findings are from our audit of the Loudon County Emergency Communications District (the "District") and our recommendations to management. Immediately following the recommendation is management's response to those findings and recommendations.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

09-1 Finding: Budget vs. Actual Expenses

The District had one operating line item where actual expenditures exceeded the approved budgeted amount by \$722. This is a repeat of finding 08-1 from the prior year's audit of the District.

Recommendation

The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* Section II page 6 states that the budgets for Emergency Communications Districts are to be set at the line-item level. In order to comply with that manual we recommend the District's Executive Director present the necessary budget amendments to the District's Board of Directors for approval of increases in each line item as situations arise whereby required expenditures will exceed budgeted amounts.

Management's Response

Our total payroll was budgeted properly during the year. However, the overage in this one line item came to our attention after it was too late to amend the budget. We will attempt to gain the information to correct any line item overages in a timely manner during the next fiscal year, so that this does not occur again.

09-2 Finding: Use of Purchase Orders in Expenditure Process

The District has in place procedures over the expenditures of its operations. Those procedures did not include the use of appropriately designed purchase orders as of July 1, 2008. During the District's current fiscal year the use of purchase orders did begin. However, the purchase orders were not available for most of the current fiscal year. This is a repeat of prior year finding 08-2.

Recommendation

The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* Section II page 3 requires Districts to adopt procedures to provide reasonable assurance regarding effective internal controls in their operations. In order to meet that requirement in regards to expenditures the District should implement procedures to use purchase orders in the expenditure process. The implementation would allow for prior approval of disbursements over a defined amount, usually \$100 that would only enhance the District's ability to control the expending of District funds.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Management's Response

We didn't find out about the need to use purchase orders until after being well into the fiscal year. We have taken the necessary steps to incorporate the use of purchased orders within our purchasing procedures for the 2010 fiscal year.

FINDINGS AND QUESTIONED COSTS – MAJOR AWARD PROGRAMS AUDIT

Significant deficiency

Finding 09-2 for the Financial Statement Audit also applies to the expenditures for the major federal award program and should be referred to in regards to the finding, recommendation and management response.