

**SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2009**

**SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT**

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## **INTRODUCTORY SECTION**

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SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

SCHEDULE OF DIRECTORS AND OFFICERS  
June 30, 2009

Board of Directors:

Jessie Lipoma, Chairwoman  
Don Adams, Vice-Chairman  
Ree Stomer, Secretary  
Peggy Rutherford, Treasurer  
Wayne Anderson  
James Brotherton  
Jerry Fleenor  
James Eller  
Terry Jones

Officers:

Ike D. Lowry, Director

## **FINANCIAL SECTION**

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Financial Section contains the  
Basic Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Sullivan County Enhanced 9-1-1  
Emergency Communication District  
Blountville, Tennessee

We have audited the accompanying basic financial statements of Sullivan County Enhanced 9-1-1 Emergency Communication District (the "District"), a component unit of Sullivan County, Tennessee, as of and for the year ended June 30, 2009 as listed in the Table of Contents. These basic 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee. 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Enhanced 9-1-1 Emergency Communication District as of June 30, 2009 and the results of its operations 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 November 9, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 8-10 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. Also the required supplementary information on Page 24 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the District, taken as a whole. The accompanying information listed as supplementary schedules in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Brown, Edwards & Company, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia  
November 9, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sullivan County Enhanced 9-1-1 Emergency Communication District (the "District"), we offer readers of our financial statements this narrative and overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. It should be read in connection with the District's financial statements and related notes included in this report.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,220,564 (net assets). Of this amount, \$761,688 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- The District's net assets increased by \$44,261, which was attributable to the net income of the District for the year.
- The District has accounts payable and accrued expenses of \$100,347 at June 30, 2009.
- The District entered into a capital lease agreement during the current year. The remaining obligation is \$227,500, of which \$97,500 is due within one year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. Since the District is engaged in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. The report also contains other supporting schedules in addition to the basic financial statements themselves.

**Enterprise fund financial statements.** The enterprise fund financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic enterprise fund financial statements can be found on pages 11 through 14 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 22 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other supporting schedules including the District's budget to actual comparisons of revenues and expenses on the basis of accounting on which the District presents its budget. The other supplementary schedules can be found on pages 26 through 30 of this report.

(Continued)

## Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$1,220,564 at the close of the most recent fiscal year.

The District uses its capital assets to provide emergency communications services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

	<u>Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Current assets	\$ 862,035	\$ 957,796
Capital assets	<u>686,376</u>	<u>346,019</u>
Total assets	<u>\$ 1,548,411</u>	<u>\$ 1,303,815</u>
Current liabilities	\$ 197,847	\$ 127,512
Long-term liabilities outstanding	<u>130,000</u>	<u>-</u>
Total liabilities	<u>\$ 327,847</u>	<u>\$ 127,512</u>
Net assets:		
Investment in capital assets	\$ 458,876	\$ 346,019
Unrestricted	<u>761,688</u>	<u>830,284</u>
Total net assets	<u>\$ 1,220,564</u>	<u>\$ 1,176,303</u>

During the past fiscal year the District purchased the building adjacent to the current office building by entering into a capital lease agreement.

(Continued)

	<u>Changes in Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Revenues		
Surcharge revenue	\$ 882,702	\$ 888,409
Other revenue	<u>244,303</u>	<u>214,000</u>
Total revenues	<u>\$ 1,127,005</u>	<u>\$ 1,102,409</u>
Expenses		
Salaries and wages	\$ 220,960	\$ 189,653
Employee benefits	85,799	65,027
Contracted services	409,981	399,384
Supplies and materials	136,146	147,956
Other charges	125,078	89,585
Depreciation	<u>104,780</u>	<u>87,317</u>
Total expenses	<u>\$ 1,082,744</u>	<u>\$ 978,922</u>
Increase in net assets	\$ 44,261	\$ 123,487
Net assets – July 1	<u>1,176,303</u>	<u>1,052,816</u>
Net assets – June 30	<u>\$ 1,220,564</u>	<u>\$ 1,176,303</u>

The District's net assets increased by \$44,261 during the current fiscal year. Surcharge revenue decreased by \$5,707, or by .64% due to a decrease in land line usage that was offset by increase in wireless revenue. Other revenue increased by \$30,303, due to increased monies received from the state of Tennessee for operational funding. Expenses increased by \$103,822, largely due to increases in salaries and benefits, depreciation expense due to the addition of several fixed assets, travel expenses for training for employees, and increased public education expenses.

#### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Sullivan County Enhanced 9-1-1 Emergency Communication District, 1570 Highway 394, Blountville, Tennessee 37617.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2009

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents (Note 2)	\$ 624,875
Accounts receivable - surcharge	192,557
Prepaid expenses	<u>44,603</u>
Total current assets	<u>862,035</u>
CAPITAL ASSETS, net (Note 3)	<u>686,376</u>
Total assets	<u>1,548,411</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	5,200
Accrued expenses (Note 4)	95,147
Capital leases, current (Note 6)	<u>97,500</u>
Total current liabilities	<u>197,847</u>
LONG-TERM LIABILITIES	
Capital leases (Note 6)	<u>130,000</u>
Total long-term liabilities	<u>130,000</u>
Total liabilities	<u>327,847</u>
NET ASSETS	
Invested in capital assets, net of related debt	458,876
Unrestricted	<u>761,688</u>
Total net assets	<u>\$ 1,220,564</u>

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
For the Year Ended June 30, 2009

OPERATING REVENUES

Emergency telephone service charge	\$ 665,848
State Emergency Communications Board - shared wireless charge	216,854
State Emergency Communications Board - operational funding	176,619
Other	<u>10,306</u>
Total operating revenues	<u>1,069,627</u>

OPERATING EXPENSES

Salaries and wages	220,960
Employee benefits	85,799
Contracted services	409,981
Supplies and materials	136,146
Other charges	125,078
Depreciation	<u>104,780</u>
Total operating expenses	<u>1,082,744</u>

Operating loss	<u>(13,117)</u>
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NONOPERATING REVENUE (EXPENSE)

State Emergency Communications Board grants	54,773
Loss on sale of assets	(836)
Interest income	<u>3,441</u>
Total nonoperating revenues	<u>57,378</u>

Change in net assets	44,261
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NET ASSETS AT JULY 1	<u>1,176,303</u>
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NET ASSETS AT JUNE 30	<u><u>\$ 1,220,564</u></u>
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The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from 911 surcharge collections	\$ 980,283
Cash received from lessee	8,548
Cash received from other sources	1,758
Cash payments to Sullivan County per contract	(273,505)
Cash payments to suppliers for goods and services	(432,374)
Cash payments to employees for services and related benefits and taxes	<u>(273,750)</u>

Net cash provided by operating activities 10,960

CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES

Proceeds from State ECB grants	27,654
Purchase of capital assets	(120,973)
Payments on capital lease obligations	<u>(97,500)</u>

Net cash used in capital and related financing activities (190,819)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>3,441</u>
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Net cash provided by investing activities 3,441

Net decrease in cash and cash equivalents (176,418)

CASH AT BEGINNING OF YEAR 801,293

CASH AT END OF YEAR \$ 624,875

(Continued)

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (13,117)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	104,780
Amortization of prepaid lease expense	23,200
(Increases) decreases in:	
Accounts receivable - surcharge	(79,038)
Prepaid expenses	2,300
Increases (decreases) in:	
Accounts payable	(60,174)
Accrued expenses	<u>33,009</u>
Total adjustments	<u>24,077</u>
Net cash provided by operating activities	<u>\$ 10,960</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets by capital lease	<u>\$ 325,000</u>
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The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 1. Summary of Significant Accounting Policies**

Organization

The Tennessee General Assembly's passage of Emergency Communications District Law (Acts 1984, ch. 867) declared that the establishment of a uniform emergency number to shorten the time required for a citizen to request and receive emergency aid is a matter of public concern and interest. It is the intent of communication districts to provide a simplified means of securing emergency services.

