BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

David Sturtevant,
Contract Audit Review Manager
Division of County Audit
Comptroller of the Treasury
State of Tennessee

Mr. Sturtevant,

In accordance with instruction 5 of the Contract to Audit, we are writing this letter to communicate that the accompanying report is the official Audit Report for Sullivan County Enhanced 9-1-1 Emergency Communications District for the year ended June 30, 2010.

Very truly yours,

BROWN, EDWARDS & COMPANY, L.L.P.

Richard L. Linnen, Partner

Bristol, Virginia
November 16, 2010

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

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SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF DIRECTORS AND OFFICERS
June 30, 2010

Board of Directors:

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

Officers:

Ike D. Lowry, Director

FINANCIAL SECTION

Financial Section contains the
Basic Financial Statements

BROWN, EDWARDS & COMPANY, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District"), a component unit of Sullivan County, Tennessee, as of and for the year ended June 30, 2010 as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Enhanced 9-1-1 Emergency Communications District as of June 30, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis on pages 8 through 10 and the required supplementary information on page 24 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 audit was conducted for the purpose of forming an opinion on the basic financial statements of the District, taken as a whole. The accompanying information listed as supplementary schedules in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
November 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District"), we offer readers of our financial statements this narrative and overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. It should be read in connection with the District's financial statements and related notes included in this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $1,127,318 (net assets). Of this amount, $584,825 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- The District's net assets decreased by $93,246, which was attributable to the net loss of the District for the year.
- The District has accounts payable and accrued expenses of $138,202 at June 30, 2010.
- The District entered into a capital lease agreement during the previous year. The remaining obligation, of which the entire amount is due within one year, is $130,000.

Overview of the Financial Statements

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

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

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

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

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

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

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

(Continued)

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by $1,127,318 at the close of the most recent fiscal year.

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

	Net Assets	
	2010	2009
Current assets	$ 724,427	$ 862,035
Capital assets	672,493	686,376
Total assets	$ 1,396,920	$ 1,548,411
Current liabilities	$ 269,602	$ 197,847
Long-term liabilities outstanding	-	130,000
Total liabilities	$ 269,602	$ 327,847
Net assets:		
Investment in capital assets	$ 542,493	$ 458,876
Unrestricted	584,825	761,688
Total net assets	$ 1,127,318	$ 1,220,564

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

(Continued)

	Changes in Net Assets	
	2010	2009
Revenues		
Surcharge revenue	$ 783,014	$ 882,702
Other revenue	271,148	244,303
Total revenues	$ 1,054,162	$ 1,127,005
Expenses		
Salaries and wages	$ 216,405	$ 220,960
Employee benefits	90,343	85,799
Contracted services	434,469	409,981
Supplies and materials	143,918	136,146
Other charges	126,735	125,078
Depreciation	135,538	104,780
Total expenses	$ 1,147,408	$ 1,082,744
Increase (decrease) in net assets	$ (93,246)	$ 44,261
Net assets – July 1	1,220,564	1,176,303
Net assets – June 30	$ 1,127,318	$ 1,220,564

The District's net assets decreased by $93,246 during the current fiscal year. Surcharge revenue decreased by $99,688, or by 11.29% due to a decrease in land line usage and wireless revenue. Other revenue increased by $26,845, due to increased monies received from the state of Tennessee for operational funding. Expenses increased by $64,664, largely due to depreciation expense due to the addition of several capital assets and increases in maintenance costs.

Requests for Information

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

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF NET ASSETS
June 30, 2010

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents (Note 2)	$ 599,610
Accounts receivable - surcharge	84,820
Prepaid expenses	39,997
Total current assets	724,427
CAPITAL ASSETS, net (Note 3)	672,493
Total assets	1,396,920
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	29,346
Accrued expenses (Note 4)	108,856
Deferred revenue	1,400
Capital leases, current (Note 6)	130,000
Total liabilities	269,602
NET ASSETS	
Invested in capital assets, net of related debt	542,493
Unrestricted	584,825
Total net assets	$ 1,127,318

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

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended June 30, 2010

OPERATING REVENUES	
Emergency telephone service charge	$ 572,095
State Emergency Comminications Board - shared wireless charge	210,919
State Emergency Communications Board - operational funding	221,211
Other	13,196
Total operating revenues	1,017,421
OPERATING EXPENSES	
Salaries and wages	216,405
Employee benefits	90,343
Contracted services	434,469
Supplies and materials	143,918
Other charges	116,497
Depreciation	135,538
Total operating expenses	1,137,170
Operating loss	(119,749)
NONOPERATING REVENUE (EXPENSE)	
State Emergency Communications Board grants	30,000
Interest income	6,741
Interest expense	(10,238)
Total nonoperating revenues	26,503
Change in net assets	(93,246)
NET ASSETS AT JULY 1	1,220,564
NET ASSETS AT JUNE 30	$ 1,127,318

