

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT**

**Kimball, Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

**June 30, 2010**

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

# TABLE OF CONTENTS

|                                                                                                                                                                                                              | <u>P a g e</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <b>INTRODUCTORY INFORMATION:</b>                                                                                                                                                                             |                |
| Roster of management and board members                                                                                                                                                                       | 3              |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>                                                                                                                                                                  | 4-6            |
| <b>INDEPENDENT AUDITORS' REPORT</b>                                                                                                                                                                          | 7-8            |
| <b>FINANCIAL STATEMENTS:</b>                                                                                                                                                                                 |                |
| Balance sheet                                                                                                                                                                                                | 10-11          |
| Statement of revenues, expenses<br>and change in net assets                                                                                                                                                  | 12             |
| Statement of cash flows                                                                                                                                                                                      | 13-14          |
| Notes to financial statements                                                                                                                                                                                | 15-23          |
| <b>SUPPLEMENTARY INFORMATION:</b>                                                                                                                                                                            |                |
| Schedule of budget to actual                                                                                                                                                                                 | 25-26          |
| <b>INTERNAL CONTROL AND COMPLIANCE SECTION:</b>                                                                                                                                                              |                |
| Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an<br>Audit of Financial Statements Performed in<br>Accordance With <i>Government Auditing Standards</i> | 28-29          |
| Schedule of findings and responses                                                                                                                                                                           | 30-32          |

## **INTRODUCTORY INFORMATION**

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

**MANAGEMENT:**

Michael Twitty

Executive director

**BOARD MEMBERS:**

Dan Ewton

Chairman

Helen Cooper

Vice chairman

Mary Ruth Dunleavy

Secretary

Wayne Reynolds

Treasurer

Will Zimmerman

Director

Clint Huth

Director

Randall Lockhart

Director

Gene Barker

Director

Joyce Dotson

Director

## MANAGEMENT’S DISCUSSION AND ANALYSIS

My discussion and analysis of Sequatchie County 911 Emergency Communication 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, which begin on page 10.

### USING THIS ANNUAL REPORT

This annual report consists of the following financial statements: the balance sheet, the statement of revenues, expenses and change in net assets, and the statement of cash flows. These statements provide information about the activities of the District as a whole and present an overview of the District’s finances.

### THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

One of the main areas of interest for an entity is determining how successful they were at meeting their financial objectives for the year. The District accounts for its financial activities where determination of income (increase in net assets) or loss (decrease in net assets) is necessary or useful to sound financial administration. The statements are prepared on the accrual basis of accounting which recognizes revenues when earned and expenses when incurred. The balance sheet shows the assets that the District owns and the liabilities (debts) that the District owes.

The information contained in the statement of revenues, expenses, and changes in net assets is used as a “report card” to determine if the District has been successful at meeting its financial objectives. Net assets and changes in net assets are summarized as follows:

|                            | 2010       | 2009       |
|----------------------------|------------|------------|
| <b>NET ASSETS:</b>         |            |            |
| Current and other assets   | \$ 37,772  | \$ 46,269  |
| Capital assets             | 203,371    | 264,528    |
| Total assets               | 241,143    | 310,797    |
| <br>                       |            |            |
| Current liabilities        | (99,579)   | (85,852)   |
| Long-term liabilities      | (30,600)   | (40,800)   |
| Net assets                 | \$ 110,964 | \$ 184,145 |
| <br>                       |            |            |
| Summary of net assets -    |            |            |
| Invested in capital assets | \$ 162,571 | \$ 213,528 |
| Unrestricted net assets    | (51,607)   | (29,383)   |
| (deficit in net assets)    | \$ 110,964 | \$ 184,145 |

|                                        | <u>2010</u>       | <u>2009</u>       |
|----------------------------------------|-------------------|-------------------|
| <b>CHANGES IN NET ASSETS:</b>          |                   |                   |
| Operating revenues                     | \$ 392,785        | \$ 359,634        |
| Operating expenses                     | <u>463,114</u>    | <u>443,926</u>    |
| Operating loss                         | (70,329)          | (84,292)          |
| Nonoperating revenues, net of expenses | <u>(2,852)</u>    | <u>(1,535)</u>    |
| Changes in net assets                  | (73,181)          | (85,827)          |
| <b>NET ASSETS:</b>                     |                   |                   |
| Beginning                              | <u>184,145</u>    | <u>269,972</u>    |
| Ending                                 | <u>\$ 110,964</u> | <u>\$ 184,145</u> |