The legislative body of any municipality or county may, by ordinance or resolution, respectively, create an emergency communication district within all or part of the boundaries of such municipality or county. Prior to the establishment of such district, an election must be held and certified by the County Election Commission indicating the voters' approval of the communication district. Such an election was held in Sullivan County in August, 1986, whereby the voters approved a referendum which formed the Sullivan County Enhanced 9-1-1 Emergency Communication District (the "District").

The District is a component unit of Sullivan County, Tennessee (the "County"), as defined by Statement No. 14 of the Governmental Accounting Standards Board, "The Reporting Entity". A voting majority of the District's Board of Directors are appointed and approved by the County's County Executive and County Commission, respectively. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges.

Measurement focus and basis of accounting

The District's financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the *option* of following subsequent private-sector guidance, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are surcharge revenue. Operating expenses include the equipment expenses, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 1. Summary of Significant Accounting Policies (Continued)**

Budgets and Budgetary Accounting

The following procedures are used by the District in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed throughout the year as a management control device.
2. Budgets are adopted on a cash basis. A reconciliation of the budgetary data to the accrual basis financial statements is included with the accompanying financial statements.
3. All budgetary data presented in the accompanying financial statements is the final approved revised data.
4. Budget items can only be revised upon approval of the Board of Directors.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all cash on hand, in bank, and all highly liquid investments (including restricted assets) including certificates of deposit to be cash and cash equivalents.

Surcharge Revenue

The District recognizes surcharge revenue as earned. Embarq, BTES and Charter, the local telephone 'service suppliers', collect and remit surcharge revenues to the District on a monthly basis. Surcharge revenue collections are being remitted to the District within thirty (30) days subsequent to the last business day of the preceding month. The service suppliers are entitled to and retain three percent (3%) of their collected surcharges as an administrative fee. The District also receives revenue from the State of Tennessee for wireless revenue. This revenue is equivalent to 25% of the revenue generated by wireless communications and is based on a proportion of the population of each District. These funds are remitted to the District on a bi-monthly basis. The District, and all properties at any time owned by it, are exempt from all taxation in the State of Tennessee (Acts 1984, ch. 867).

Depreciation

Depreciation for capital assets is provided on the straight-line method over the estimated useful lives, which range from three years for office and training equipment to twenty-five years for the buildings. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain and loss is recognized in income as incurred.

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.

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 1. Summary of Significant Accounting Policies (Continued)**

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

**Note 2. Cash and Cash Equivalents**

State statutes authorize the District to invest in obligations of the federal government, state government, the state investment pool, certificates of deposit and other time deposits, and repurchase agreements.

All of the District's cash and cash equivalents were deposited with financial institutions at June 30, 2009. All deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits were fully collateralized by the Tennessee Bank Collateral Pool.

**Note 3. Capital Assets**

Capital asset activity for the year was as follows:

	<u>Beginning July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
Capital assets, not being depreciated				
Land	\$ 8,200	\$ 115,193	\$ -	\$ 123,393
Capital assets, being depreciated				
Automobiles	\$ 59,011	\$ 25,099	\$ -	\$ 84,110
Office and training equipment	198,518	72,549	8,010	263,057
Machinery and equipment	182,775	2,500	452	184,823
Other equipment	9,992	-	-	9,992
Furniture and fixtures	36,906	-	2,645	34,261
Buildings	<u>289,325</u>	<u>230,632</u>	<u>-</u>	<u>519,957</u>
Total capital assets, being depreciated	<u>776,527</u>	<u>330,780</u>	<u>11,107</u>	<u>1,096,200</u>

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 3. Capital Assets (Continued)**