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

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from 911 surcharge collections	$ 1,084,843
Cash received from lessee	14,350
Cash received from other sources	246
Cash payments to Sullivan County per contract	(273,936)
Cash payments to suppliers for goods and services	(392,196)
Cash payments to employees for services and related benefits and taxes	(293,039)
Net cash provided by operating activities	140,268
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from State ECB grants	57,119
Purchase of capital assets	(121,655)
Principal payments on capital lease obligation	(97,500)
Interest payments on capital lease obligation	(10,238)
Net cash used in capital and related financing activities	(172,274)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	6,741
Net cash provided by investing activities	6,741
Net decrease in cash and cash equivalents	(25,265)
CASH AT BEGINNING OF YEAR	624,875
CASH AT END OF YEAR	$ 599,610

(Continued)

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

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (119,749)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	135,538
Amortization of prepaid lease expense	23,200
(Increases) decreases in:	
Accounts receivable - surcharge	80,618
Prepaid expenses	(18,594)
Increases (decreases) in:	
Accounts payable	24,146
Accrued expenses	13,709
Deferred revenue	1,400
Total adjustments	260,017
Net cash provided by operating activities	$ 140,268

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

Note 1. Summary of Significant Accounting Policies

Organization

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

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

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

Measurement focus and basis of accounting

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

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

1. Formal budgetary integration is employed throughout the year as a management control device.

2. Budgets are adopted on a modified cash basis. A reconciliation of the budgetary data to the accrual basis financial statements is included with the accompanying financial statements.

3. All budgetary data presented in the accompanying financial statements is the final approved revised data.

4. Budget items can only be revised upon approval of the Board of Directors.

Cash and Cash Equivalents

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

Surcharge Revenue

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

Depreciation

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

Estimates

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

Note 1. Summary of Significant Accounting Policies (Continued)

Net Assets

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

Note 2. Cash and Cash Equivalents

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

All of the District's cash and cash equivalents were deposited with financial institutions at June 30, 2010. All deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits were fully collateralized by the Tennessee Bank Collateral Pool.

Note 3. Capital Assets

Capital asset activity for the year was as follows:

	Beginning July 1	Increases	Decreases	Balance June 30
Capital assets, not being depreciated				
Land	$ 123,393	$ -	$ -	$ 123,393
Capital assets, being depreciated				
Automobiles	84,110	-	-	84,110
Office and training equipment	263,057	17,299	517	279,839
Machinery and equipment	184,823	4,870	6,905	182,788
Other equipment	9,992	-	1,635	8,357
Furniture and fixtures	34,261	12,099	-	46,360
Buildings	519,957	87,387	-	607,344
Total capital assets, being depreciated	1,096,200	121,655	9,057	1,208,798

Note 3. Capital Assets (Continued)

	Beginning July 1	Increases	Decreases	Balance June 30
Less accumulated depreciation for				
Automobiles	$ (56,112)	$ (13,833)	$ -	$ (69,945)
Office and training equipment	(158,732)	(45,548)	(517)	(203,763)
Machinery and equipment	(119,884)	(33,274)	(6,905)	(146,253)
Other equipment	(9,468)	(157)	(1,635)	(7,990)
Furniture and fixtures	(12,917)	(6,410)	-	(19,327)
Buildings	(176,104)	(36,316)	-	(212,420)
Total accumulated depreciation	(533,217)	(135,538)	(9,057)	(659,698)
Total capital assets, depreciated, net	562,983	(13,883)	-	549,100
Total capital assets, net	$ 686,376	$ (13,883)	$ -	$ 672,493

Depreciation expense for the fiscal year ended June 30, 2010 was $135,538.

Note 4. Accrued Expenses

Accrued expenses consist of the following:

Accrued salaries and related expenses	$ 7,396
Accrued vacations	101,460
Totals	$ 108,856

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

Note 5. Tennessee Consolidated Retirement System

A. Plan Description

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

Note 5. Tennessee Consolidated Retirement System (Continued)

A. Plan Description (Continued)

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

B. Funding Policy

Sullivan County Enhanced 9-1-1 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.

Sullivan County Enhanced 9-1-1 Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 19.40% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sullivan County Enhanced 9-1-1 Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

C. Annual Pension Cost

For the year ending June 30, 2010, Sullivan County Enhanced 9-1-1 Emergency Communication District's annual pension cost of $38,572 to TCRS was equal to Sullivan County Enhanced 9-1-1 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

Note 5. Tennessee Consolidated Retirement System (Continued)

C. Annual Pension Cost (Continued)

was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Sullivan County Enhanced 9-1-1 Emergency Communication District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 11 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$38,572	100.00%	$ -
6/30/09	$36,433	100.00%	$ -
6/30/08	$31,794	100.00%	$ -

D. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 87.56% percent funded. The actuarial accrued liability for benefits was $0.43 million, and the actuarial value of assets was $0.38 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.14 million, and the ratio of the UAAL to the covered payroll was 39.94% percent.

