

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

Chattanooga, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

June 30, 2010 and 2009

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

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INTRODUCTORY INFORMATION

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF MANAGEMENT AND BOARD MEMBERS
JUNE 30, 2010**

MANAGEMENT:

John S. Stuermer	Executive director
Jeff Carney	Director of operations
Wes Floyd	Director of technical services
Jay Donnicks	Finance/office manager

BOARD MEMBERS:

Don Allen	Chairman
Richard Brown	Vice chairman
Eddie Phillips	Secretary
Daisy Madison	Treasurer
Dan Collyer	Director
Jim Hammond	Director
William Loftis	Director
Randy Parker	Director
Mark Rawlston	Director
Ted Rogers	Director
Boyd Veal	Director

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

Our discussion and analysis of Hamilton County “911” Emergency Communications District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2010. This should be read in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

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

One of the most important questions asked about an entity’s finances is “How did we do this year?” The 2010 statement of net assets and statement of revenues, expenses and changes in net assets report information in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

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

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As a result of excess expenses over revenues for the fiscal year ended June 30, 2010, the District’s net assets decreased by approximately \$2.3 million from the previous year. The District budgeted to utilize \$1.9 million from reserves for the fiscal year, of which \$1 million was for the planned and limited offset of additional salary expenses under Unified Operations and \$939,000 was for planned Capital expenditures. Additionally, the District experienced an unpredictable reduction in revenues from Emergency Telephone Service Charges of approximately \$296,000.

THE DISTRICT’S NET ASSETS

The District completed the year with net assets of \$16,358,024, which is approximately \$2.3 million less than the prior year ending net assets of \$18,719,727. Unrestricted net assets of approximately \$12 million has been designated by the Board to fund future operations and capital improvements.

Net assets and changes in net assets for the years ended June 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
NET ASSETS:		
Current and other assets	\$13,645,583	\$18,499,683
Capital assets	<u>4,214,390</u>	<u>4,850,762</u>
Total assets	17,859,973	23,350,445
Current liabilities	<u>(1,501,949)</u>	<u>(4,630,718)</u>
Net assets	<u>\$16,358,024</u>	<u>\$18,719,727</u>
Summary of net assets -		
Invested in capital assets	\$ 4,214,390	\$ 4,850,762
Unrestricted	<u>12,143,634</u>	<u>13,868,965</u>
	<u>\$16,358,024</u>	<u>\$18,719,727</u>
CHANGES IN NET ASSETS:		
Operating revenues	\$10,447,338	\$8,080,188
Operating expenses	<u>12,881,339</u>	<u>8,522,425</u>
Operating loss	(2,434,001)	(442,237)
Nonoperating revenues, net of expenses	<u>72,298</u>	<u>304,043</u>
Changes in net assets	(2,361,703)	(138,194)
NET ASSETS:		
Beginning	<u>18,719,727</u>	<u>18,857,921</u>
Ending	<u>\$16,358,024</u>	<u>\$18,719,727</u>

BUDGETARY HIGHLIGHTS

In order to fund unanticipated, changing needs and to prevent budget overruns, the budget for June 30, 2010, was amended between expense line items, as well as in total.

The line item for contingency is planned during budget preparation to cover unplanned or unusual expenses, and to fund unanticipated increases in other line items, so that the overall budget does not require an increase. Budget revisions decreased the contingency of \$10,000 to \$0. Additionally, the total expense budget was increased from an original budget of \$12,757,072 to a final budget of \$13,058,052.

The actual charges to appropriations (expenses) were approximately \$800 thousand below the final budgeted amount. Salaries and other personnel costs were under the amount budgeted by approximately \$185,000, primarily as a result of salaries and health insurance being less than anticipated; and capital outlay expense was under budget by approximately \$584,000. Other budget variances of approximately \$40,000 are not considered individually significant and, therefore, are not addressed here.

Expenses of \$12,881,339, reported on page 10, differ from the District's budgeted expenses of \$12,244,967. This difference arises because depreciation and amortization, which are expensed for generally accepted accounting purposes, are not budget items, and capital outlay, which is not expensed for generally accepted accounting purposes, is a budget line item.

Actual revenues, in total, were less than budgeted revenues by approximately \$330,000, with total operating revenues being over budget by approximately \$90,000, miscellaneous income being under budget by approximately \$150,000, and interest income being under budget by approximately \$270,000.