	<u>Beginning July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
Less accumulated depreciation for				
Automobiles	\$ (40,020)	\$ (16,092)	\$ -	\$ (56,112)
Office and training equipment	(132,971)	(32,935)	(7,174)	(158,732)
Machinery and equipment	(88,161)	(32,175)	(452)	(119,884)
Other equipment	(9,311)	(157)	-	(9,468)
Furniture and fixtures	(10,620)	(4,942)	(2,645)	(12,917)
Buildings	<u>(157,625)</u>	<u>(18,479)</u>	<u>-</u>	<u>(176,104)</u>
Total accumulated depreciation	<u>(438,708)</u>	<u>(104,780)</u>	<u>(10,271)</u>	<u>(533,217)</u>
Total capital assets, depreciated, net	337,819	226,000	836	562,983
Total capital assets, net	<u>\$ 346,019</u>	<u>\$ 341,193</u>	<u>\$ 836</u>	<u>\$ 686,376</u>

Depreciation expense for the fiscal year ended June 30, 2009 was \$104,780.

**Note 4. Accrued Expenses**

Accrued expenses consist of the following:

Accrued salaries and related expenses	\$ 13,642
Accrued vacations	<u>81,505</u>
Totals	<u>\$ 95,147</u>

Accrued salaries and related expenses represents the amount owed for salaries and related expenses earned but not paid as of June 30. Accrued vacations represent the cost of accumulated vacation earned but not taken through June 30, at current wage rates. Actual payment of the employee benefits will occur in future periods.

**Note 5. Tennessee Consolidated Retirement System**

**A. Plan Description**

Employees of Sullivan County Enhanced 9-1-1 Emergency Communication District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 5. Tennessee Consolidated Retirement System (Continued)**

**A. Plan Description (Continued)**

administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Sullivan County Enhanced 9-1-1 Emergency Communication 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 PSPP. 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>.

**B. Funding Policy**

Sullivan County Enhanced 9-1-1 Emergency Communication District has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Sullivan County Enhanced 9-1-1 Emergency Communication District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 19.40% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sullivan County Enhanced 9-1-1 Emergency Communication District is established and may be amended by the TCRS Board of Trustees.

**C. Annual Pension Cost**

For the year ending June 30, 2009, Sullivan County Enhanced 9-1-1 Emergency Communication District's annual pension cost of \$36,433 to TCRS was equal to Sullivan County Enhanced 9-1-1 Emergency Communication 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 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

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 5. Tennessee Consolidated Retirement System (Continued)**

**C. Annual Pension Cost (Continued)**

was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Sullivan County Enhanced 9-1-1 Emergency Communication 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 11 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$ 36,433	100.00%	\$ -
6/30/08	\$ 31,794	100.00%	\$ -
6/30/07	\$ 24,855	100.00%	\$ -

**D. Funded Status and Funding Progress**

As of July 1, 2007, the most recent actuarial valuation date, the plan was 77.81% percent funded. The actuarial accrued liability for benefits was \$0.40 million, and the actuarial value of assets was \$0.31 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.09 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0 million, and the ratio of the UAAL to the covered payroll was 76.07% percent.

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

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

(Dollars amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) -Entity 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	\$ 312	\$ 401	\$ 89	77.81%	\$ 117	76.07%

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 6. Leases**

Capital Leases

The District entered into a lease agreement on April 30, 2009 to purchase a building located at 1586 Highway 394, Blountville, Tennessee, that is classified as a capital lease agreement. The cost of the land and the building are included in the balance sheet as property, plant, and equipment totaling \$325,000 at June 30, 2009. Accumulated depreciation of the building at June 30, 2009, was \$2,098.

Future minimum lease payment are as follows:

<u>Year Ending</u>	
2010	\$ 97,500
2011	<u>130,000</u>
	<u>\$ 227,500</u>

Operating Leases

The District entered into an operating lease agreement on March 14, 2006 with United Telephone-Southeast, d.b.a. Embarq to be provided with a CML Rescue – STAR System. The lease is for a term of 60 months with monthly payments due in the amount of \$2,900 after an upfront payment of \$116,000. The total lease amount of \$174,000 is being amortized over the life of the lease. The District has an option at the end of the lease to replace the equipment and begin a new lease or continue the current lease with monthly payments of \$2,900 for an additional 36 months. The current lease expires March 31, 2011.

