

McMinn County Emergency Communications District

Financial Statements with Accompanying Information Year Ended June 30, 2011

with
Independent Auditors' Report

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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Independent Auditors' Report

Board of Directors
McMinn County Emergency Communications District
Athens, Tennessee

We have audited the accompanying balance sheet of the McMinn County Emergency Communications District (the "District"), a component unit of McMinn County, Tennessee, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in financial position 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, 2011, on our consideration of the District's internal control over financial reporting and 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.

Management's Discussion and Analysis on pages 3 through 6 and the schedule of funding progress for the OPEB plan on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the 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 response 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 other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HG & A Associates, P.C.

November 4, 2011

McMinn County Emergency Communications District

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Management's Discussion and Analysis

Our discussion and analysis of the McMinn County Emergency Communications District's (the "District") financial performance provides an overview of the District's activities for the year ended June 30, 2011. Please read it in conjunction with the District's financial statements, as listed in the table of contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The balance sheet and the statement of revenues, expenses and changes in net assets provide information about the District as a whole and present a long-term view of the District's finances.

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

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the District and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

CONDENSED BALANCE SHEET

The analysis below focuses on the net assets and changes in net assets of the District.

	<u>2011</u>	<u>2010</u>
Current assets	\$ 1,188,533	1,030,551
Capital assets	1,081,508	1,072,806
Other assets	<u>-</u>	<u>2,392</u>
Total Assets	\$ <u>2,270,041</u>	<u>2,105,749</u>
Current liabilities	\$ 23,198	30,903
Noncurrent liabilities	<u>2,459</u>	<u>-</u>
Total Liabilities	<u>25,657</u>	<u>30,903</u>
Net assets:		
Invested in capital assets	1,081,508	1,064,902
Unrestricted	<u>1,162,876</u>	<u>1,009,944</u>
Total Net Assets	<u>2,244,384</u>	<u>2,074,846</u>
Total Liabilities and Net Assets	\$ <u>2,270,041</u>	<u>2,105,749</u>

The District's net assets increased by approximately 8.2% during the current year while unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations, increased by approximately 15.1%.

Revenues, Expenses and Changes in Net Assets are as follows:

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
Revenues:		
Emergency telephone charges	\$ 190,570	206,206
Tennessee ECB shared wireless charges	128,138	124,075
Tennessee ECB operational funding	<u>188,855</u>	<u>154,449</u>
Total operating revenues	507,563	484,730
Total operating expenses	<u>900,742</u>	<u>869,597</u>
Operating loss	(393,179)	(384,867)
Non-operating revenues (expenses)	<u>562,717</u>	<u>408,357</u>
Change in net assets	169,538	23,490
Net assets – beginning of year	<u>2,074,846</u>	<u>2,051,356</u>
Net assets – end of year	\$ <u>2,244,384</u>	<u>2,074,846</u>

The operations of the District (a component unit of McMinn County, Tennessee) are primarily funded as follows:

	<u>2011</u>	<u>2010</u>
Emergency telephone surcharges	17.8%	23.1%
State of Tennessee shared wireless fee	12.0%	13.9%
TECB operational funding	17.6%	17.3%
Contributions from McMinn County Government	31.3%	38.9%
TECB – grants and reimbursements	15.0%	2.9%
Contributions from other local governments and agencies	4.3%	1.2%
Interest income	0.3%	0.7%
Rental income	<u>1.7%</u>	<u>2.0%</u>
Total funding	<u>100.0%</u>	<u>100.0%</u>

Operational costs for the E911 Center were \$900,742 for the fiscal year ended June 30, 2011, which was approximately a 3.6% increase from the prior year. The primary increase in these operating costs was the salaries and wages which were up approximately \$50,000 in comparison with the prior year.

CAPITAL ASSETS

At the fiscal year ended June 30, 2011, the District had \$1,081,508 in capital assets, an increase of .8% from last year's balance of \$1,072,806. This change is related to the acquisition of equipment at the Athens location of \$139,072 less current year depreciation expense of \$130,370. Additional information concerning the capital assets of the District can be found on page 18 of this report.