### **ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

For the year ended June 30, 2010, the cost of its required operating activities exceeded the revenues generated, and net assets decreased by approximately \$73,000. Operating revenues, as well as operating expenses, increased when compared to the prior year, with revenues increasing by approximately \$33,000, and expenses increasing by approximately \$19,000. Telephone service charges and shared wireless charges decreased by approximately \$13,000, revenue from contracted services decreased by approximately \$10,000, with state operational funding and funding from Sequatchie County increasing by approximately \$26,000 and \$30,000. Changes in categories of expenses were approximately as follows: Salaries and benefits increased by \$6,000, contracted services increased by \$5,000, depreciation and amortization decreased by \$2,000, and other operating expenses increased by \$10,000, \$5000 of which was an increase in training and travel.

### **THE DISTRICT'S NET ASSETS**

At June 30, 2010, net assets consisted of net assets invested in capital assets, net of related debt, totaling \$162,571, and a deficit in unrestricted net assets of \$51,607.

### **BUDGETARY HIGHLIGHTS**

Actual revenues of \$392,855 were approximately \$17,000 less than the amount budgeted. Actual budget basis expenses of \$403,059 were \$4,000 less than the budget of \$407,399. Approximate results of actual expenses compared to the final budget were as follows: salaries and benefits were over budget by \$30,000; contracted services were under budget by \$16,000, supplies and materials were under budget by \$7,500, other charges were under budget by \$10,500.

## **CAPITAL ASSETS**

At June 30, 2010, the District had \$203,571 invested in capital assets, including building and improvements, telecommunications and office equipment, and furniture and fixtures. The District has capital assets totaling \$506,713, with \$303,342 having been expensed through the provision for depreciation and amortization. The \$203,571 represents a decrease of \$61,157 over the prior year, with an increase of \$2,000 relative to acquisition of communications equipment, and a decrease of \$63,000 relative to depreciation. Detailed information about the District's capital assets is presented in Note 4 to the financial statements.

## **LONG-TERM DEBT -**

The District purchased its operating premises in 2004, from Sequatchie County, under a capital lease obligation with 10 interest-free, annual payments of \$10,200, payable through January, 2014. The unpaid obligation at June 30, 2010 was \$40,800, a decrease of \$10,200 from the prior year. Additional information is presented in Note 7 to the financial statements.

## **ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS**

The District is making long-range plans for financial viability. For the 2010 year, it received additional funding from the City and County to offset increased costs of operations, and still anticipates additional funds from the State Emergency Communications Board, particularly as a result of the population increase with the 2010 census data, and, hopefully, future increases to partially offset the inequities of the revenues available to Districts in rural and smaller counties.

Michael H. Twitty  
Executive Director



## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of**

**Sequatchie County 911 Emergency Communications District:**

We have audited the accompanying financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie 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 Sequatchie County 911 Emergency Communications 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 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 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 Sequatchie County 911 Emergency Communications District, as of June 30, 2010, and the changes in financial position, 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 May 6, 2011, on our consideration of Sequatchie 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 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 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 other assurance on the information because the limited procedures do not provide us with sufficient information to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sequatchie County 911 Emergency Communications District's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of budget to actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information in this schedule 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 or to 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 taken as a whole.

*Johnson, Nickey & Meacham, P.C.*

May 6, 2011

## **FINANCIAL STATEMENTS**

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
BALANCE SHEET  
JUNE 30, 2010**

**ASSETS**

**CURRENT ASSETS:**

|                                                |              |
|------------------------------------------------|--------------|
| Cash                                           | \$ 23,962    |
| Accounts receivable, telephone service charges | 9,862        |
| Prepaid expenses                               | <u>3,948</u> |

Total current assets 37,772

**CAPITAL ASSETS:**

|                            |                |
|----------------------------|----------------|
| Buildings and improvements | 177,105        |
| Furniture and fixtures     | 11,317         |
| Office equipment           | 23,481         |
| Communications equipment   | <u>294,810</u> |

506,713  
Less accumulated depreciation 303,342

Capital assets, net 203,371

Total assets \$ 241,143

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

## LIABILITIES AND NET ASSETS

### **CURRENT LIABILITIES:**

|                                                |              |
|------------------------------------------------|--------------|
| Line of credit                                 | \$ 65,007    |
| Current maturities of capital lease obligation | 10,200       |
| Accounts payable                               | 4,835        |
| Accrued payroll and payroll withholdings       | 15,835       |
| Accrued employee leave                         | <u>3,702</u> |

