

**RHEA COUNTY "911"
EMERGENCY COMMUNICATIONS DISTRICT**

Financial Statements

June 30, 2010 and 2009

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Financial Statements

June 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Rhea County "911" Emergency Communications District

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

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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2011 on our consideration of Rhea County "911" Emergency Communications District internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. 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 their internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 & 5 and the Schedule of Funding Progress on page 16 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 performed for the purpose of forming an opinion on the financial statements. The information on pages 17-19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Rhea County "911" Emergency Communications District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Arnett, Kirksey, Kimsey, Sullivan & Lay

ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
Certified Public Accountants

February 11, 2011

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Roster of Management Officials and Board Members

For the Years Ended June 30, 2010 and 2009

Management Officials:

| | |
|----------------|--------------------|
| Shane Clark | Director |
| Darlene Monroe | Assistant Director |

Board Members:

| | |
|---------------------|---------------|
| Earl "Bo" Kaylor | Chairman |
| Ted Jones | Vice Chairman |
| Bob Piolatto | Treasurer |
| Billy Cranfield | Secretary |
| Tracy Taylor | Board Member |
| Sarah McDaniel | Board Member |
| Phil Dunn | Board Member |
| Billy Thedford, Jr. | Board Member |
| Sheriff Mike Neal | Board Member |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

June 30, 2010 and 2009

Management's Discussion and Analysis

June 30, 2010

The Board of Rhea County "911" Emergency Communications District (the "Board") has implemented Governmental Auditing Standards Board ("GASB") Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments, for the years ending June 30, 2010 and 2009.

Financial Highlights

- * Operating revenues increased 2% from 2009 to 2010. This small increase is a result of having the same sources of revenue and an increase in operational funding.
- * Operating expenses for 2010 are 1.4% more than 2009. This is primarily due to an increase in depreciation expense in 2010 that resulted from the addition of \$160,000 of depreciable assets.

Overview of the Financial Statements

The GASB issued Statement No. 34 in June 1999. The objective of this statement was to set standards for the financial statements issued by all state and local government entities in the United States. By setting these standards, the Statement would enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, investors and creditors. The presentation in the statements this year include the following statements and reports and are designed to meet the requirements of GASB 34.

Management Discussion and Analysis

The purpose of MD&A is to provide an objective and easily readable analysis of the Board's financial activities based on currently known facts, decisions or conditions.

Balance Sheet

Assets and liabilities are presented with a distinction made between current and long-term assets and liabilities.

Statements of Revenues, Expenses and Changes in Net Assets

The statement provides the operating results of the Board, presented by various categories of operating and non-operating revenue and expenses.

Statement of Cash Flows

Using the direct method, sources and uses of cash from operating, financing and investing activities are shown.

Notes to the Financial Statements

The footnotes are provided to explain the information in the financial statements and provide more detailed data.

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

June 30, 2010 and 2009

Overview of the Financial Statements (continued)

Financial Analysis

| | <u>2010</u> | <u>2009</u> |
|----------------------------|---------------------|---------------------|
| Current assets | \$ 864,378 | \$ 750,773 |
| Capital assets | 577,414 | 551,094 |
| Total assets | <u>\$ 1,441,792</u> | <u>\$ 1,301,867</u> |
| | | |
| Current/total liabilities | \$ 66,186 | \$ 316 |
| | | |
| Invested in capital assets | 577,414 | 551,094 |
| Unrestricted | 798,192 | 750,457 |
| Total fund equity | <u>\$ 1,375,606</u> | <u>\$ 1,301,551</u> |
| | | |
| Operating revenues | 421,446 | 411,524 |
| Operating expenses | 375,566 | 359,197 |
| Net operating income | <u>\$ 45,880</u> | <u>\$ 52,327</u> |
| | | |
| Interest income | \$ 2,175 | \$ 4,087 |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Balance Sheets