CAPITAL ASSETS

At June 30, 2010, the District had \$11,566,835 invested in capital assets such as telecommunications equipment, office equipment, and building improvements. This amount represents a net increase of \$368,061 for purchases of capital assets.

The District's fiscal year 2011 capital budget calls for it to spend approximately \$316,000, for capital projects, including replacement of communication consoles with ergonomic sit/stand consoles and other equipment and technology upgrades.

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

ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS

The implementation of Unified Communications was completed in January, 2009, with a full year of unified operations during the 2010 fiscal year; this move has improved operational performance of E-911 services for Hamilton County. The District has plans for a new dispatch center to accommodate operational needs and anticipated future growth.

As discussed further in Note 8, the District has radio communication agreements with the City of Chattanooga and Hamilton County, the purpose of which is to partially reimburse the City and County for the County wide 800 MHz radio system. The remaining annual cost of these agreements is \$400,000 for the year ending June 30, 2011, and \$200,000 for the year ending June 30, 2012. The completion of these agreements is expected to enable the District to absorb the majority of the additional unification costs from its projected revenue sources.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Hamilton County "911" Emergency Communications District:

We have audited the accompanying financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Hamilton County "911" Emergency Communications District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County "911" Emergency Communications District, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of Hamilton County "911" Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of operating expenses and schedule of budget to actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information relative to operations has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Johnson, Nickey & Meucham, P.C.

October 29, 2010

FINANCIAL STATEMENTS

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

	2010	2009
ASSETS:		
Cash	\$ 250,638	\$ 2,068,131
Certificates of deposit and money market accounts	12,813,431	12,659,827
Accounts receivable - telephone service charges	287,938	313,604
Account receivable - other	50,424	3,100,039
Accrued interest receivable	-	86,656
Accounts receivable for accumulated leave	243,152	271,426
Capital assets, net of accumulated depreciation and amortization	4,214,390	4,850,762
Total assets	17,859,973	23,350,445
LIABILITIES:		
Accounts payable	961,772	4,012,022
Accumulated leave	540,177	618,696
Total liabilities	1,501,949	4,630,718
NET ASSETS:		
Invested in capital assets	4,214,390	4,850,762
Unrestricted	12,143,634	13,868,965
Total net assets	\$ 16,358,024	\$ 18,719,727

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
OPERATING REVENUES:		
Emergency telephone service charges	\$ 2,999,183	\$ 3,312,862
State Emergency Communications Board -		
Shared wireless charge	778,233	794,175
Operational funding	1,250,269	918,619
Operational grants	10,000	474,239
Funding from local governments	5,409,614	2,579,358
Other income	39	935
Total operating revenues	10,447,338	8,080,188
OPERATING EXPENSES:		
Salaries and benefits	9,136,641	4,952,105
Contracted services	888,518	679,133
Supplies and materials	602,280	624,955
Other	240,708	157,607
Depreciation and amortization	1,004,433	1,099,866
Countywide 800 MHz project	1,008,759	1,008,759
Total operating expenses	12,881,339	8,522,425
OPERATING LOSS	(2,434,001)	(442,237)
NONOPERATING REVENUES (EXPENSES):		
Interest income	72,298	304,477
Loss on settlement for damaged dispatch chairs	-	(434)
	72,298	304,043
CHANGE IN NET ASSETS	(2,361,703)	(138,194)
NET ASSETS:		
Beginning	18,719,727	18,857,921
Ending	\$ 16,358,024	\$ 18,719,727

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from telephone companies	\$ 3,024,849	\$ 3,355,568
Receipts from State for shared wireless revenues and operational funding	2,492,741	1,712,794
Receipts from other local governments	7,960,816	-
Receipts from others	10,039	10,935
Payments to suppliers and others	(1,242,898)	(1,400,471)
Payments for employees	(12,691,570)	(824,702)
Payments to City and County	(1,008,759)	(1,008,759)
Net cash provided (used) by operating activities	(1,454,782)	1,845,365
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(368,061)	(685,511)
Proceeds from settlement for damaged dispatch chairs	-	30,000
Net cash used by capital and related financing activities	(368,061)	(655,511)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	158,954	300,924
Net cash provided by investing activities	158,954	300,924
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,663,889)	1,490,778
CASH AND CASH EQUIVALENTS:		
Beginning	14,727,958	13,237,180
Ending	\$ 13,064,069	\$ 14,727,958
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash	250,638	2,068,131
Certificates and money market accounts	12,813,431	12,659,827
	\$ 13,064,069	\$ 14,727,958

