

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2010

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
TABLE OF CONTENTS
June 30, 2010

FINANCIAL SECTION

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

SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule	18
Schedule of Funding Progress	19

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Findings and Questioned Costs	22-23

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2010**

BOARD MEMBERS:

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

MANAGEMENT OFFICIALS

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

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hawkins County
Emergency Communications District

I have audited the accompanying financial statements of the business-type activities of Hawkins County Emergency Communications District, a discretely presented component unit of Hawkins County, Tennessee, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of Hawkins County Emergency Communications District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hawkins County Emergency Communications District as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated April 15, 2011, on my consideration of Hawkins County Emergency Communications District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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

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

A handwritten signature in cursive script that reads "David M. Ellis".

David M. Ellis
Certified Public Accountant

April 15, 2011

Management's Discussion and Analysis

As management of the Hawkins County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. Please note, the District presents prior comparative financial information when available.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$210,023 (net assets). Of this amount, (\$11,326) (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District reported ending net assets of \$210,023, a decrease of \$55,999 in comparison with the prior year.

Overview of the Financial Statements

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

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

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

Financial Analysis of the District's Funds

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

Hawkins County Emergency Communications District Statement of Net Assets

	2010	2009
Current and Other Assets	\$ 69,380	\$ 165,779
Capital Assets	<u>1,041,423</u>	<u>1,006,490</u>
Total Assets	<u>\$ 1,110,803</u>	<u>\$ 1,172,269</u>

Total Liabilities	\$ 900,780	\$ 906,247
Net Assets:		
Invested in capital assets	221,349	158,490
Unrestricted	<u>(11,326)</u>	<u>107,532</u>
Total Liabilities and Net Assets	<u>\$ 1,110,803</u>	<u>\$ 1,172,269</u>

The balance of unrestricted net assets, (\$11,326), may be used to meet the District's ongoing obligations to citizens and creditors.

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

The District's net assets decreased by \$55,999 during the current fiscal year.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2010:

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

	2010	2009
Revenues:		
Operating Revenues:		
Charges for services	\$ 641,202	\$ 488,415
Non-Operating Revenues:		
Government appropriations	66,315	14,575
Other	156,614	140,610
Interest income	<u>237</u>	<u>748</u>
Total Revenues	864,368	644,648
Total Expenses	<u>920,367</u>	<u>738,140</u>
Change in net assets	(55,999)	(93,792)
Beginning Net Assets	<u>266,022</u>	<u>359,814</u>
Ending Net Assets	<u>\$ 210,023</u>	<u>\$ 266,022</u>

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

Budgetary Highlights

There were no changes to the original budget.

Capital Asset Administration

The District's investment in capital assets for its activities as of June 30, 2010, amounts to \$1,041,423 (net of accumulated depreciation). This investment in capital assets includes improvements, machinery and equipment, and software.

Hawkins County Emergency Communications District's Capital Assets

	2010	2009
Furniture and fixtures	\$ 11,510	\$ 5,007
Vehicles	15,500	15,500
Office Equipment	17,440	17,440
Land	126,314	0
Building	551,751	540,734
Communications system	<u>812,769</u>	<u>701,926</u>
Total capital assets	<u>\$ 1,535,284</u>	<u>\$ 1,280,607</u>

Additional information on the District's capital assets can be found in Note 3 on pages 13 and 14 of this report.

Economic Factors and Next Year's Budget and Rates

Short-term interest rates on investments for the District's operating funds improved slightly during fiscal year 2010. Appropriations from Hawkins County will remain at the same level during fiscal year 2010. These factors were considered in preparing the District's budget for fiscal year 2011.

Rates were not increased for fiscal year 2010.

Requests for Information

This financial report is designed to provide a general overview of the Hawkins County Emergency Communications District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Hawkins County Emergency Communications District, 2291 E. Main Street, Rogersville, TN 37857

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET ASSETS
June 30, 2010**

ASSETS

Current Assets	
Cash and Equivalents	\$ 41,827
Accounts Receivable	26,293
Prepaid Expenses	<u>1,260</u>
Total Operating Revenues	\$ 69,380
Non-current Assets	
Capital Assets	
Land	126,314
Building and Improvements	551,751
Communications Equipment	812,769
Office Equipment	17,440
Furniture and Fixtures	11,510
Vehicles	<u>15,500</u>
Total Capital Assets	1,535,284
Accumulated Depreciation	<u>(493,861)</u>
Net Capital Assets	<u>1,041,423</u>
Total Assets	<u><u>\$ 1,110,803</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 17,982
Accrued Penalties	8,834
Accrued Interest	281
Notes Payable - Current	35,783
Payroll Deductions Payable	39,506
Compensated Absences Payable	<u>14,103</u>
Total Current Liabilities	\$ 116,489
Non-current Liabilities	
Note Payable - Long-term	784,291
Net Assets	
Invested in Capital Assets, Net of Related Debt	221,349
Restricted Net Assets	-
Unrestricted Net Assets	<u>(11,326)</u>
Total Liabilities and Net Assets	<u><u>\$ 1,110,803</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2010**