DEBT

During the current fiscal year, the District made its final payment for a capitalized lease in the amount of \$8,426. Additional information on the District's debt can be found on page 18 of this report.

BUDGETS

In order to prevent budget overruns in certain expense accounts, various line items of the District were amended by Board approval in amounts totaling \$10,600. However, the total original budgeted operating expenses of \$1,109,825 remained unchanged.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's future budget plans will take into account the added dispatch services for the City of Athens beginning in mid-December of 2011 at an annual contract price of \$238,000. Future budget plans will also take into account expected continued operational support through funding of the State of Tennessee's Emergency Communications Board.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Executive Director of the McMinn County Emergency Communications District, 1107 S. Congress Parkway, Athens, Tennessee 37303-2403.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Balance Sheet

June 30, 2011

<u>Assets</u>	
Current assets:	
Cash	\$ 1,146,112
Accounts receivable:	37,419
Prepaid expenses	5,002
Total current assets	1,188,533
Capital assets:	
Land	99,557
Building and improvements	785,551
Equipment and furnishings	1,169,050
Vehicles	65,814
	2,119,972
Less: allowance for depreciation	1,038,464
	1,081,508
	\$ 2,270,041
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accrued vacation pay	\$ 22,971
Due to McMinn County general fund	227
Total current liabilities	23,198
Other net postemployment benefit liability	2,459
Total liabilities	25,657
Net assets:	
Invested in capital assets	1,081,508
Unrestricted net assets	1,162,876
Total net assets	2,244,384
	\$ 2,270,041

The notes to financial statements are an integral part of these statements.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2011

Operating revenue:	
Emergency telephone surcharge	\$ 190,570
State Emergency Communications Board - shared wireless charge	128,138
TECB - operational funding	188,855
	<u>507,563</u>
Operating expenses:	
Salaries and wages	468,952
Employee benefits	133,911
Contracted services	91,602
Supplies and materials	42,281
Depreciation	130,370
Other charges	33,626
Total operating expense	<u>900,742</u>
Operating loss	<u>(393,179)</u>
Nonoperating revenue (expense):	
Rent - office space	18,600
Interest income	2,436
Contributions from primary government	335,283
Contributions from other governments and agencies	46,083
TECB - grants and reimbursements	160,837
Interest expense	(522)
Total nonoperating revenue (expense)	<u>562,717</u>
Change in net assets	169,538
Total net assets - beginning of year	<u>2,074,846</u>
Total net assets - end of year	<u>\$ 2,244,384</u>

The notes to financial statements are an integral part of these statements.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from customers	\$ 507,252
Cash payments for goods and services	(149,139)
Cash payments for employees	<u>(600,193)</u>
Net cash used by operating activities	<u>(242,080)</u>
Cash flows from noncapital financing activities:	
Contributions from primary government	335,283
Contributions from other governments and agencies	46,083
TECB - grants and reimbursements	<u>160,837</u>
Net cash provided by noncapital financing activities	<u>542,203</u>
Cash flows used by capital and related financing activities:	
Acquisition of equipment	(139,072)
Principal paid on capital lease obligation	(7,904)
Interest paid on capital lease obligation	<u>(522)</u>
Net cash used by capital and related financing activities	<u>(147,498)</u>
Cash flows provided by investing activities:	
Interest received	<u>2,436</u>
Net increase in cash	155,061
Cash - beginning of the year	<u>991,051</u>
Cash - end of the year	<u>\$ 1,146,112</u>

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows (continued)

For the Year Ended June 30, 2011

Reconciliation of operating loss to net
cash used by operating activities:

Operating loss	\$ <u>(393,179)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	130,370
Amortization of prepaid software maintenance	2,392
Rent - office space	18,600
Changes in operating assets and liabilities:	
Increase in accounts receivable	(311)
Increase in prepaid expenses	(2,610)
Increase in accrued vacation pay	211
Decrease in due to McMinn County general fund	(12)
Increase in net other postemployment benefit liability	<u>2,459</u>
Total adjustments	<u>151,099</u>
Net cash used by operating activities	\$ <u><u>(242,080)</u></u>

The notes to financial statements are an integral part of these statements.