Total current liabilities 99,579

### **CAPITAL LEASE OBLIGATION,**

less current maturities shown above 30,600

### **NET ASSETS:**

|                                                 |                 |
|-------------------------------------------------|-----------------|
| Invested in capital assets, net of related debt | 162,571         |
| Unrestricted                                    | <u>(51,607)</u> |

Total net assets 110,964

Total liabilities and net assets \$ 241,143

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

**REVENUES:**

|                                            |            |
|--------------------------------------------|------------|
| Emergency telephone service charges        | \$ 121,354 |
| Tennessee Emergency Communications Board - |            |
| Shared wireless charge                     | 23,899     |
| Operational funding                        | 98,162     |
| Grants and reimbursements                  | 18,780     |
| County and City funding                    | 130,000    |
| Other                                      | 590        |
|                                            | 392,785    |

**EXPENSES:**

|                               |         |
|-------------------------------|---------|
| Salaries and benefits         | 318,740 |
| Contracted services           | 32,331  |
| Supplies and materials        | 21,149  |
| Other expenses                | 27,917  |
| Depreciation and amortization | 62,977  |
|                               | 463,114 |

**OPERATING LOSS** (70,329)

**NONOPERATING REVENUES (EXPENSES):**

|                  |         |
|------------------|---------|
| Interest income  | 70      |
| Interest expense | (2,922) |
|                  | (2,852) |

**CHANGE IN NET ASSETS** (73,181)

**NET ASSETS:**

|           |            |
|-----------|------------|
| Beginning | 184,145    |
|           | 184,145    |
| Ending    | \$ 110,964 |

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|                                               |                 |
|-----------------------------------------------|-----------------|
| Receipts for emergency communication services | \$ 169,403      |
| Receipts for operational funding and grants   | 116,942         |
| County and City funding                       | 130,000         |
| Other                                         | 590             |
| Payments to/for employees                     | (316,707)       |
| Payments for goods and services               | <u>(89,260)</u> |
| Net cash provided by<br>operating activities  | <u>10,968</u>   |

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES:**

|                                                              |                 |
|--------------------------------------------------------------|-----------------|
| Purchase of capital assets                                   | (1,820)         |
| Payment of interest                                          | (2,922)         |
| Payment of capital lease obligations                         | <u>(10,200)</u> |
| Net cash used by capital and<br>related financing activities | <u>(14,942)</u> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

|                                                         |                 |
|---------------------------------------------------------|-----------------|
| Receipts from line of credit                            | 40,000          |
| Payments on line of credit                              | <u>(19,993)</u> |
| Net cash provided by<br>noncapital financing activities | <u>20,007</u>   |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|                                              |           |
|----------------------------------------------|-----------|
| Interest received                            | <u>70</u> |
| Net cash provided by<br>investing activities | <u>70</u> |

**NET INCREASE IN CASH** 16,103

**CASH:**

|           |                         |
|-----------|-------------------------|
| Beginning | <u>7,859</u>            |
| Ending    | <u><u>\$ 23,962</u></u> |

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

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

|                                                                                           |                      |
|-------------------------------------------------------------------------------------------|----------------------|
| Operating loss                                                                            | \$ (70,329)          |
| Adjustments to reconcile operating loss<br>to net cash provided by operating activities - |                      |
| Depreciation and amortization                                                             | 62,977               |
| (Increase) decrease in operating assets:                                                  |                      |
| Accounts receivable                                                                       | 24,150               |
| Prepaid expenses                                                                          | 450                  |
| Increase (decrease) in operating liabilities:                                             |                      |
| Accounts payable                                                                          | (8,313)              |
| Accrued payroll and withholdings                                                          | 6,049                |
| Accrued employee leave                                                                    | <u>(4,016)</u>       |
| <br>Net cash provided by<br>operating activities                                          | <br><u>\$ 10,968</u> |

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

**Organization -**

Sequatchie County 911 Emergency Communications District is a governmental entity organized pursuant to Chapter 867 of the 1984 Tennessee Public Acts ("The Emergency Communications District Law"), which was enacted to establish local emergency telephone service and to provide for the funding of such services.