June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------------|----------------------------|
| A S S E T S | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 758,622 | \$ 628,237 |
| Investments | 84,388 | 83,925 |
| Accounts receivable | 15,818 | 17,171 |
| Prepaid expenses | 5,550 | 21,440 |
| Total Current Assets | <u>\$ 864,378</u> | <u>\$ 750,773</u> |
| CAPITAL ASSETS | | |
| Building and improvements | \$ 260,929 | \$ 260,929 |
| Furniture and fixtures | 89,125 | 88,130 |
| Office equipment | 5,108 | 5,108 |
| Communications equipment | 784,036 | 625,333 |
| Vehicles | 45,910 | 45,910 |
| Construction in Progress | 91,855 | 91,855 |
| Less accumulated depreciation | (699,549) | (566,171) |
| Net Fixed Assets | <u>\$ 577,414</u> | <u>\$ 551,094</u> |
| INTANGIBLE ASSETS | | |
| Database development | \$ 31,246 | \$ 31,246 |
| Installation cost | 36,036 | 36,036 |
| Site preparation | 4,904 | 4,904 |
| Less accumulated amortization | (72,186) | (72,186) |
| Net Intangible Assets | <u>\$ 0</u> | <u>\$ 0</u> |
| TOTAL ASSETS | <u><u>\$ 1,441,792</u></u> | <u><u>\$ 1,301,867</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 62,756 | \$ 0 |
| Compensated absences payable | 3,430 | 316 |
| Total Liabilities | <u>\$ 66,186</u> | <u>\$ 316</u> |
| NET ASSETS | | |
| Invested in capital assets | \$ 577,414 | \$ 551,094 |
| Unrestricted | 798,192 | 750,457 |
| Total fund equity | <u>\$ 1,375,606</u> | <u>\$ 1,301,551</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,441,792</u></u> | <u><u>\$ 1,301,867</u></u> |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Statements of Income, Expenses and Changes in Fund Equity

For the Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|--|-------------------|-------------------|
| OPERATING REVENUES | | |
| Emergency telephone service charge | \$ 235,153 | \$ 252,036 |
| TN Emergency Communications Board - shared wireless charge | 71,783 | 73,254 |
| TN Emergency Communications Board - operational funding | 114,480 | 86,169 |
| Miscellaneous income | 30 | 65 |
| | <u>421,446</u> | <u>411,524</u> |
| Total Revenues | \$ 421,446 | \$ 411,524 |
| OPERATING EXPENSES | | |
| Director salary | \$ 46,453 | \$ 42,160 |
| Assistant director | 33,661 | 30,369 |
| Social security | 4,748 | 4,605 |
| Medicare | 1,110 | 1,077 |
| Life insurance | 96 | 96 |
| Medical insurance | 14,075 | 13,600 |
| Retirement contributions | 6,718 | 6,480 |
| Address/mapping expenses | 1,005 | 0 |
| Audit services | 3,500 | 7,000 |
| Accounting services | 800 | 800 |
| Legal services | 7,000 | 7,000 |
| Maintenance agreements | 28,583 | 30,851 |
| Mapping/data base consulting | 12,760 | 13,325 |
| NCIC/TBI/TIES expenses | 8,000 | 6,920 |
| Consulting EMD | 1,000 | 3,000 |
| Lease/rental - office equipment | 1,765 | 2,632 |
| Maintenance and repair - communications equipment | 1,583 | 2,063 |
| Maintenance and repair - buildings and facilities | 1,249 | 1,425 |
| Maintenance and repair - office equipment | 795 | 688 |
| Maintenance and repair - vehicles | 1,193 | 659 |
| Fuel - vehicles | 2,671 | 2,754 |
| Office supplies | 596 | 942 |
| Postage | 157 | 182 |
| Small equipment purchases | 643 | 1,756 |
| Uniforms and shirts | 0 | 723 |
| Utilities - electric | 8,294 | 9,058 |
| Utilities - natural gas | 444 | 545 |
| Utilities - water/sewer | 270 | 326 |
| Utilities - general telephone | 27,747 | 27,278 |
| Utilities - cell phones and pagers | 996 | 593 |
| Bank charges | 30 | 0 |
| Board meeting expenses | 964 | 1,338 |
| Dues and memberships | 241 | 241 |
| Insurance - liability | 350 | 350 |
| Insurance - buildings and contents | 4,766 | 5,280 |
| Insurance - vehicles | 1,067 | 1,100 |
| Legal notices | 187 | 254 |