Minimum future annual lease payments are as follows:

<u>Year Ending</u>	
2010	\$ 34,800
2011	<u>25,200</u>
	<u>\$ 60,000</u>

Total lease/rent expense for the year was \$60,632.

The District is a lessor of certain real property under short-term agreements with a single lessee.

**Note 7. Risk Management**

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage for each of the above risks of loss. Workman's compensation insurance is retrospectively rated. Premium variance is not considered material. Management believes the coverage obtained through its commercial insurance policies is adequate to preclude any significant uninsured risk exposure to the District. There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage since the inception of the District. Claims experienced in the fiscal year 2009 are considered by management to be insignificant.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**Note 8. Inter-local Cooperation Agreement**

The Sullivan County, Tennessee, County Commission approved the Inter-local Cooperation Agreement Providing for Emergency Communication Service between Sullivan County, Tennessee, (the "County"), the Sullivan County Sheriff, (the "Sheriff"), and Sullivan County Enhanced 9-1-1 Emergency Communication District, (the "District"). Under terms of the agreement, the County and the Sheriff shall provide the physical facilities and employees necessary to operate and maintain an emergency communication service for the District for the period beginning July 1, 2008 and ending on June 30, 2009. The County, by and through the Sheriff, shall provide a public safety answering point and central dispatch and qualified employees to operate an emergency communications service for the District. The agreement calls for the Sheriff to hire six District employees to become "at-will" employees of the County. In return for the facilities and the employees for the one-year period specified, the District agrees to pay to the County \$273,505 in twelve equal monthly installments. The agreement calls for annual renewal upon approval by the County, the Sheriff and the District. The agreement was renewed under the same terms for the subsequent fiscal year. For the year ended June 30, 2009, there were no amounts owed to the Sheriff's Department.

**REQUIRED SUPPLEMENTARY INFORMATION**

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

SCHEDULE OF FUNDING PROGRESS  
For the Year Ended June 30, 2009

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 312	\$ 401	\$ 89	77.81%	\$ 117	76.07%

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 change was made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

**SUPPLEMENTARY SCHEDULES**

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF REVENUES AND EXPENSES - DETAIL  
For the Year Ended June 30, 2009

CONTRACTED SERVICES

Audit services	\$ 7,480
Administrative fees - service charge	23,504
Contracts with government agencies (Note 8)	273,505
Contracted services - other	550
Data processing services	519
Lease/rental - communications equipment	58,000
Lease/rental - office equipment	2,632
Maintenance and repairs - communications equipment	34,572
Maintenance and repairs - buildings and facilities	5,672
Maintenance and repairs - office equipment	725
Maintenance and repairs - vehicles	2,822
	<u>\$ 409,981</u>

SUPPLIES AND MATERIALS

Bank service charges	\$ 207
Data processing supplies	877
Office supplies	7,140
Small equipment purchase	1,205
Postage	548
Utilities - electric	5,629
Utilities - gas	1,209
Utilities - water	196
Utilities - general telephone	101,730
Utilities - cell phones and pagers	17,405
	<u>\$ 136,146</u>

OTHER CHARGES

Dues and memberships	\$ 1,347
Board meeting	1,257
Gasoline	6,503
Legal notices	325
Licenses and permits	47
Uniforms and shirts	3,916
Insurance - workers compensation	499
Insurance - buildings and contents	8,354
Insurance - vehicles	3,266
Pest control	120
Premiums on surety bonds	2,300
Public education	31,937
Training expenses	19,518
Travel expenses	41,869
Miscellaneous	3,820
	<u>\$ 125,078</u>