**Financial Reporting Entity -**

The District is a component unit of Sequatchie County, Tennessee. The Sequatchie County Board of Commissioners appoints the District's Board of Directors, may appropriate funds for the operation and maintenance of the District, and must approve long-term debt issued by the District.

**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 City and County funding, telephone service charges, revenue from contracted services, and state allocations and operational funding. 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.

**Estimates -**

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

**Estimates** (continued) -

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. All recorded amounts are considered to be collectible; therefore no allowance for uncollectibles is recorded.

**Capital Assets** -

The District capitalizes significant purchases of capital assets, including software, which are recorded at cost. Depreciation is provided over the estimated useful lives of the individual assets by the straight-line method. Depreciation expense for the year ended June 30, 2010, was \$62,977.

**(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. Budgeted expenses may be amended, as needed, to meet changing needs.

For the year ended June 30, 2010, total actual expenses were less than the amount budgeted; however, several individual line items were greater than the amount budgeted.

**(3) COMPENSATED ABSENCES:**

The District's employees earn vacation based upon a prescribed formula. The benefits are accrued as employees earn the right to the paid time off, and the liability is included in these financial statements.

The employees also earn sick leave based upon a prescribed formula. Sick leave is not payable upon retirement or termination, and no liability is recorded for this benefit.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(4) 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 &amp;<br/>Retirements</u> | <u>Ending</u>     |
|----------------------------------|-------------------|--------------------|----------------------------------------|-------------------|
| <b>Assets:</b>                   |                   |                    |                                        |                   |
| Buildings and improvements       | \$ 177,105        | \$ -               | \$ -                                   | \$ 177,105        |
| Furniture and fixtures           | 11,317            | -                  | -                                      | 11,317            |
| Office equipment                 | 23,481            | -                  | -                                      | 23,481            |
| Communications equipment         | <u>292,990</u>    | <u>1,820</u>       | <u>-</u>                               | <u>294,810</u>    |
|                                  | <u>504,893</u>    | <u>1,820</u>       | <u>-</u>                               | <u>506,713</u>    |
| <b>Accumulated depreciation:</b> |                   |                    |                                        |                   |
| Buildings and improvements       | 42,321            | 10,060             | -                                      | 52,381            |
| Furniture and fixtures           | 7,539             | 1,415              | -                                      | 8,954             |
| Office equipment                 | 14,109            | 4,696              | -                                      | 18,805            |
| Communications equipment         | <u>176,396</u>    | <u>46,806</u>      | <u>-</u>                               | <u>223,202</u>    |
|                                  | <u>240,365</u>    | <u>62,977</u>      | <u>-</u>                               | <u>303,342</u>    |
| <b>Net capital assets</b>        | <u>\$ 264,528</u> | <u>\$ (61,157)</u> | <u>\$ -</u>                            | <u>\$ 203,371</u> |

**(5) CASH AND INVESTMENTS:**

The District reports its cash and investments in accordance with GASB Statement Number 40, "Deposit and Investment Risk Disclosures", which is designed to improve financial reporting of deposit and investment risks.

At June 30, 2010, the District's cash and investments consist of the following -

|                                 | <u>Weighted<br/>Average<br/>Maturity<br/>(Years)</u> | <u>Cost<br/>Basis</u> |
|---------------------------------|------------------------------------------------------|-----------------------|
| Cash in demand deposit accounts | <u>0.00</u>                                          | <u>\$ 23,962</u>      |

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(5) CASH AND INVESTMENTS** (Continued):

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.

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 with local banks.

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.

**(6) LINE OF CREDIT:**

The District maintains a \$75,000 unsecured line of credit for operating purposes with Mountain Valley Bank. The line of credit has a variable interest rate. Changes in the line of credit are as follows -

| <u>Beginning</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending</u> |
|------------------|------------------|--------------------|---------------|
| \$ 45,000        | \$ 42,826        | \$ 22,819          | \$ 65,007     |

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(7) CAPITAL LEASE OBLIGATION:**

The District purchased its operating premises from Sequatchie County (the primary government) for \$102,000, under a capital lease obligation with annual payments, at no interest, for 10 years.

|                                                               |                  |
|---------------------------------------------------------------|------------------|
| Payable in annual payments of \$10,200, through January, 2014 | \$ 40,800        |
| Less current maturities                                       | <u>10,200</u>    |
|                                                               | <u>\$ 30,600</u> |