(Continued)

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT*Statement of Income, Expenses and Changes in Fund Equity (Continued)**For the Years Ended June 30, 2010 and 2009*

| OPERATING EXPENSES - (Continued) | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Licenses & Fees | \$ 25 | \$ 1,224 |
| Premiums on surety bonds | 300 | 600 |
| Training expenses | 12,273 | 10,520 |
| Travel Expenses | 549 | 0 |
| Internet charges | 2,889 | 2,379 |
| Weather communication | 635 | 270 |
| Depreciation expense | 125,511 | 114,540 |
| Amortization expense | 7,867 | 2,194 |
| Total Operating Expenses | <u>\$ 375,566</u> | <u>\$ 359,197</u> |
| Operating Income | <u>\$ 45,880</u> | <u>\$ 52,327</u> |
| OTHER INCOME | | |
| Interest income | \$ 2,175 | \$ 4,087 |
| TN Emergency Communications Board - grants and reimb. | 26,000 | 89,525 |
| Total Other Income | <u>\$ 28,175</u> | <u>\$ 93,612</u> |
| NET INCOME | \$ 74,055 | \$ 145,939 |
| BEGINNING FUND EQUITY | <u>1,301,551</u> | <u>1,155,612</u> |
| ENDING FUND EQUITY | <u>\$ 1,375,606</u> | <u>\$ 1,301,551</u> |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Statements of Cash Flow

For the Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Receipts from line fees | \$ 422,799 | \$ 413,421 |
| Payments to suppliers for goods and services | (56,681) | (151,310) |
| Payments to employees for services | <u>(103,747)</u> | <u>(99,558)</u> |
| Net cash provided by operating activities | <u>\$ 262,371</u> | <u>\$ 162,553</u> |
| | | |
| Cash flows from noncapital financing activities: | | |
| Grants and state reimbursements | <u>\$ 26,000</u> | <u>\$ 89,525</u> |
| Net cash provided by noncapital financing activities | <u>\$ 26,000</u> | <u>\$ 89,525</u> |
| | | |
| Cash flows from capital and related financing activities: | | |
| Purchase of assets | <u>\$ (159,698)</u> | <u>\$ (302,857)</u> |
| Net cash used in capital and related financing activities | <u>\$ (159,698)</u> | <u>\$ (302,857)</u> |
| | | |
| Cash flows from investing activities: | | |
| Interest received | \$ 2,175 | \$ 4,087 |
| Increase of investments | <u>(463)</u> | <u>(1,369)</u> |
| Net cash provided by investing activities | <u>\$ 1,712</u> | <u>\$ 2,718</u> |
| | | |
| Net increase (decrease) in cash and cash equivalents | <u>\$ 130,385</u> | <u>\$ (48,061)</u> |
| Cash and cash equivalents, beginning of year | <u>628,237</u> | <u>676,298</u> |
| | | |
| Cash and cash equivalents, end of year | <u><u>\$ 758,622</u></u> | <u><u>\$ 628,237</u></u> |
| | | |
| Reconciliation of operating revenues to net cash provided by operating activities: | | |
| Operating Income | \$ 45,880 | \$ 52,327 |
| Adjustments to reconcile new operating revenues to net cash provided by operating activities: | | |
| Depreciation and amortization | 133,378 | 116,734 |
| Changes on operating assets and liabilities: | | |
| Accounts Payable | 62,756 | 0 |
| Accounts receivable | 1,353 | 1,897 |
| Prepaid expenses | 15,890 | (7,234) |
| Compensated absences payable | <u>3,114</u> | <u>(1,171)</u> |
| Net cash provided by operating activities | <u><u>\$ 262,371</u></u> | <u><u>\$ 162,553</u></u> |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rhea County "911" Emergency Communications District was established on September 13, 1990, for the purpose of providing an enhanced level of "911" service for Rhea County citizens by acquiring certain types of equipment that enable emergency service providers to respond more rapidly and more effectively due to increased speed in the transmittal of critical information and improved reliability of address and information. The District is a component unit of Rhea County which provides employees and operation facilities in exchange for impact payments and appoints all board members. The County has financial responsibility through the approval of the District's budget and the ability to modify fee rates.