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

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Loss from operations	\$ (2,434,001)	\$ (442,237)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities -		
Depreciation and amortization	1,004,433	1,099,866
Net (increase) decrease in operating assets:		
Accounts receivable	3,103,555	(3,290,780)
Prepaid expenses	-	25,852
Net increase (decrease) in operating liabilities:		
Accounts payable	(3,050,250)	3,946,312
Accrued payroll and payroll taxes	-	(43,453)
Accumulated leave and related benefits	<u>(78,519)</u>	<u>549,805</u>
 Net cash provided (used) by operating activities	 <u>\$ (1,454,782)</u>	 <u>\$ 1,845,365</u>

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization -

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

Financial reporting entity -

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

Basis of accounting -

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

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

Estimates -

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

Accounts receivable -

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

Capital assets -

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

Capital assets include the "911" database and other software. Amortization is recorded over periods of 5 to 10 years, based upon the estimated service period.

Depreciation and amortization expense was \$707,641 and \$296,792, respectively, for the year ended June 30, 2010; and \$789,537 and \$310,329, respectively, for the year ended June 30, 2009.

The amount budgeted for acquisitions for the years ended June 30, 2010 and 2009, was \$952,000 and \$751,900, respectively. Actual acquisitions for the same years were \$368,051 and \$685,511, respectively.

Cash and cash equivalents -

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

(2) BUDGETARY CONTROL:

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

(3) CASH AND INVESTMENTS:

The District reports its cash and cash equivalents under GASB Statement Number 40, which is designed to improve financial reporting of deposit and investment risks.

At June 30, 2010, the District reports cash equivalents as follows -

	Weighted Average Maturity (Years)	Fair Value
Deposits with State of Tennessee		
Local Government Investment Pool	0.00	\$ 4,673,490
Money market accounts	0.00	7,147,431
Certificates of deposit	0.92	992,510
Total	0.09	\$12,813,431

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

(3) CASH AND INVESTMENTS (Continued):

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

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

At June 30, 2010, certificates of deposit and bank money market funds consist of the following -

<u>Financial Institution</u>	<u>Type of Instrument</u>	<u>Interest</u>	<u>Maturity Date</u>	<u>Amount</u>
SunTrust Bank	Certificate	0.598%	June 1, 2011	\$ 992,510
Regions Bank	Money market	Variable	NA	4,512,448
First Volunteer Bank	Money market	Variable	NA	1,050,654
First Tennessee Bank	Money market	Variable	NA	1,071,421
First Tennessee Bank	Money market	Variable	NA	512,908
				<u>\$8,139,941</u>

(4) BOARD DESIGNATED RESERVES:

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(4) BOARD DESIGNATED RESERVES (Continued):

An operational reserve has been established to provide funds for capital expansion and for operational expenses, in the event that the District needs reserved funds to enable it to carry on its operations. The assets are intended to fund future capital and operational needs, if needed, and, at June 30, 2010, consist of investments with the State of Tennessee Local Government Investment Pool in the amount of \$3,434,965, money market funds in the amount of \$7,147,431, and a certificate of deposit in the amount of \$992,510.

A risk management reserve has been established to provide for a liability plan with limited coverage for torts and other liabilities, and error and omissions of board members, employees and authorized volunteers. The assets are intended to fund risk management claims and, at June 30, 2010, consist of investments with the State of Tennessee Local Government Investment Pool in the amount of \$1,238,525.

(5) CHANGES IN CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2010, are as follows -

	<u>Beginning</u>	<u>Additions</u>	<u>Reclasses & Retirements</u>	<u>Ending</u>
Capital assets:				
Leasehold improvements	\$ 4,701,482	\$ -	\$ (124,762)	\$ 4,576,720
Furniture and fixtures	250,423	7,600	-	258,023
Office equipment	123,104	2,834	-	125,938
Communications equipment and software	6,088,453	357,627	124,762	6,570,842
Vehicles	<u>35,312</u>	<u>-</u>	<u>-</u>	<u>35,312</u>
	<u>11,198,774</u>	<u>368,061</u>	<u>-</u>	<u>11,566,835</u>
Less accumulated depreciation and amortization:				
Leasehold improvements	1,529,887	145,918	-	1,675,805
Furniture and fixtures	141,751	18,183	-	159,934
Office equipment	54,827	14,868	-	69,695
Communications equipment and software	4,604,834	821,744	-	5,426,578
Vehicles	<u>16,713</u>	<u>3,720</u>	<u>-</u>	<u>20,433</u>
	<u>6,348,012</u>	<u>1,004,433</u>	<u>-</u>	<u>7,352,445</u>
	<u>\$ 4,850,762</u>	<u>\$ (636,372)</u>	<u>\$ -</u>	<u>\$ 4,214,390</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(6) LEASED PREMISES:

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

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

(7) COMPENSATED ABSENCES:

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

As a result of unification, as discussed in Note 9, the District assumed the liability for unused, compensated absences for Hamilton County and City of Chattanooga employees who became employees of the District. When the agreements were reached, it was with the understanding that these two entities would reimburse the District as these employees used the vacation which had been earned while employees of the respective governments. The District planned to record the liability for the compensated absences, as well as the receivable from the City and County for the amount earned while they were the employer. Therefore, the amount payable to employees by the other governments is recorded as a liability. When the fiscal year 2009 financial statements were released, there was a dispute as to whether or not these benefits would be paid by

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

(7) COMPENSATED ABSENCES (Continued):

the other governments, and, based on the uncertainty of collection, the receivable was not recorded. The amount transferred from the other governments was \$475,355, and was included in salaries and benefits. Due to an oversight in computation of benefits payable, the amount was later negotiated down to \$419,829. \$271,426 due from the City has been resolved, and salaries and benefits for the 2009 year has been restated to reflect this correction.

The County's balance of \$148,403 has not been resolved as of the release of these financial statements. If the unresolved amount were recorded as a receivable, assets and net assets would increase by \$148,403.

(8) RADIO COMMUNICATION AGREEMENTS:

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

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

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

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

Commitments relative to these agreements are as follows -

For the year ending June 30, 2011		\$ 400,000
	2012	<u>200,000</u>
		<u>\$ 600,000</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(9) TRANSACTIONS WITH OTHER GOVERNMENTS:

The District incurs costs relative to personnel, utilities, and other, some of which are reimbursed by Hamilton County and the City of Chattanooga, and credited to the appropriate expense accounts. As of and for the years ended June 30, 2010 and 2009, these transactions and balances were as follows -

	2010	2009
Reimbursements:		
City of Chattanooga	\$ 128,185	\$ 128,185
Hamilton County	\$ -	\$ 448
Accounts receivable:		
City of Chattanooga	\$ 22,268	\$ 56,442

In January 2010, the District assumed the oversight responsibility for "911" calltaking and dispatching for Hamilton County, and the Cities of East Ridge, Red Bank, Collegedale, and Signal Mountain. As a result of this unification, these other local governments contribute funds to the District to offset the personnel costs of those who were formerly employed by the individual governmental entities.

As of and for the years ended June 30, 2010 and 2009, the funding and amounts receivable from these entities were as follows -

	2010	2009
Funding:		
Hamilton County	\$1,743,945	\$ 778,263
City of Chattanooga	3,112,635	1,565,629
City of East Ridge	406,652	157,567
City of Red Bank	93,006	46,000
City of Collegedale	27,027	17,500
City of Signal Mountain	26,349	14,399
	<u>\$5,409,614</u>	<u>\$2,579,358</u>
Accounts receivable:		
Hamilton County	\$ 17,368	\$ 778,263
City of Chattanooga	-	1,565,629
City of East Ridge	4,201	157,567
City of Red Bank	-	46,000
City of Collegedale	-	17,500
City of Signal Mountain	6,587	14,399
	<u>\$ 28,156</u>	<u>\$2,579,358</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(9) TRANSACTIONS WITH OTHER GOVERNMENTS (Continued):

As of June 30, 2009, accounts receivable - other also included \$464,239, due from the Tennessee Emergency Communications Board for an operational grant to reimburse for training.

(10) RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

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

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

(11) RETIREMENT PLAN:

Plan description -

Employees of Hamilton County "911" Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(11) RETIREMENT PLAN (Continued):

Plan description (continued) -

to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamilton County "911" Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the 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 <http://www.tn.gov/treasury/tcrs/PS>.