Current maturities are as follows -

|                                   |                  |
|-----------------------------------|------------------|
| For the year ending June 30, 2011 | \$ 10,200        |
| For the year ending June 30, 2012 | 10,200           |
| For the year ending June 30, 2013 | 10,200           |
| For the year ending June 30, 2014 | <u>10,200</u>    |
|                                   | <u>\$ 40,800</u> |

Changes in the capital lease obligation are as follows -

| <u>Beginning</u> | <u>Additions</u> | <u>Payments</u>  | <u>Ending</u>    |
|------------------|------------------|------------------|------------------|
| \$ <u>51,000</u> | \$ <u>-</u>      | \$ <u>10,200</u> | \$ <u>40,800</u> |

**(8) OPERATING LEASES:**

The District leases office equipment from MSA, Inc., for \$121 per month, under an operating lease of 60 months through July, 2010. Lease expense totaled \$1,452 for the 2010 year, with a remaining \$121 payable in the subsequent year.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(9) RETIREMENT PLAN:**

**Plan description -**

Employees of Sequatchie 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 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 Sequatchie 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS>.

**Funding policy -**

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(9) RETIREMENT PLAN** (Continued):

**Funding policy** (continued) -

Sequatchie 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 3.41% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sequatchie County 911 Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**Annual pension cost** -

For the year ending June 30, 2010, Sequatchie County 911 Emergency Communications District's annual pension cost of \$7,703 to TCRS was equal to its 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. Sequatchie 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 19 years. An actuarial valuation was performed as of July 1 2009, which established contribution rates effective July 1, 2010.

**Trend Information**

| <b><u>Fiscal<br/>Year<br/>Ending</u></b> | <b><u>Annual<br/>Pension<br/>Cost (APC)</u></b> | <b><u>Percentage<br/>of APC<br/>Contributed</u></b> | <b><u>Net<br/>Pension<br/>Obligation</u></b> |
|------------------------------------------|-------------------------------------------------|-----------------------------------------------------|----------------------------------------------|
| 6/30/2010                                | \$7,703                                         | 100.00%                                             | \$0.00                                       |
| 6/30/2009                                | \$8,537                                         | 100.00%                                             | \$0.00                                       |
| 6/30/2008                                | \$9,686                                         | 100.00%                                             | \$0.00                                       |

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(9) RETIREMENT PLAN (Continued):**

**Funded status and funding progress -**

As of July 1, 2009, the most recent actuarial valuation date, the plan was 50.79% funded. The actuarial accrued liability for benefits was \$0.11 million, and the actuarial value of assets was \$0.06 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 \$0.20 million, and the ratio of the UAAL to the covered payroll was 27.12%.

The schedule of funding progress, required information presented below, presents 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.

(Dollar amounts in thousands)

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value<br/>of Plan<br/>Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liab(AAL)<br/>Entry Age<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b)-(a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage<br/>of<br/>Covered<br/>Payroll<br/>((b-a)/c)</u> |
|-----------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------|-----------------------------------|------------------------------------|------------------------------------------------------------------------------|
| 7/1/2009                                | \$57                                                      | \$112                                                            | \$55                                           | 50.79%                            | \$203                              | 27.12%                                                                       |
| 7/1/2007                                | \$14                                                      | \$ 32                                                            | \$18                                           | 43.75%                            | \$162                              | 11.11%                                                                       |

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(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 is insured, subject to specified limits, for risks of these types of losses, including workers' compensation, general liability, personal property, and errors and omissions. Historically, settled claims have been less than insurance coverage.

**(11) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through May 6, 2011, the date which this financial statement was available for issue.