Basis of Accounting

The Rhea County "911" Emergency Communications District is an agency of Rhea County, Tennessee. As such, the district is subject to standards prescribed by the Governmental Accounting Standards Board (GASB) which require that the accrual method of accounting be used for governmental units which recover cost of providing goods or services and are operating in a manner similar to private business enterprises. For this reason the accrual method of accounting is utilized by the District. As a proprietary fund the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fixed Assets

Expenditures for fixed assets are recorded at historical cost. Depreciation is being computed for furniture and equipment using the 200% double declining balance method. Building and fencing are depreciated using the straight-line method. The depreciation periods are as follows:

| | |
|-------------------------|-------------|
| Vehicles | 5 years |
| Furniture and equipment | 5-7 years |
| Building | 10-40 years |
| Fence | 15 years |

Intangible Assets

Amortization of the cost of intangible assets commenced on completion of each project and when they were integrated into the operational Enhanced "911" equipment. The amortization period for the intangible asset cost is over the term of years as follows:

| <u>Description</u> | <u>Cost</u> | <u>Period</u> |
|----------------------|-------------|---------------|
| Database Development | \$ 31,246 | 15 years |
| Installation Cost | 36,036 | 5 years |
| Site Preparation | 4,904 | 10 years |

Investments

Investments are stated at cost which approximates market. State statutes authorize the district to invest in obligations of the U.S. treasury, commercial paper, corporate bonds, repurchase agreements, and pooled investment funds.

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Net Assets

Net assets are displayed in three components:

- a. Invested in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions enabling legislation.
- c. Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or invested in capital assets.

Note 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of three months or less, primarily with local financial institutions. At year end, all deposits were covered by federal depository insurance.

Note 3 - DEPOSITS AND INVESTMENTS

The District's investments include:

| | Carrying Amount | Market Value |
|-------------------------------------|--------------------|------------------|
| Community National Bank Growth Fund | \$ 22,886 | \$ 22,886 |
| Local Government Investment Pool | 61,502 | 61,502 |
| Total Investments | <u>\$ 84,388</u> | <u>\$ 84,388</u> |

At year end, all deposits of the Rhea County "911" Emergency Communications District were covered by federal depository insurance or by collateral held by the State of Tennessee Collateral Pool for Public Deposits.

Investments in the State of Tennessee Local Government Investment Pool are valued based upon the value of pool shares. The responsibility for conducting the State's investment program resides with the State Treasurer pursuant to Tennessee Code Annotated, Section 9-4-602 and shall be exercised in accordance with the investment policy and resolutions of the State Funding Board.

Interest rate risk - In accordance with its investment policy, the Rhea County "911" Emergency Communications District manages its exposure to declines in market values by limiting the amount invested in long-term investments and bidding the amount of interest earned on savings accounts with area banks.

Credit risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs).

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Note 4 - CAPITAL AND INTANGIBLE ASSETS

The following is a schedule of Changes to Capital and Intangible Assets for the year ending 6/30/2009:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|--|----------------------|---------------------|-------------|---------------------|
| Capital and intangible assets, being depreciated: | | | | |
| Buildings & improvements | \$ 245,244 | \$ 15,685 | \$ 0 | \$ 260,929 |
| Furniture and fixtures | 79,763 | 8,367 | 0 | 88,130 |
| Office equipment | 3,909 | 1,199 | 0 | 5,108 |
| Communications equipment | 439,582 | 185,751 | 0 | 625,333 |
| Vehicles | 45,910 | 0 | 0 | 45,910 |
| Construction in Progress | 0 | 91,855 | 0 | 91,855 |
| Data base development | 31,246 | 0 | 0 | 31,246 |
| Installation cost | 36,036 | 0 | 0 | 36,036 |
| Site preparation | 4,904 | 0 | 0 | 4,904 |
| Total capital and intangible assets being depreciated | \$ 886,594 | \$ 302,857 | \$ 0 | \$ 1,189,451 |
| Less accumulated depreciation for: | | | | |
| Buildings & improvements | \$ (44,952) | \$ (9,207) | \$ 0 | \$ (54,159) |
| Furniture and fixtures | (13,255) | (20,251) | 0 | (33,506) |
| Office equipment | (575) | (1,192) | 0 | (1,767) |
| Communications equipment | (360,295) | (78,964) | 0 | (439,259) |
| Vehicles | (30,359) | (7,121) | 0 | (37,480) |
| Data base development | (31,246) | 0 | 0 | (31,246) |
| Installation cost | (36,036) | 0 | 0 | (36,036) |
| Site preparation | (4,904) | 0 | 0 | (4,904) |
| Total accumulated depreciation | \$ (521,622) | \$ (116,735) | \$ 0 | \$ (638,357) |
| Total capital and intangible assets being depreciated | \$ 364,972 | \$ 186,122 | \$ 0 | \$ 551,094 |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Note 4 - CAPITAL AND INTANGIBLE ASSETS - (Continued)