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -  
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS  
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>INCOME</b>				
Emergency phone service charges	\$ 765,000	\$ 765,000	\$ 484,998	\$ (280,002)
SECB shared wireless charge	345,000	168,381	171,035	2,654
TECB operational funding	-	176,619	147,182	(29,437)
Other surcharge revenue	-	-	177,069	177,069
Agency reimbursements	-	-	113	113
Training revenue	-	-	483	483
Interest income	7,500	7,500	3,441	(4,059)
ST ECB grants	10,000	10,000	27,654	17,654
Rental income	7,800	7,800	8,548	748
Other income	-	-	1,162	1,162
<b>Total income</b>	<u>1,135,300</u>	<u>1,135,300</u>	<u>1,021,685</u>	<u>(113,615)</u>
<b>EXPENSES</b>				
Salaries & wages	192,400	192,400	188,095	4,305
Employee benefits	92,435	96,880	85,655	11,225
Contracted services	380,000	348,500	338,909	9,591
Pest control	-	210	120	90
Communications equipment lease	60,000	38,000	34,800	3,200
Office equipment rental/lease	4,000	4,000	2,632	1,368
Vehicles lease/rentals	2,000	2,000	-	2,000
Maint. communications equip. & software	7,000	7,000	695	6,305
Maint. buildings & facilities	8,000	7,790	5,672	2,118
Maint. office equip.	3,000	3,000	725	2,275
Maint. vehicles	4,000	4,000	2,746	1,254
Fuel - vehicles	-	9,000	6,064	2,936
Supplies & materials	15,750	17,950	16,783	1,167
Electric utility	5,175	5,725	5,629	96
Gas utility	2,375	2,375	1,209	1,166
Water utility	402	402	196	206
General telephone	110,250	110,250	101,730	8,520
Cell phone & pagers	12,400	18,400	16,727	1,673
Workers compensation insurance	1,500	1,500	499	1,001
Buildings/contents insurance	7,500	7,900	7,883	17
Vehicles insurance	4,100	4,100	3,266	834
Legal notices	2,000	2,000	325	1,675
Licenses and fees	500	500	47	453
Premiums on surety bonds	5,100	4,350	-	4,350
Public education	12,000	32,000	30,342	1,658
Service awards	-	2,000	192	1,808
Training expenses	19,000	21,500	19,518	1,982
Reverse 911	1,000	1,000	-	1,000

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -  
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS  
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXPENSES (Continued)				
Travel expenses	\$ 36,000	\$ 43,000	\$ 41,869	\$ 1,131
Internet charges	-	750	680	70
Other charge expense	5,900	8,375	7,457	918
Other - refund of surcharge	-	60,000	60,000	-
Capital purchases	<u>95,000</u>	<u>223,350</u>	<u>218,473</u>	<u>4,877</u>
 Total expenses	 <u>1,088,787</u>	 <u>1,280,207</u>	 <u>1,198,938</u>	 <u>81,269</u>
 CHANGE IN NET ASSETS	 <u>\$ 46,513</u>	 <u>\$ (144,907)</u>	 <u>\$ (177,253)</u>	 <u>\$ (32,346)</u>
 Change in net assets (budgetary basis)			 \$ (177,253)	
Adjustments:				
To adjust for net accruals and deferrals			107,821	
To record purchases of fixed assets			218,473	
To record depreciation			<u>(104,780)</u>	
			<u>\$ 44,261</u>	

The above Statement of Revenues and Expenses - Detail; Budget to Actual Comparison presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of resultant basis and timing differences in the change in net assets for the year ended June 30, 2009 is presented above.

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

SCHEDULE OF PUBLIC SAFETY ANSWERING POINTS (PSAP) (UNAUDITED)  
June 30, 2009

5 Public Safety Answering Points (PSAP), all located at:

Sullivan County Sheriff's Office  
140 Blountville Bypass  
Blountville, TN 37617

CML RescueSTAR 911 Emergency Communications System:

RescueSTAR Double Shelf w/3 Data I/F & 3 L/T -- AC Version  
5 SenTinal Answering Positions e/w Minitower PC's & 17" SVGA Monitors  
911 trunk and administrative and emergency access line ports  
ECS 1000 Administrative Position including MIS, Maintenance and Reconfiguration level Software  
ECS 1000 Hardware and Software  
Sentinel trainer instructional

Mr. Ike Lowry  
Director  
Sullivan County Enhanced 9-1-1 Emergency Communication District  
911 Lona Lane  
Bluff City, TN 37618  
(423) 538-4223