Operating Revenues

Emergency Telephone Service Charge	\$ 303,153	
Tennessee Emergency Comm. Board - Shared Wireless Charge	163,594	
Tennessee Emergency Comm. Board- Operational Funding	174,455	
Other Program Revenues	<u>16,614</u>	
Total Operating Revenues		\$ 657,816

Operating Expenses

Salaries and Wages	461,695	
Employee Benefits	116,141	
Addressing/Mapping Expenses	12,960	
Advertising	251	
Audit Services	6,500	
Bank Charges	117	
Custodial Supplies	1,812	
Dues and Subscriptions	994	
Insurance	13,317	
Internet Charges	2,121	
Lease/Rental - Communications Equipment	41,386	
Legal Services	5,500	
Maintenance Agreements	11,057	
Maintenance and Repairs - Buildings and Facilities	13,023	
Maintenance and Repairs - Office Equipment	5,582	
Maintenance and Repairs - Vehicle	4,290	
NCIC/TBI/TIES Fees	10,586	
Office/General Supplies	9,347	
Postage	214	
Small Equipment	1,756	
Training Expenses	2,810	
Travel Expenses	1,418	
Uniforms and Shirts	150	
Utilities - General Telephone	16,352	
Utilities - Water and Sewer	1,870	
Utilities - Electric	5,389	
Depreciation	93,431	
Other Expenses	<u>8,883</u>	
Total Operating Expenses		<u>848,952</u>

Operating Loss \$ (191,136)

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2010**

Non-Operating Revenues and (Expenses)		
Contributions from Other Governments and Agencies	\$ 66,315	
Contributions from Primary Government	140,000	
Interest Income	237	
Interest Expense	(53,422)	
Penalties	<u>(17,993)</u>	
Total Non-Operating Revenues		<u>\$ 135,137</u>
Change in Net Assets		(55,999)
Net Assets June 30, 2009		<u>266,022</u>
Net Assets June 30, 2010		<u><u>\$ 210,023</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010**

Cash Flows from Operating Activities	
Cash Received from Surcharges and Other Revenues	\$ 631,523
Cash Payments for Payroll, Taxes and Related Benefits	(557,571)
Other Program Revenues	<u>(174,339)</u>
Net Total Operating Revenues	(100,387)
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(128,364)
Principal Paid on Notes Payable	(27,926)
Interest Paid on Notes Payable	<u>(53,141)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(209,431)</u>
Cash Flows from Non-Capital Financing Activities	
Contributions from Primary Government	140,000
Grants/Reimbursements TECB	66,315
Penalties Paid	<u>(9,159)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>197,156</u>
Cash Flows from Investing Activities	
Interest income	<u>237</u>
Net Cash Provided by Investing Activities	<u>237</u>
Net Decrease in Cash and Equivalents	(112,425)
Cash and Equivalents, Beginning of Year	<u>154,252</u>
Cash and Equivalents, End of Year	<u><u>\$ 41,827</u></u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010

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

Operating Loss	\$ (191,136)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	93,431
(Increase)/Decrease in receivables	(26,293)
(Increase)/Decrease in prepaid expenses	10,267
Increase/(Decrease) in accounts payable	(6,921)
Increase/(Decrease) in accrued liabilities	<u>20,265</u>
Net Cash Used by Operating Activities	<u><u>\$ (100,387)</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

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

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

Reporting Entity

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

Property, Plant and Equipment

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

Compensated Absences

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

Cash and Cash Equivalents

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

Use of Estimates

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

General

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

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

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

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and estimated useful lives used for depreciation purposes consisted of the following at June 30, 2010:

	<u>2009</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>2010</u>	<u>ESTIMATED USEFUL LIFE</u>
Capital assets, not being depreciated:					
Land	\$ 126,314	\$ 0	\$ 0	\$ 126,314	
Capital assets, being depreciated:					
Building	\$ 540,734	\$ 11,017	\$ 0	\$ 551,751	40 years