The following is a schedule of Changes to Capital and Intangible Assets for the year ending 6/30/2010:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|----------------------|---------------------|-------------|---------------------|
| Capital and intangible assets, being depreciated: | | | | |
| Buildings & improvements | \$ 260,929 | \$ 0 | \$ 0 | \$ 260,929 |
| Furniture and fixtures | 88,130 | 995 | 0 | 89,125 |
| Office equipment | 5,108 | 0 | 0 | 5,108 |
| Communications equipment | 625,333 | 158,703 | 0 | 784,036 |
| Vehicles | 45,910 | 0 | 0 | 45,910 |
| Construction in Progress | 91,855 | 0 | 0 | 91,855 |
| Data base development | 31,246 | 0 | 0 | 31,246 |
| Installation cost | 36,036 | 0 | 0 | 36,036 |
| Site preparation | 4,904 | 0 | 0 | 4,904 |
| Total capital and intangible assets being depreciated | <u>\$ 1,189,451</u> | <u>\$ 159,698</u> | <u>\$ 0</u> | <u>\$ 1,349,149</u> |
| Less accumulated depreciation for: | | | | |
| Buildings & improvements | \$ (54,159) | \$ (9,293) | \$ 0 | \$ (63,452) |
| Furniture and fixtures | (33,506) | (15,818) | 0 | (49,324) |
| Office equipment | (1,767) | (1,064) | 0 | (2,831) |
| Communications equipment | (439,259) | (103,831) | 0 | (543,090) |
| Vehicles | (37,480) | (3,372) | 0 | (40,852) |
| Data base development | (31,246) | 0 | 0 | (31,246) |
| Installation cost | (36,036) | 0 | 0 | (36,036) |
| Site preparation | (4,904) | 0 | 0 | (4,904) |
| Total accumulated depreciation | <u>\$ (638,357)</u> | <u>\$ (133,378)</u> | <u>\$ 0</u> | <u>\$ (771,735)</u> |
| Total capital and intangible assets being depreciated | <u>\$ 551,094</u> | <u>\$ 26,320</u> | <u>\$ 0</u> | <u>\$ 577,414</u> |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Note 5 - RETIREMENT PLAN

Plan Description

Employees of Rhea County "911" Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 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 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 Rhea 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

Rhea County "911" Emergency Communications District requires employees to contribute 5.0 percent of earnable compensation.

Rhea 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 8.38% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Rhea County "911" Emergency Communications District is established and may be amended by the TCRS Board of Trustees. The Board's contributions to the PSPP for the year ending June 30, 2010, 2009, and 2008, were \$6,718, \$6,480, and \$6,403, respectively, and were equal to the required contribution.

Annual Pension Cost

For the year ending June 30, 2010, Rhea County "911" Emergency Communications District's annual pension cost of \$6,718 to TCRS was equal to Rhea 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. Rhea County "911" Emergency Communications District's Fund'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.

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2010 and 2009

Note 5 - RETIREMENT PLAN - (continued)

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 | \$6,718 | 100.00% | \$0.00 |
| June 30, 2009 | \$6,480 | 100.00% | \$0.00 |
| June 30, 2008 | \$6,403 | 100.00% | \$0.00 |

Note 6 - COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident, and environmental. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 7 - USE OF ESTIMATES

Management uses estimates and assumptions in preparing 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.