McMINN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

(a) Nature of Business

The McMinn County Emergency Communications District (the “District”), commonly referred to as E-911, was established to provide services under the Emergency Communications District Law, Tennessee Code Annotated, Chapter 86. The District was created by a resolution of the McMinn County Commissioners on December 19, 1988, after adoption by public referendum on November 8, 1988. Under its enabling legislation, the District is a municipality with powers of perpetual success but without any power to levy or collect taxes. Charges for services authorized shall not be considered as taxes. The powers of the District are vested in and exercised by a majority of the members of the board of directors of the District who are appointed by the District’s primary government.

The District is a discretely presented component unit of McMinn County, Tennessee and the financial statements are presented in both the District’s separate financial report and within the McMinn County, Tennessee report. The District is considered a discretely presented component unit of McMinn County, Tennessee as defined under the criteria set forth in Governmental Accounting Standards Board Statement 14 because the District would be unable to issue debt without going through McMinn County, Tennessee.

(b) Basis of Accounting

The financial statements of the District are reported on the accrual basis. In accordance with the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts issued by the Tennessee Office of the Comptroller of the Treasury, the District is required to apply all pronouncements of the Governmental Accounting Standards Board (GASB). Under GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all Financial Accounting Standards Board statements and interpretations that do not conflict with or contradict GASB pronouncements.

(c) Receivables

The accounts receivable – surcharges balance of \$37,419 primarily represents amounts due from AT&T Mobility for the surcharge on McMinn County telephone services for the month of June 2011 and wireless commissions due from the State of Tennessee for May and June of 2011.

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies (continued)

(d) Capital Assets

Capital assets, which consist of property and equipment, are defined as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are stated at historical cost, less accumulated depreciation computed on the straight-line method over their estimated useful lives as follows: buildings - forty years; equipment, furnishings and vehicles - five to seven years; building improvements - twenty-five years. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost, less any salvage value, is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to earnings as incurred.

(e) Compensated Absences

The District has adopted the policy of McMinn County, Tennessee, which permits its employees to accumulate, in varying amounts, earned but unused vacation and sick pay benefits. Annual vacation time accrues at a rate of ½ day per month during the first twelve months of employment, one day per month for employment years two through ten and at one day and a half for each year thereafter. Employees cannot accumulate time in excess of 24 days.

All accumulated vacation time is paid to employees unless they are terminated for cause. Sick leave accrues at the rate of ½ day per month, during the first five years of continuous employment and increases to one day per month in the sixth year. There are no limits on the amount of sick leave that can be accumulated, but no payment is made to employees for unused sick leave unless they meet the requirements for retirement incentives. This retirement incentive is met when an employee meets the requirement under the Tennessee Consolidated Retirement System of a full service retirement. For those employees meeting that requirement payment for unused sick leave will be paid at the rate of one-half the minimum substitute teacher pay paid by the McMinn County Board of Education.

\$22,971 has been recorded as accrued vacation pay for this reporting period.

(f) 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.

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies (continued)

(g) Tax Status

Because the District was incorporated as a political subdivision under the Tennessee Emergency Communications District Law, it is exempt from federal income taxes.

2. Budgetary Control

The District's Board approves the annual budget prepared by the E-911 Director based upon anticipated revenues and estimated operating expenses. In accordance with the level of control established by the Tennessee Comptroller of the Treasury, operating expenses may not exceed the amount budgeted in each line item. The District does not budget depreciation, as its intent is to budget the use of anticipated, available resources. It does, however, budget for acquisitions of certain capital assets. Budgeted expenses may be amended, as needed to meet changing needs.