Funding policy -

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

Hamilton County "911" Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 25.13% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County "911" Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(11) RETIREMENT PLAN (Continued):

Annual pension cost -

For the year ending June 30, 2010, Hamilton County "911" Emergency Communications District's annual pension cost of \$1,077,668 to TCRS was equal to Hamilton County "911" Emergency Communications District's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hamilton County "911" Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 13 years. An actuarial valuation was performed as of July 1 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>
6/30/2010	\$1,077,668	100.00%	\$0.00
6/30/2009	\$ 316,110	100.00%	\$0.00
6/30/2008	\$ 67,654	100.00%	\$0.00

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

(11) RETIREMENT PLAN (Continued):

Funded status and funding progress -

As of July 1, 2009, the most recent actuarial valuation date, the plan was 48.71% funded. The actuarial accrued liability for benefits was \$1.42 million, and the actuarial value of assets was \$0.69 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.73 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.88 million, and the ratio of the UAAL to the covered payroll was 38.85%.

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

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liab(AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$694	\$1,424	\$731	48.71%	\$1,880	38.85%
7/1/2007	\$315	\$ 471	\$156	66.88%	\$ 183	85.25%

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

(12) LITIGATION:

The District is currently involved in certain legal actions which are being vigorously defended. It is the opinion of management and legal counsel that these proceedings will not have a material effect on the financial position of the District.

(13) SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 29, 2010, the date which this financial statement was available for issue.

(14) RESTATEMENT OF PRIOR YEAR:

As discussed in Note 7, 2009 salaries and benefits, and accounts receivable for accumulated leave, have been restated in the amount of \$271,426, to report the accumulated leave payable to employees transferred from the City of Chattanooga. Funding from local governments, and accounts receivable - other, have been restated in the amount of \$25,777, to report a decrease of \$25,777 in the 2009 funding by the local governments.

In addition to the above, certain other amounts in the prior year have been restated for comparative purposes, to conform to the current year presentation.

SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Salaries and Benefits -		
Salaries	\$ 6,222,604	\$ 3,403,837
Payroll taxes	462,660	287,178
Group insurance	1,252,033	587,127
Retirement benefits	1,184,313	395,584
Compensated absences	15,031	278,379
	9,136,641	4,952,105
 Contracted Services -		
Auditing and accounting	11,105	8,625
Administrative fees - service charges	50,600	53,335
Data processing services	2,973	600
Telecommunications consulting	72,304	19,127
Other consulting	63,504	145,117
Janitorial services	44,580	41,720
Legal services	25,956	32,374
Maintenance agreements	543,949	274,729
Office equipment rental	16,256	15,537
Vehicle fuel, maintenance, and repairs	3,513	4,791
Building maintenance and repair	44,678	75,042
Ground and maintenance	9,100	8,136
	888,518	679,133
 Supplies and Materials -		
Office supplies and postage	7,947	13,905
Custodial supplies	8,361	6,898
Communication supplies	19,107	13,246
Uniforms	13,918	38,028
Utilities	101,890	89,332
Telephone - communication	426,046	434,142
Telephone - administration	25,011	29,404
	602,280	624,955