Note 8 - COMPENSATED ABSENCES

The director and assistant director of Emergency Communications District are entitled to paid vacation depending on length of service and other factors. In the event of termination, the director will be paid for accumulated vacation leave. Total earned but unused vacation pay at June 30, 2010 is \$3,430.

Note 9 - RECLASSIFICATIONS

For comparability purposes, certain prior year accounts have been reclassified.

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Required Supplementary Information

For the Years Ended June 30, 2010 and 2009

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS FOR THE TCRS PLAN

The required supplementary information is not computed individually for Rhea County "911" Emergency Communications District and the Board. The table below presents required supplementary information for the Rhea County General Fund as a whole.

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|--------------------------------------|--|-----------------------------------|----------------------|-----------------------|---|
| July 1, 2009 | \$30,045 | \$35,506 | \$5,461 | 84.62% | \$14,653 | 37.27% |
| July 1, 2007 | \$27,416 | \$31,798 | \$4,382 | 86.22% | \$13,595 | 32.23% |
| July 1, 2005 | \$22,389 | \$24,942 | \$2,553 | 89.76% | \$12,174 | 20.97% |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Income and Expenses Compared to Budget

For the Year Ended June 30, 2010

| | Actual | Budget | Variance Favorable (Unfavorable) |
|--|-------------------|-------------------|--|
| OPERATING REVENUES | | | |
| Emergency telephone service charge | \$ 235,153 | \$ 256,500 | \$ (21,347) |
| TN Emergency Communications Board - shared wireless charge | 71,783 | 62,400 | 9,383 |
| TN Emergency Communications Board - operational funding | 114,480 | 86,169 | 28,311 |
| Miscellaneous income | 30 | 30 | 0 |
| Total Revenues | \$ 421,446 | \$ 405,099 | \$ 16,347 |
| OPERATING EXPENSES | | | |
| Director salary | \$ 46,453 | \$ 45,000 | \$ (1,453) |
| Assistant director | 33,661 | 32,000 | (1,661) |
| Social security | 4,748 | 4,774 | 26 |
| Medicare | 1,110 | 1,117 | 7 |
| Life insurance | 96 | 102 | 6 |
| Medical insurance | 14,075 | 14,075 | 0 |
| Retirement contributions | 6,718 | 6,718 | 0 |
| Address/mapping expenses | 1,005 | 2,010 | 1,005 |
| Audit services | 3,500 | 4,000 | 500 |
| Accounting services | 800 | 800 | 0 |
| Legal services | 7,000 | 7,000 | 0 |
| Maintenance agreements | 28,583 | 40,000 | 11,417 |
| Mapping/data base consulting | 12,760 | 15,000 | 2,240 |
| NCIC/TBI/TIES expenses | 8,000 | 8,000 | 0 |
| Consulting EMD | 1,000 | 1,000 | 0 |
| Lease/rental - office equipment | 1,765 | 3,000 | 1,235 |
| Maintenance and repair - communications equipment | 1,583 | 2,500 | 917 |
| Maintenance and repair - buildings and facilities | 1,249 | 1,500 | 251 |
| Maintenance and repair - office equipment | 795 | 1,200 | 405 |
| Maintenance and repair - vehicles | 1,193 | 1,200 | 7 |
| Fuel - vehicles | 2,671 | 2,900 | 229 |
| Office supplies | 596 | 1,500 | 904 |
| Postage | 157 | 200 | 43 |
| Small equipment purchases | 643 | 3,000 | 2,357 |
| Uniforms and shirts | 0 | 1,500 | 1,500 |
| Utilities - electric | 8,294 | 10,400 | 2,106 |
| Utilities - natural gas | 444 | 650 | 206 |
| Utilities - water/sewer | 270 | 400 | 130 |
| Utilities - general telephone | 27,747 | 29,821 | 2,074 |
| Utilities - cell phones and pagers | 996 | 1,100 | 104 |
| Bank charges | 30 | 0 | (30) |
| Board meeting expenses | 964 | 1,700 | 736 |
| Dues and memberships | 241 | 350 | 109 |
| Insurance - liability | 350 | 350 | 0 |
| Insurance - buildings and contents | 4,766 | 5,500 | 734 |
| Insurance - vehicles | 1,067 | 1,200 | 133 |
| Legal notices | 187 | 260 | 73 |