## **SUPPLEMENTARY INFORMATION**

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

|                                        | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>  | <u>Final<br/>Budget<br/>To Actual<br/>Variance</u> |
|----------------------------------------|----------------------------|-------------------------|----------------|----------------------------------------------------|
| <b>BUDGET BASIS REVENUES:</b>          |                            |                         |                |                                                    |
| Emergency telephone service charges    | \$ 111,566                 | \$ 111,566              | \$ 121,354     | \$ 9,788                                           |
| State Emergency Communications Board - |                            |                         |                |                                                    |
| Shared wireless charge                 | 34,595                     | 34,595                  | 23,899         | (10,696)                                           |
| Operational funding                    | 110,198                    | 110,198                 | 98,162         | (12,036)                                           |
| Grants and reimbursements              | 19,600                     | 19,600                  | 18,780         | (820)                                              |
| County and City funding                | 133,700                    | 133,700                 | 130,590        | (3,110)                                            |
| Interest income                        | -                          | -                       | 70             | 70                                                 |
|                                        | <u>409,659</u>             | <u>409,659</u>          | <u>392,855</u> | <u>(16,804)</u>                                    |
| <b>BUDGET BASIS EXPENSES:</b>          |                            |                         |                |                                                    |
| <b>Salaries and Benefits -</b>         |                            |                         |                |                                                    |
| Salaries                               | 247,771                    | 247,771                 | 280,660        | (32,889)                                           |
| Payroll taxes                          | 21,329                     | 21,329                  | 23,132         | (1,803)                                            |
| Group insurance                        | 15,000                     | 15,000                  | 5,782          | 9,218                                              |
| Retirement                             | 4,400                      | 4,400                   | 9,166          | (4,766)                                            |
|                                        | <u>288,500</u>             | <u>288,500</u>          | <u>318,740</u> | <u>(30,240)</u>                                    |
| <b>Contracted Services -</b>           |                            |                         |                |                                                    |
| Addressing and mapping                 | 212                        | 212                     | 212            | -                                                  |
| Advertising                            | 80                         | 80                      | 100            | (20)                                               |
| Audit services                         | 7,634                      | 7,634                   | 4,500          | 3,134                                              |
| Accounting services                    | 1,200                      | 1,200                   | 409            | 791                                                |
| Contracts with                         |                            |                         |                |                                                    |
| government agencies                    | 10,200                     | 10,200                  | -              | 10,200                                             |
| 911 service provider fees              | 1,433                      | 1,433                   | 1,526          | (93)                                               |
| Legal services                         | 4,800                      | 4,800                   | 3,250          | 1,550                                              |
| Maintenance agreements                 | -                          | -                       | 30             | (30)                                               |
| NCIC/TBI/TIES                          | 13,000                     | 13,000                  | 10,481         | 2,519                                              |
| Pest control                           | 650                        | 650                     | 555            | 95                                                 |
| Office equipment rental                | 1,900                      | 1,900                   | 1,480          | 420                                                |
| Maintenance and repairs -              |                            |                         |                |                                                    |
| Communications equipment               | 3,000                      | 3,000                   | 2,173          | 827                                                |
| Office equipment                       | 20                         | 20                      | 11             | 9                                                  |
| Facilities                             | 2,400                      | 2,400                   | 5,837          | (3,437)                                            |
| Vehicle                                | 500                        | 500                     | 203            | 297                                                |
| Fuel - vehicle                         | 1,500                      | 1,500                   | 1,379          | 121                                                |
| Other                                  | 184                        | 184                     | 185            | (1)                                                |
|                                        | <u>48,713</u>              | <u>48,713</u>           | <u>32,331</u>  | <u>16,382</u>                                      |

|                                        | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>      | <u>Final<br/>Budget<br/>To Actual<br/>Variance</u> |
|----------------------------------------|----------------------------|-------------------------|--------------------|----------------------------------------------------|
| <b>Supplies and Materials -</b>        |                            |                         |                    |                                                    |
| Supplies and materials                 | \$ 700                     | \$ 700                  | \$ 606             | \$ 94                                              |
| Office supplies                        | 3,300                      | 3,300                   | 3,165              | 135                                                |
| Custodial supplies                     | 1,500                      | 1,500                   | 1,344              | 156                                                |
| Data processing supplies               | 500                        | 500                     | 270                | 230                                                |
| Postage                                | 300                        | 300                     | 140                | 160                                                |
| Small equipment purchases              | 4,500                      | 4,500                   | 1,476              | 3,024                                              |
| Uniforms and shirts                    | 200                        | 200                     | (231)              | 431                                                |
| Utilities                              | 9,186                      | 9,186                   | 6,576              | 2,610                                              |
| Telephone                              | 8,500                      | 8,500                   | 7,803              | 697                                                |
|                                        | <u>28,686</u>              | <u>28,686</u>           | <u>21,149</u>      | <u>7,537</u>                                       |
| <b>Other -</b>                         |                            |                         |                    |                                                    |
| Dues and memberships                   | 600                        | 600                     | 572                | 28                                                 |
| Employee testing                       | 1,000                      | 1,000                   | -                  | 1,000                                              |
| Insurance                              | 13,950                     | 13,950                  | 7,927              | 6,023                                              |
| Legal notices                          | 300                        | 300                     | 240                | 60                                                 |
| Licenses and fees                      | 200                        | 200                     | -                  | 200                                                |
| Public education                       | 3,000                      | 3,000                   | 2,956              | 44                                                 |
| Training and travel                    | 13,375                     | 13,375                  | 14,134             | (759)                                              |
| Miscellaneous                          | 9,075                      | 9,075                   | 2,088              | 6,987                                              |
|                                        | <u>41,500</u>              | <u>41,500</u>           | <u>27,917</u>      | <u>13,583</u>                                      |
| <b>Interest</b>                        | <u>-</u>                   | <u>-</u>                | <u>2,922</u>       | <u>(2,922)</u>                                     |
| <b>Total expenses</b>                  | <u>407,399</u>             | <u>407,399</u>          | <u>403,059</u>     | <u>4,340</u>                                       |
| <b>Budget basis net loss</b>           | <u>\$ 2,260</u>            | <u>\$ 2,260</u>         | (10,204)           | <u>\$ (12,464)</u>                                 |
| <b>Depreciation and amortization</b>   |                            |                         | <u>(62,977)</u>    |                                                    |
| <b>GAAP basis change in net assets</b> |                            |                         | <u>\$ (73,181)</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