Ms. Jessie Lipoma  
Chairwoman  
Sullivan County Enhanced 9-1-1 Emergency Communication District  
430 Impala Drive  
Kingsport, TN 37660  
(423) 378-5882

SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATION DISTRICT

SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)  
June 30, 2009

Effective Date	Expiration Date	Insurer/Agent	Policy Numbers
Commercial Liability, Property and Casualty, and Employee Dishonesty Package			
6/30/08	6/30/09	American Alternative Insurance Corporation VFIS / Mark Bowery Insurance	VFIS-TR-2055773-01
Commercial Automobile			
6/30/08	6/30/09	American Alternative Insurance Corporation VFIS / Mark Bowery Insurance	VFIS-CM-1053521-01
Workers Compensation			
3/01/09	3/01/10	The Hartford Insurance	20-WECPH-4020
Directors' Bonds			
Various	Various	Bond Insurance Agency VFIS / Mark Bowery Insurance	Various

SCHEDULE OF SURCHARGE RATES

Surcharge rates in effect July 1, 2008 through June 30, 2009, were \$1.50 per month for residential customers and \$3.00 (for each line up to 100 lines) for commercial customers.

## **COMPLIANCE SECTION**

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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  
Sullivan County Enhanced 9-1-1  
Emergency Communication District  
Blountville, Tennessee

We have audited the basic financial statements of the Sullivan County Enhanced 9-1-1 Emergency Communication District (the "District"), a component unit of Sullivan County, Tennessee, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 9, 2009. We conducted our audit 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 States; and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee.

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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated November 9, 2009.

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

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia  
November 9, 2009

**SULLIVAN COUNTY ENHANCED 9-1-1  
EMERGENCY COMMUNICATIONS DISTRICT**

**COMMENTS AND SUGGESTIONS FOR  
YOUR CONSIDERATION**

**JUNE 30, 2009**

## INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Senior Management and  
The Board of Directors of  
Sullivan County Enhanced 9-1-1 Emergency Communications District  
Blountville, Tennessee

In planning and performing our audit of the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District, for the year ended June 30, 2009, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our assessment of internal control included obtaining an understanding of the internal control sufficient to plan our audit and comply with *Government Auditing Standards*.

However, during our audit we became aware of matters that provide an opportunity for strengthening internal controls and operating efficiency. This report does not affect our report dated November 9, 2009, on the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District. Since our audit is not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all inclusive of areas where improvements might be achieved. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with the District's management, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are as follows:

### Organization Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide segregation of duties. The District has taken appropriate actions in implementing certain procedures to mitigate the inadequacy of the segregation of duties. These procedures include assigning opening of mail and bank deposits to an individual independent of recordkeeping. Check writing responsibilities are assigned to an individual independent of opening of mail and deposits made to the bank. Also, bank reconciliations are now performed by an individual with no recordkeeping responsibilities to the District. However, the proper segregation of duties within the accounting function is not always possible, due to the inability to rotate accounting tasks and have others perform accounting tasks in the absence of those with assigned duties, due to limited staffing.

We strongly suggest that the procedures detailed above be continued and periodically reevaluated to assure that incompatible functions are reduced to a minimum and that proper mitigating controls are utilized as much as possible.

Develop a Formal Fraud Risk Management Program

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the District perform a risk assessment to identify, analyze, and manage these risks. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the District's internal control should include performance of this assessment. Once the assessment is complete and risks identified, the District can develop a formal fraud risk management program to address the identified risks.

Bank Reconciliation

During the course of performing audit procedures on cash balances, we noted that there was no bank reconciliation prepared on one bank account. The benefit of appropriately prepared bank reconciliations is to reconcile the cash balance stated on the bank statement with the balance recorded on client's records, taking into account outstanding checks and deposits in transit. Our recommendation is that a bank reconciliation be prepared for all bank accounts.

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

*Brown, Edwards & Company, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia  
November 9, 2009