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

Furniture & Fixtures	5,007	6,503	0	11,510	5 years
Vehicles	15,500	0	0	15,500	5 years
Office Equipment	17,440	0	0	17,440	5 years
Communications System	<u>701,926</u>	<u>110,843</u>	<u>0</u>	<u>812,769</u>	5-10 years
Total depreciable assets:	1,280,607	128,363	0	1,408,970	
Less Accumulated Depreciation:					
Building	1,186	13,794	0	14,980	
Furniture & Fixtures	162	1,487	0	1,649	
Vehicles	4,650	3,100	0	7,750	
Office Equipment	4,182	2,788	0	6,970	
Communications System	<u>390,251</u>	<u>72,262</u>	<u>0</u>	<u>462,512</u>	
Total Accumulated Depreciation:	<u>400,431</u>	<u>93,431</u>	<u>0</u>	<u>493,862</u>	
Net Fixed Assets	<u>\$ 1,006,490</u>	<u>\$ 34,932</u>	<u>\$ 0</u>	<u>\$1,041,422</u>	

NOTE 4 - ECONOMIC DEPENDENCY

Tennessee state law mandates collection of a surcharge by telephone companies from their customers to fund established E-911 agencies. Hawkins County Emergency Communications District received approximately 35% of its total revenue from surcharges collected by Embarq, CenturyLink and AT&T. Another \$338,049, or 39%, comes from the State Emergency Communications Board from cellular telephone charges and grants. These revenues are insufficient to pay the costs of District operations. For the agency to function, it also depends on appropriations from the county, which this year amounted to \$140,000, or 16%, of total (operating and non-operating) revenues.

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - RETIREMENT PLAN

Plan Description

Employees of Hawkins County ECD are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

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

Funding Policy

Hawkins County ECD requires employees to contribute 5.0 percent of earnable compensation. Hawkins County ECD is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 6.56% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hawkins County ECD is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2010, Hawkins County ECD's annual pension cost of \$26,599 to TCRS was equal to Hawkins County ECD's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hawkins County ECD's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 16 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 26,599	100.00%	\$0.00
June 30, 2009	\$ 23,020	100.00%	\$0.00
June 30, 2008	\$ 20,819	100.00%	\$0.00

Funded Status and Funding Progress

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

As of July 1, 2009, the most recent actuarial valuation date, the plan was 80.25% percent funded. The actuarial accrued liability for benefits was \$0.40 million, and the actuarial value of assets was \$0.32 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.08 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.32 million, and the ratio of the UAAL to the covered payroll was 24.31% 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.

NOTE 7 - EQUIPMENT RENTAL

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

NOTE 8 - NOTES PAYABLE

During the current fiscal year, the District received a loan in the amount of \$678,400 from First Community Bank. This note was used to accurately separate the building and equipment in order for the loans to represent correct securities. This note bears a 6.5% interest rate payable monthly for fifteen years through 2024. The District made principal payments of \$24,705 and interest payments of \$43,172 during the year. Balance at year-end is \$653,695 with \$27,449 being classified as current.

During the current fiscal year, the District received a loan in the amount of \$169,600 from First Community Bank. This note was used to accurately separate the building and equipment in order for the loans to represent correct securities. This note bears a 6.5% interest rate payable monthly for five years through 2014 with a balloon payment due July 29, 2014. The District made principal payments of \$3,221 and interest payments of \$10,250 during the year. Balance at year-end is \$166,379 with \$8,334 being classified as current.

Changes in outstanding long-term debt for the year ended June 30, 2010 was as follows:

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Building & Equipment	\$ 848,000	\$ 0	\$ 848,000	\$ 0	\$ 0
Building Note	0	678,400	24,705	653,695	27,449
Equipment Note	<u>0</u>	<u>169,600</u>	<u>3,221</u>	<u>166,379</u>	<u>8,334</u>
Total	<u>\$ 848,000</u>	<u>\$ 848,000</u>	<u>\$ 875,926</u>	<u>\$ 820,074</u>	<u>\$ 35,783</u>

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

2011	\$ 35,783
2012	38,990
2013	41,778
2014	44,816
2015	171,694
2016-2020	232,894
2021-2024	<u>254,119</u>
	<u>\$ 820,074</u>

NOTE 9 - CAPITAL LEASES

The District leases a vending machine from Evending under a capital lease. The economic substance of the lease is that the District is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the District's assets and liabilities. The leased asset is included in Furniture and Fixtures.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 15, 2011, the date the financial statements were available to be issued.