	<u>2010</u>	<u>2009</u>
Other -		
Dues and memberships	\$ 2,421	\$ 3,569
Employee testing and exams	5,975	1,712
Insurance	85,024	28,982
Legal notices	7,223	5,141
Licenses and taxes	12,229	1,454
Public education	30,845	10,457
Seminars and workshops	8,605	5,845
Service awards and incentives	9,077	-
Training	24,090	49,627
Travel	38,191	36,899
Miscellaneous	<u>17,028</u>	<u>13,921</u>
	<u>240,708</u>	<u>157,607</u>
800 MHz project	<u>1,008,759</u>	<u>1,008,759</u>
Depreciation and amortization	<u>1,004,433</u>	<u>1,099,866</u>
	<u>\$ 12,881,339</u>	<u>\$ 8,522,425</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
REVENUES:				
Emergency telephone service charges	\$ 3,295,000	\$ 3,295,000	\$ 2,999,183	\$ (295,817)
Communications Board - Shared wireless charge	735,300	735,300	778,233	42,933
Operational funding	918,619	918,619	1,250,269	331,650
Operational grants	-	-	10,000	10,000
Funding from local governments	5,409,600	5,409,600	5,409,614	14
Interest income	340,000	340,000	72,298	(267,702)
Other income	150,500	150,500	39	(150,461)
Total revenues	<u>10,849,019</u>	<u>10,849,019</u>	<u>10,519,636</u>	<u>(329,383)</u>
EXPENSES:				
Salaries and Benefits -				
Salaries	5,923,035	6,338,535	6,222,604	115,931
Payroll taxes	444,697	466,397	462,660	3,737
Group insurance	1,313,149	1,313,149	1,252,033	61,116
Retirement benefits	1,164,652	1,188,152	1,184,313	3,839
Compensated absences	118,196	16,031	15,031	1,000
	<u>8,963,729</u>	<u>9,322,264</u>	<u>9,136,641</u>	<u>185,623</u>
Contracted Services -				
Auditing and accounting	7,500	11,150	11,105	45
Administrative fees - service charges	57,000	51,868	50,600	1,268
Data processing services	5,000	5,000	2,973	2,027
Telecommunications consulting	72,000	72,400	72,304	96
Other consulting	64,000	64,300	63,504	796
Janitorial services	55,000	45,580	44,580	1,000
Legal services	25,956	25,956	25,956	-
Maintenance agreements	551,175	551,175	543,949	7,226
Office equipment rental	16,500	16,500	16,256	244
Communications equipment rental	500	500	-	500
Office equipment repair	3,500	3,500	-	3,500
Communications equipment repair	2,500	2,500	-	2,500
Vehicle fuel, maintenance, and repairs	6,300	6,300	3,513	2,787
Building maintenance and repair	36,000	45,000	44,678	322
Grounds maintenance	10,000	10,000	9,100	900
	<u>912,931</u>	<u>911,729</u>	<u>888,518</u>	<u>23,211</u>

	Original Budget	Budget	Actual	Final Budget To Actual Variance
Supplies and Materials -				
Office supplies and postage	\$ 13,640	\$ 10,050	\$ 7,947	\$ 2,103
Custodial supplies	6,750	8,400	8,361	39
Communication supplies	17,800	19,550	19,107	443
Uniforms	10,000	13,950	13,918	32
Utilities	124,000	105,553	101,890	3,663
Telephone - communication	416,500	426,100	426,046	54
Telephone - administration	28,995	27,797	25,011	2,786
	<u>617,685</u>	<u>611,400</u>	<u>602,280</u>	<u>9,120</u>
Other -				
Dues and memberships	4,500	3,421	2,421	1,000
Employee testing and exams	4,000	6,000	5,975	25
Insurance	88,156	86,276	85,024	1,252
Legal notices	4,000	7,250	7,223	27
Licenses and fees	15,675	14,003	12,229	1,774
Public education	70,000	31,845	30,845	1,000
Seminars and workshops	8,715	8,715	8,605	110
Service awards and incentives	2,000	9,100	9,077	23
Training	48,000	25,627	24,090	1,537
Travel	44,966	41,307	38,191	3,116
Miscellaneous	14,956	18,356	17,028	1,328
	<u>304,968</u>	<u>251,900</u>	<u>240,708</u>	<u>11,192</u>
Contingency	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
800 MHz project	<u>1,008,759</u>	<u>1,008,759</u>	<u>1,008,759</u>	<u>-</u>
Capital outlay	<u>939,000</u>	<u>952,000</u>	<u>368,061</u>	<u>583,939</u>
Total expenses	<u>12,757,072</u>	<u>13,058,052</u>	<u>12,244,967</u>	<u>813,085</u>
	<u>\$ (1,908,053)</u>	<u>\$ (2,209,033)</u>	<u>\$ (1,725,331)</u>	<u>\$ 483,702</u>
Total Actual Budgeted Expenses -			\$ 12,244,967	
Capital outlay			(368,061)	
Deprecation and amortization			<u>1,004,433</u>	
Total GAAP basis expenses			<u>\$ 12,881,339</u>	

INTERNAL CONTROL AND COMPLIANCE SECTION



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

To the Board of Directors of

Hamilton County "911" Emergency Communications District:

We have audited the financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting; these are identified as finding 2010-1 in the Schedule of Findings and Responses. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton County “911” Emergency Communications District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hamilton County “911” Emergency Communications District’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the response, and, accordingly, we express no opinion on it.

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

Johnson, Niskey & Meucham, P.C.

October 29, 2010

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010 AND 2009**

CURRENT YEAR FINDINGS:

2010-1 CONTROLS OVER THE FINANCIAL REPORTING PROCESS:

Condition:

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

Criteria:

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

Effect:

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

Recommendation:

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

Views of Management:

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

Auditor Response:

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