**Sequatchie County 911 Emergency Communications District:**

We have audited the financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated May 6, 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 Sequatchie 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider finding numbers 2010-2, 2010-3, and 2010-4, described in the accompanying Schedule of Findings and Responses, to be material weaknesses.

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. We consider finding number 2010-1, described in the accompanying Schedule of Findings and Responses, to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sequatchie 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely 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, Wiley & Meacham, P.C.*

May 6, 2011

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2010**

**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 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.

**Management's Response:**

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.

**2010-2 Controls Over the Budget Process:**

**Condition:**

Several expense line items exceeded the adopted budget amounts. The District failed to obtain budget amendments for these overages.

**Criteria:**

Failure to adhere to the adopted or amended budget is in violation of *Tennessee Code Annotated*.

**Effect:**

Because of this significant deficiency, controls do not exist that allow the District to operate and report within its budget.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2010**

**CURRENT YEAR FINDINGS (Continued):**

**2010-2 Controls Over the Budget Process (Continued):**

**Recommendation:**

Management should monitor its actual amounts expended to the amount budgeted, and amend, as necessary, if it appears that a line item will exceed the amount budgeted.

**Management's Response:**

Because reliable financial information was not always available on a timely basis, management failed to present information to the Board for preparation of an amended budget. Management plans to correct this deficiency for the subsequent year.

**2010-3 Controls Over the Recording of Expenses:**

**Condition:**

During the year ended June 30, 2010, there were numerous recording errors, for which audit adjustments were proposed and accepted by management.

**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 and the Board of Directors are unable to rely upon the internally generated profit and loss statement.

**Recommendation:**

We recommend that management consider employing a bookkeeper with the skills to record these and other items correctly, as well as having a management level employee review and approve the recordings on, at least, a monthly basis. An alternative to a higher level employee is to outsource the bookkeeping function, which still would require management to oversee and review the recordings by an outside bookkeeper.

**Management's Response:**

Management has been unable to hire personnel with the training and skills to review and understand the financial information. Management's goal from the beginning has been to have real time information available to enable the Board to make informed financial decisions. Management intends to hire another bookkeeper to assist in the recording of the District's financial information.

**2010-4 Controls Over the Calculation of Pension Contributions:**

**Condition:**

As a result of a calculation error, for several months of the year ended June 30, 2010, contributions to the Tennessee Consolidated Retirement System were made for incorrect amounts.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2010**

**CURRENT YEAR FINDINGS (Continued):**

**2010-4 Controls Over the Budget Process (Continued):**

**Criteria:**

As a requirement of participation in the Tennessee Consolidated Retirement System, contributions are required to be made in amounts equal to a specific percent of gross payroll as determined by bi-annual actuarial valuations, and approved by the entity's Board of Directors.

**Effect:**

Because of this calculation error, and lack of supervisory review, the District's account was underfunded for the year ended June 30, 2010.

**Recommendation:**

We recommend that management set a policy which requires that the monthly Tennessee Consolidated Retirement System contribution reports be reviewed and recalculated by a management level employee.

**Management's Response:**

After this calculation error was discovered by the auditors, management assigned another employee to review and re-compute the monthly pension contribution reports.