3. Cash

In September 1989, the members of the District's board of directors voted to have the McMinn County, Tennessee finance department handle the accounting functions of the District. Therefore, the McMinn County Trustee collects funds for the District and invests those funds to maximize interest earnings, less the appropriate Trustee commission for collection of the funds. The McMinn County office of the Director of Finance is responsible for the accounting function of the District's activities.

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, the Trustee maintains the \$1,146,112 balance in commingled accounts with other McMinn County funds. As required by state statutes, the Trustee is following the District's policy requiring financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2011 none of the District's funds held by the Trustee was exposed to credit risk.

3. Revenue

The District's primary sources of revenues are from surcharges imposed on McMinn County telephone services (net of administrative fees paid to the telephone companies) and from surcharges imposed on cell phone services, which are collected and disbursed by the Tennessee Emergency Communications Board.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

4. 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. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2011 from those in effect in 2010 and 2009. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

5. Employee Retirement Plan

Plan Description

Certain employees of the 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). The participation in this Plan is through the District's limited association with McMinn County government.

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

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

5. Employee Retirement Plan

Funding Policy, Annual Pension Cost, Trend Information and Funding Status and Funding Progress

Information for these areas is not specifically available for the District but is included within the aggregated information for McMinn County Government as a whole. Please find this information for McMinn County within its comprehensive annual financial report for the year ended June 30, 2011.

6. Other Postemployment Benefits (OPEB)

In addition to the pension benefits described above, certain District employees are also eligible to participate in the McMinn County's single-employer defined benefit healthcare plan. The County has adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. That statement addresses how governments should account for and report their costs and obligations related to postemployment healthcare and other pension and other nonpension benefits. Below is the information in regards to the District's participation in the Plan.

Plan Description

In addition to providing pension benefits, the County provides a portion of the health care benefits for certain retired employees under a single-employer defined benefit healthcare plan. Those with 30 years of service with 10 of those years with McMinn County are eligible for a reimbursement of \$1,352 for 5 years or until they are Medicare eligible, if earlier. In addition, a retiree must have met the age requirement of 55 years with 10 years of service with McMinn County to be eligible for the County's health insurance until they are Medicare eligible and must pay 100 percent of the premium. A stand-alone financial report for that plan is not issued.

The County is reimbursed by the retirees using a formula based on date of retirement, years of service, and the County's computed cost for active employees. During the fiscal year ended June 30, 2011, the County made no contributions for health care benefits. The County will make payments in amounts sufficient to cover benefits paid and administrative costs; however, the County will not fund the remaining portion of the annual required contribution.

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

6. Other Postemployment Benefits (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's portion of the County's annual OPEB cost for the year, the amounts contributed to the Plan, and changes in the net OPEB obligation.

Annual required contribution	\$ 2,476
Interest on net OPEB obligation	157
Adjustment to annual required contribution	<u>(174)</u>
Annual OPEB cost	2,459
Contributions made	<u>-</u>
Increase in net OPEB obligation	2,459
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	\$ <u><u>2,459</u></u>

The District's portion of the County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current year was as follows:

Annual OPEB cost	\$ 2,476
Percentage of annual OPEB cost contributed	0.00%
Net OPEB obligation	\$ 2,459

(continued)

McMINN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2011

6. Other Postemployment Benefits (OPEB) (continued)

Funding Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the County's Plan was 0% funded. The actuarial accrued liability for benefits was \$5,103, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,103. The County will make payments in amounts sufficient to cover benefits paid and administrative costs; however, the County will not fund the remaining portion of the annual required contribution.

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends.

Amounts determined regarding the funded status of the Plan and the annual required contributions of the County and Plan members are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liabilities.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the County and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 valuation for the Plan, the entry age normal cost method and a funding rate of 4 percent was used. Other key assumptions were: 2010 trend rates – medical of 9%, ultimate medical cost trend rate of 5%, projected annual increase in payroll of 2.5%, UAAL amortization period of 30 years and 2018 as the year of ultimate medical trend rate is reached.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2011

7. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

<u>Cost</u>	Balance July 1, 2009	Additions	Retirements and Transfers	Balance June 30, 2010
Land	\$ 99,557	-	-	99,557
Buildings and improvements	785,551	-	-	785,551
Equipment and furnishings	1,029,978	139,072	-	1,169,050
Vehicles	65,814	-	-	65,814
	<u>\$ 1,980,900</u>	<u>139,072</u>	<u>-</u>	<u>2,119,972</u>
<u>Accumulated Depreciation</u>				
Buildings and improvements	\$ 172,888	24,302	-	197,190
Equipment and furnishings	687,596	101,319	-	788,915
Vehicles	47,610	4,749	-	52,359
	<u>\$ 908,094</u>	<u>130,370</u>	<u>-</u>	<u>1,038,464</u>

8. Capital Lease Obligations

The District acquired a 2009 Ford Explorer under a 6.6% long-term lease obligation. For financial reporting purposes, the present value of the minimum lease payments has been capitalized. The agreement is due in 3 annual installments of \$8,426 through April 2011 and the vehicle has a capitalized cost of \$23,744 and with a net book value of \$13,455 at June 30, 2011. The final lease payment was made in April 2011.

9. Subsequent Events

The District has evaluated events and transactions subsequent to the balance sheet date through November 4, 2011, which is the date the financial statements were available to be issued. Based on that evaluation the following issue is disclosed. At the District's September 19, 2011 Board meeting, the Board approved a contract with City of Athens, Tennessee to provide dispatch services. The contract has been signed and service should begin in mid-December 2011.

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Required Supplementary Information
June 30, 2011

Schedule of Funding Progress for the OPEB Plan

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	\$ -	5,103	5,103	0.00%	\$ N/A	N/A

(only year available for the District)

Supplementary Data

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget
For the Year Ended June 30, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Emergency telephone surcharges	\$ 168,000	190,570	22,570
State Emergency Communications			
Board - shared wireless charge	146,000	128,138	(17,862)
TECB - operational funding	120,000	188,855	68,855
	<u>434,000</u>	<u>507,563</u>	<u>73,563</u>
Operating expenses:			
Salaries and wages:			
Director	63,733	63,295	438
Administrative personnel	50,668	48,644	2,024
Dispatchers	323,774	315,208	8,566
Overtime pay	15,000	12,610	2,390
Part-time personnel	19,300	19,269	31
Vacation and holiday pay	30,000	9,926	20,074
	<u>502,475</u>	<u>468,952</u>	<u>33,523</u>
Employee benefits:			
Social security and medicare	35,000	34,573	427
Life insurance	1,500	1,069	431
Medical insurance	81,700	68,668	13,032
Unemployment compensation	3,500	1,837	1,663
Retirement contributions	30,000	27,764	2,236
	<u>151,700</u>	<u>133,911</u>	<u>17,789</u>
Contracted services:			
Addressing/mapping	5,000	4,462	538
Advertising	2,500	2,249	251
Audit services	5,500	5,500	-
Fees paid to service providers	35,400	33,921	1,479
Janitorial services	6,000	5,330	670
Legal services	1,800	1,325	475
Maintenance agreements	25,000	15,427	9,573
NCIC/TBI/TIES	10,000	9,961	39
Consultant fees	3,000	-	3,000
Pest control	500	300	200
Lease/rental:			
Office equipment	1,500	594	906