(Continued)

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Income and Expenses Compared to Budget

For the Year Ended June 30, 2010

| | Actual | Budget | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|---|
| OPERATING EXPENSES - (Continued) | | | |
| Licenses & Fees | \$ 25 | \$ 1,000 | \$ 975 |
| Premiums on surety bonds | 300 | 400 | 100 |
| Training expenses | 12,273 | 14,000 | 1,727 |
| Travel expenses | 549 | 549 | 0 |
| Internet charges | 2,889 | 2,889 | 0 |
| Weather communication | 635 | 675 | 40 |
| Depreciation expense | 125,511 | 105,612 | (19,899) |
| Amortization expense | 7,867 | 0 | (7,867) |
| Total Operating Expenses | <u>\$ 375,566</u> | <u>\$ 376,952</u> | <u>\$ 1,386</u> |
| Operating Income | <u>\$ 45,880</u> | <u>\$ 28,147</u> | <u>\$ 17,733</u> |
| OTHER INCOME | | | |
| Interest income | \$ 2,175 | \$ 4,000 | \$ (1,825) |
| TN Emergency Communications Board - grants and reimb. | 26,000 | 26,000 | 0 |
| Total Other Income | <u>\$ 28,175</u> | <u>\$ 30,000</u> | <u>\$ (1,825)</u> |
| NET INCOME | <u>\$ 74,055</u> | <u>\$ 58,147</u> | <u>\$ 15,908</u> |

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Grant Activity

For the Years Ended June 30, 2010 and 2009

| State Grant Number | Program | Grant | Amount |
|-----------------------------------|--|--------------------------|-------------------------|
| Z-03-016953 | State of Tennessee, Department of Commerce and Insurance | GIS Maintenance Grant | \$ <u>10,000</u> |
| Total | | | \$ <u><u>10,000</u></u> |

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NATIONAL ASSOCIATION OF
CERTIFIED VALUATION ANALYSTS

**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**

Board of Directors
Rhea County "911" Emergency Communications District
Evansville, Tennessee

We have audited the financial statements of Rhea County "911" Emergency Communications District as of and for the year ended June 30, 2010, and have issued our report thereon dated February 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rhea 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhea County "911" Emergency Communications District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rhea County "911" 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 and correct 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 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rhea 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 and questioned costs as item 2010-1.

The Rhea County "911" Emergency Communications District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Rhea County "911" Emergency Communications District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and the use of the Board of Directors and management of Rhea County "911" Emergency Communications District and the Department of Audit of the State of Tennessee Division of County Audit and is not intended to be and should not be used by anyone other than these specified parties.

Arnett, Kirksey, Kimsey, Sullivan & Lay
ARNETT, KIRKSEY, KIMSEY, SULLIVAN & LAY, PLLC
Certified Public Accountants

February 11, 2011

RHEA COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT

*Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010*

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Rhea County "911" Emergency Communications District.
2. One instance of noncompliance was identified during the audit of the financial statements.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONCOMPLIANCE 2010-1

FINDING: Budget Violations

The budgetary financial statement reflected several amounts that exceeded the adopted budget. This was a violation of Tennessee Code Annotated, Section 7-86-120. All expenses should be at or below budgetary amounts for that fiscal year.

RECOMMENDATION:

Management should either review the budget more frequently or monitor individual accounts more closely.

MANAGEMENT COMMENTS:

Steps will be taken to ensure that all expense amounts are within the fiscal year adopted budget amounts. Management states that they will continue to review the budget at all Board meetings to help insure the budget stays within actual revenues and expenses.

C. SUMMARY OF PRIOR AUDIT FINDINGS

1. The budgetary financial statement reflected several amounts that exceeded the adopted budget, reported again this year as NONCOMPLIANCE 2010-1.