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE UNDER (OVER)</u>
Operating Revenue				
Telephone Surcharges	\$ 226,301	\$ 226,301	\$ 303,153	(76,852)
Operational Funding	67,532	67,532	174,455	(106,923)
Cellular Income	152,350	152,350	163,594	(11,244)
	<u>446,183</u>	<u>446,183</u>	<u>641,202</u>	<u>(195,019)</u>
Total Operating Revenue	446,183	446,183	641,202	(195,019)
Operating Expenses				
Salaries	355,233	355,233	461,695	(106,462)
Employee Benefits	109,055	109,055	116,141	(7,086)
Addressing/Mapping Expense	1,500	1,500	12,960	(11,460)
Advertising	125	125	251	(126)
Audit Services	9,500	9,500	6,500	3,000
Bank Service Charges	89,183	89,183	117	89,066
Internet Charges	1,400	1,400	2,121	(721)
Legal Services	6,000	6,000	5,500	500
Maintenance Agreements	-	-	11,057	(11,057)
Lease/Rental - Communications Equipment	37,513	37,513	41,386	(3,873)
Maintenance and Repairs - Communications Equipment	9,480	9,480	-	9,480
Maintenance and Repairs - Buildings and Facilities	270	270	13,023	(12,753)
Maintenance and Repairs - Office Equipment	-	-	5,582	(5,582)
Maintenance and Repairs - Vehicle	2,300	2,300	4,290	(1,990)
NCIC/TBI/TIES	24,332	24,332	10,586	13,746
Office Supplies	5,400	5,400	9,347	(3,947)
Custodial Supplies	1,200	1,200	1,812	(612)
Postage	125	125	214	(89)
Small Equipment	4,700	4,700	1,756	2,944
Uniforms and Shirts	500	500	150	350
Utilities - Electric, Water and Sewer	5,763	5,763	7,259	(1,496)
Utilities - General Telephone and Pagers	7,900	7,900	16,352	(8,452)
Dues & Subscriptions	1,090	1,090	994	96
Training	3,500	3,500	2,810	690
Travel Expenses	2,500	2,500	1,418	1,082
Insurance	16,459	16,459	13,317	3,142
Other Charges	-	-	8,883	(8,883)
Depreciation	52,035	52,035	93,431	(41,396)
	<u>747,063</u>	<u>747,063</u>	<u>848,952</u>	<u>(101,889)</u>
Total Operating Expenses	747,063	747,063	848,952	(101,889)
Non-Operating Revenue/(Expenses)				
County Appropriations	165,000	165,000	140,000	(25,000)
Operating Fund	142,000	142,000	66,315	(75,685)
Miscellaneous Income	-	-	16,614	16,614
Interest Expense	-	-	(53,422)	(53,422)
Penalties Expense	-	-	(17,993)	(17,993)
Interest Income	-	-	237	237
	<u>307,000</u>	<u>307,000</u>	<u>151,751</u>	<u>(155,249)</u>
Total Non-Operating Revenue	307,000	307,000	151,751	(155,249)
Increase (Decrease) in Net Assets	\$ 6,120	\$ 6,120	\$ (55,999)	\$ (62,119)
Net Assets-Beginning of Period	<u>266,022</u>	<u>266,022</u>	<u>266,022</u>	
Net Assets - End of Period	<u>\$ 272,142</u>	<u>\$ 272,142</u>	<u>\$ 210,023</u>	

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FUNDING PROGRESS
June 30, 2010**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$321	\$400	\$79	80.25%	\$325	24.31%
July 01, 2007	\$241	\$297	\$56	81.14%	\$265	21.13%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore; only the two most recent valuations are presented.

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

I have audited the accompanying financial statements of the Hawkins County Emergency Communications District, a discretely presented component of Hawkins County, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the Hawkins County Emergency Communications District's basic financial statements and have issued my report thereon dated April 15, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Hawkins County Emergency Communications District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hawkins County Emergency Communications District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Hawkins County Emergency Communications District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Items 10-01 and 10-03 described in the accompanying schedule of findings and

questioned cost were identified as deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawkins County Emergency Communications District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as item 10-02.

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



David M. Ellis, CPA
April 15, 2011

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

Financial Statement Findings

Current Year Findings:

10-01 Non-Compliance:

Condition: The District has not made required payroll related tax deposits, and in some cases payroll related tax returns in a proper or timely manner.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities states that "Officials should ensure that a detailed review is made of all known compliance requirements."

Effect: Failure to deposit and/or submit required deposits/returns have resulted in a loss to the District due to interest and penalties assessed by state and federal agencies.

Recommendation: The District should take any possible steps to ensure that all required payroll related tax deposits and/or returns be submitted/filed within required due dates.

Management's Comments: Management concurs and will establish procedures to ensure proper submission of required payroll tax related deposits and returns.

10-02 Actual Expenses over Budgeted Amounts:

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

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

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

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

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

10-03 Audit Adjustments Were Required for Proper Financial Statement Presentation

Condition: At June 30, 2010, certain general ledger accounts were materially incorrect, and audit adjustments were required for the financial statements to be free of misstatements at year-end.

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010**

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

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

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

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