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Contracted services (continued):	\$		
Maintenance and repairs:			
Communications equipment	3,000	2,947	53
Facilities	12,000	11,577	423
Office equipment	1,000	-	1,000
Vehicles	12,500	8,808	3,692
Fuel	2,500	2,026	474
	<u>127,200</u>	<u>104,427</u>	<u>22,794</u>
Supplies and materials:			
Office	4,000	2,129	1,871
Custodial	2,000	1,787	213
Data processing	500	385	115
Postage	500	146	354
Small equipment purchases	240,000	144,681	95,319
Uniforms	2,000	1,664	336
Utilities:			
Electric	20,000	15,874	4,126
Gas	2,000	1,141	859
Water	1,000	864	136
General telephone	7,300	6,345	955
Cellular phone	2,100	1,938	162
	<u>281,400</u>	<u>176,954</u>	<u>104,446</u>
Other charges:			
Bank charges	10,000	7,720	2,280
Board meetings	1,800	1,484	316
Dues and memberships	1,000	843	157
Employee testing	500	250	250
Insurance:			
Workers' compensation	1,500	1,119	381
Liability	13,000	10,962	2,038
Legal notices	250	16	234
Training	8,000	4,717	3,283
Travel	8,000	5,877	2,123
Other	3,000	638	2,362
	<u>47,050</u>	<u>33,626</u>	<u>13,424</u>
Total operating expenses	<u>1,109,825</u>	<u>917,870</u>	<u>191,976</u>
Excess of operating expenses over operating revenues	<u>(675,825)</u>	<u>(410,307)</u>	<u>265,539</u>

(continued)

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Nonoperating revenues:			
Rent - office space	\$ 18,600	18,600	-
Interest	750	2,436	1,686
Contributions from primary government	347,783	335,283	(12,500)
Contributions from other governments and agencies	31,000	46,083	
TECB - grants and reimbursements	230,965	160,837	(70,128)
Total nonoperating revenues	629,098	563,239	(80,942)
Excess of revenues over (under) expenditures	\$ (46,727)	152,932	184,597
Adjustments to agree with financial statement - "Statement of Revenue, Expenses and Changes in Net Assets":			
Expenses unbudgeted:			
Depreciation		(130,370)	
Capitalized lease and equipment payments		146,976	
Change in net assets		\$ 169,538	

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Insurance in Force

June 30, 2011

<u>Description</u>	<u>Coverage</u>
Property:	
Risks of Direct Physical Loss Subject to Normal Conditions and Exclusions:	
Business personal property - \$250 property deductible; \$1,000 earthquake and flood deductible:	
Real property - Athens, TN	\$ 641,207 limit
Real property - Etowah, TN (Guaranteed replacement cost)	300,633 limit
Personal property - Athens, TN	540,800 limit
Personal property - Etowah, TN (Replacement cost)	324,480 limit
Software	250,000 limit
Money and securities	10,000 limit
Extra expense	12 months actual loss sustained
Loss of income	12 months actual loss sustained
Automobile Liability:	
Liability - any auto	1,000,000
Uninsured motorists	300,000
Medical payments	5,000
Comprehensive/collision (primary basis)	50,000 limit per loss
General Liability:	
General Aggregate Limit	2,000,000
Products/Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury Each Occurrence Limit	1,000,000
Each Occurrence or Medical Incident Limit	1,000,000
Medical Expense Limit (Any One Person)	5,000
Management Liability:	
Each Claim Limit (injunctive relief) (each wrongful act)	25,000 1,000,000
Annual Aggregate Limit	2,000,000

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Roster of Officials

June 30, 2011

Board of Directors

Mike Jones - Chairman
Joe Riley - Vice Chairman
Wayne Scarbrough - Secretary
Russ Duggan - Treasurer
Scott Curtis
Mark Lowry
Harold Masengil
Chris Webb

Management

Marvin Kelley - E911 Director

**McMINN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Expenditures of State Awards
For the Year Ended June 30, 2011

<u>Grantor Agency</u>	<u>Program Name</u>	<u>CFDA #</u>	<u>Receivable June 30, 2010</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2011</u>
<u>State Assistance Programs</u>						
Tennessee Emergency						
Communications District	GIS Maintenance Grant (Z-08-211962-00)	N/A	\$ <u> -</u>	<u> 10,000</u>	<u> 10,000</u>	<u> -</u>



**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**

The Board of Directors
McMinn County Emergency Communications District
Athens, Tennessee

We have audited the financial statements of the McMinn County Emergency Communications District (the "District"), a component unit of McMinn County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected or corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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*.

(continued)

Richard A. Goldstine • J. Wesley Edmondson • John C. Pannell • Tim Royster • Jenny C. Raines • Michelle Herrell



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

HGA Associates, P.C.

November 4, 2011