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

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

(Dollars amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entity Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2009	$379	$433	$54	87.56%	$135	39.94%
7/1/2007	$312	$401	$89	77.81%	$117	76.07%

Note 6. Leases

Capital Leases

The District entered into a lease agreement on April 30, 2009 to purchase a building located at 1586 Highway 394, Blountville, Tennessee, that is classified as a capital lease agreement. The cost of the land and the building are included in the balance sheet as property, plant, and equipment totaling $325,000 at June 30, 2010. Accumulated depreciation of the building at June 30, 2010, was $18,715.

Future minimum lease payments are as follows:

Year Ending	
2011	$ 130,000

Operating Leases

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

Minimum future annual lease payments are as follows:

Year Ending	
2011	$ 25,200

Total lease/rent expense for the year was $61,204.

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

Note 7. Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage for each of the above risks of loss. Workman's compensation insurance is retrospectively rated. Premium variance is not considered material. Management believes the coverage obtained through its commercial insurance policies is adequate to preclude any significant uninsured risk exposure to the District. There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage since the inception of the District. Claims experienced in the fiscal year 2010 are considered by management to be insignificant.

Note 8. Inter-local Cooperation Agreement

The Sullivan County, Tennessee, County Commission approved the Inter-local Cooperation Agreement Providing for Emergency Communications Service between Sullivan County, Tennessee, (the "County"), the Sullivan County Sheriff, (the "Sheriff"), and Sullivan County Enhanced 9-1-1 Emergency Communications District, (the "District"). Under terms of the agreement, the County and the Sheriff shall provide the physical facilities and employees necessary to operate and maintain an emergency communication service for the District for the period beginning July 1, 2009 and ending on June 30, 2010. The County, by and through the Sheriff, shall provide a public safety answering point and central dispatch and qualified employees to operate an emergency communications service for the District. The agreement calls for the Sheriff to hire six District employees to become "at-will" employees of the County. In return for the facilities and the employees for the one-year period specified, the District agrees to pay to the County $273,936 in twelve equal monthly installments. The agreement calls for annual renewal upon approval by the County, the Sheriff and the District. The agreement was renewed under the same terms for the subsequent fiscal year. For the year ended June 30, 2010, there were no amounts owed to the Sheriff's Department.

Note 9. Subsequent Events

Management evaluated all activity of the District through November 4, 2010 (the issue date of the Financial Statements) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2010

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$379	$433	$54	87.56%	$135	39.94%
July 1, 2007	$312	$401	$89	77.81%	$117	76.07%

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

SUPPLEMENTARY SCHEDULES

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES - DETAIL
For the Year Ended June 30, 2010

CONTRACTED SERVICES		
Addressing/mapping expense	$	1,220
Audit services		6,250
Accounting services		980
Administrative fees - service charge		25,108
Contracts with government agencies (Note 8)		273,936
Lease/rental - communications equipment		58,000
Lease/rental - office equipment		2,589
Lease/rental - vehicles		615
Maintenance and repairs - communications equipment		46,780
Maintenance and repairs - buildings and facilities		14,921
Maintenance and repairs - office equipment		1,345
Maintenance and repairs - vehicles		2,725
	$	434,469
SUPPLIES AND MATERIALS		
Bank service charges	$	78
Internet		867
Office supplies		5,793
Custodial supplies		454
Data processing supplies		600
Small equipment purchase		1,658
Postage		532
Uniforms & shirts		3,683
Utilities - electric		9,428
Utilities - gas		1,682
Utilities - water		626
Utilities - general telephone		98,875
Utilities - cell phones and pagers		19,642
	$	143,918
OTHER CHARGES		
Dues and memberships	$	2,153
Board meeting		1,668
Fuel - vehicles		6,539
Legal notices		748
Licenses and permits		110
Insurance - workers compensation		626
Insurance - buildings and contents		8,159
Insurance - liability		3,574
Insurance - vehicles		3,459
Pest control		310
Premiums on surety bonds		6,456
Public education		18,276
Service awards		3,196
Training expenses		18,095
Travel expenses		35,165
Miscellaneous		7,963
	$	116,497

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget
INCOME				
Emergency phone service charges	$ 583,307	$ 583,307	$ 579,710	$ (3,597)
SECB shared wireless charge	256,201	256,201	254,485	(1,716)
TECB operational funding	220,319	220,319	250,648	30,329
Emergency/Non-emergency calls	150	150	246	96
Interest income	750	750	6,741	5,991
ST ECB grants	28,000	28,000	57,119	29,119
Rental income	18,600	18,600	14,350	(4,250)
Transfers from CD's/Interest checking	-	61,000	-	(61,000)
Total income	1,107,327	1,168,327	1,163,299	(5,028)
EXPENSES				
Salaries & wages	200,960	205,460	202,847	2,613
Employee benefits	101,565	99,665	90,192	9,473
Contracted services	374,500	352,750	345,164	7,586
Pest control	-	310	310	-
Communications equipment lease	40,000	34,800	29,000	5,800
Office equipment rental/lease	3,500	3,500	2,589	911
Vehicles lease/rentals	2,000	1,000	615	385
Maint. communications equip. & software	5,000	10,000	9,331	669
Maint. buildings & facilities	7,500	18,000	14,838	3,162
Maint. office equip.	3,000	3,000	1,345	1,655
Maint. vehicles	4,000	4,000	2,801	1,199
Fuel - vehicles	10,000	10,000	6,388	3,612
Supplies & materials	19,750	18,220	12,096	6,124
Electric utility	6,500	10,000	8,784	1,216
Gas utility	1,360	2,000	1,638	362
Water utility	200	700	542	158
General telephone	91,000	99,000	82,156	16,844
Cell phone & pagers	11,650	20,000	18,614	1,386
Workers compensation insurance	1,000	1,000	851	149
Liability insurance	-	3,574	3,574	-
Buildings/contents insurance	17,500	8,500	8,159	341
Vehicles insurance	3,500	3,500	3,459	41
Legal notices	2,000	2,000	748	1,252
Licenses and fees	500	500	110	390
Premiums on surety bonds	5,100	10,075	10,075	-
Public education	12,000	19,000	18,276	724
Service awards	2,000	3,800	3,196	604
Training expenses	15,000	20,000	18,095	1,905

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget
EXPENSES (Continued)				
Travel expenses	$ 27,000	$ 52,000	$ 35,098	$ 16,902
Internet charges	1,000	1,300	1,049	251
Other charge expense	7,350	11,300	10,415	885
Interest expense	-	10,500	10,238	262
Capital purchases	125,000	121,981	121,655	326
Total expenses	1,101,435	1,161,435	1,074,248	87,187
CHANGE IN NET ASSETS	$ 5,892	$ 6,892	$ 89,051	$ 82,159
Change in net assets (budgetary basis)			$ 89,051	
Adjustments:				
To adjust for net accruals and deferrals GAAP basis to Budgetary basis			(168,414)	
To record purchases of fixed assets			121,655	
To record depreciation			(135,538)	
			$ (93,246)	

The above Statement of Revenues and Expenses - Detail; Budget to Actual Comparison presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of resultant basis and timing differences in the change in net assets for the year ended June 30, 2010 is presented above.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF PUBLIC SAFETY ANSWERING POINTS (PSAP) (UNAUDITED)
June 30, 2010

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

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

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

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

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

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
June 30, 2010

Effective Date	Expiration Date	Insurer/Agent	Policy Numbers
Commercial Liability, Property and Casualty, and Employee Dishonesty Package			
6/30/09	6/30/10	American Alternative Insurance Corporation VFIS / Mark Bowery Insurance	VFIS-TR-2055773-02
Commercial Automobile			
6/30/09	6/30/10	American Alternative Insurance Corporation VFIS / Mark Bowery Insurance	VFIS-CM-1053521-02
Workers Compensation			
3/01/10	3/01/11	Star Insurance Company/ TPA Insurance Agency	WC-0457763-01
Directors' Bonds			
Various	Various	Bond Insurance Agency VFIS / Mark Bowery Insurance	Various

SCHEDULE OF SURCHARGE RATES

Surcharge rates in effect July 1, 2009 through June 30, 2010, were $1.50 per month for residential customers and $3.00 (for each line up to 100 lines) for commercial customers.

BROWN, EDWARDS & COMPANY, L.L.P.
Certified Public Accountants

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

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

We have audited the basic financial statements of the Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District"), a component unit of Sullivan County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee.

Internal Control Over Financial Reporting

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

A 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 4, 2010.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
November 4, 2010

SULLIVAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

COMMENTS AND SUGGESTIONS FOR YOUR CONSIDERATION

JUNE 30, 2010

BROWN, EDWARDS & COMPANY, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

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

In planning and performing our audit of the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District, for the year ended June 30, 2010, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our assessment of internal control included obtaining an understanding of the internal control sufficient to plan our audit and comply with *Government Auditing Standards*.

However, during our audit we became aware of matters that provide opportunities for strengthening internal controls and operating efficiency. This report does not affect our report dated November 4, 2010, on the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District. Since our audit is not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all inclusive of areas where improvements might be achieved. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

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

Organization Structure

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

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

Develop a Formal Fraud Risk Management Program

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
November 4, 2010