

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT**

**FINANCIAL STATEMENTS**

**June 30, 2011**

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
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June 30, 2011**

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**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS  
June 30, 2011**

**BOARD MEMBERS:**

Andrew Bradley  
Jim Klepper  
Gary Murrell  
Daniel Boyd  
Robert Palmer  
Ronnie Lawson  
Johnny Gulley  
Dennis Deal  
Gary Lawson

**MANAGEMENT OFFICIALS**

DIRECTOR: Rita Gay Murrell  
CHAIRMAN: Robert Palmer  
V-CHAIRMAN: Ronnie Lawson  
SECRETARY: Gary Murrell  
TREASURER: Jim Klepper

## **DAVID M. ELLIS**

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Hawkins County Emergency Communications District  
Rogersville, Tennessee

I have audited the accompanying financial statements of Hawkins County Emergency Communications District, a discretely presented component unit of Hawkins County, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise Hawkins County Emergency Communications District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hawkins County Emergency Communications District as of June 30, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 2, 2012, on my consideration of Hawkins County Emergency Communications District's internal control over financial reporting and on my 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 my 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 my audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule and Schedule of Funding Progress on pages 4 through 6, page 18 and page 19 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 financial statements in an appropriate operational, economic, or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of these financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "David M. Ellis".

David M. Ellis, CPA  
February 2, 2012

## Management's Discussion and Analysis

As management of the Hawkins County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. Please note the District presents prior comparative financial information when available.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$88,072 (net assets). Of this amount, (\$113,014) (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District reported ending net assets of \$88,072, a decrease of \$121,951 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) fund financial statements, and (2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one fund, a proprietary fund, which is considered to be an enterprise fund.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12 through 17 of this report.

### Financial Analysis of the District's Funds

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

#### Hawkins County Emergency Communications District Statement of Net Assets

	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 56,361	\$ 69,380
Capital Assets	<u>980,647</u>	<u>1,041,423</u>
Total Assets	<u>\$ 1,037,008</u>	<u>\$ 1,110,803</u>

Total Liabilities	\$ 948,936	\$ 900,780
Net Assets:		
Invested in capital assets	201,086	221,349
Unrestricted	<u>(113,014)</u>	<u>(11,326)</u>
Total Liabilities and Net Assets	<u>\$ 1,037,008</u>	<u>\$ 1,110,803</u>

The balance of unrestricted net assets, (\$113,014), may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report a positive balance in the net assets category.

The District's net assets decreased by \$121,951 during the current fiscal year.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2011:

**Hawkins County Emergency Communications District  
Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
Revenues:		
Operating Revenues:		
Charges for services	\$ 583,461	\$ 641,202
Non-Operating Revenues:		
Government appropriations	22,000	66,315
Other	140,000	156,614
Interest income	<u>23</u>	<u>237</u>
Total Revenues	745,484	864,368
Total Expenses	<u>867,435</u>	<u>920,367</u>
Change in net assets	(121,951)	(55,999)
Beginning Net Assets	<u>210,023</u>	<u>266,022</u>
Ending Net Assets	<u>\$ 88,072</u>	<u>\$ 210,023</u>

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains one fund, a proprietary fund, which is considered to be an enterprise fund.

**Budgetary Highlights**

There were no changes to the original budget.

## Capital Asset Administration

The District's investment in capital assets for its activities as of June 30, 2011, amounts to \$980,647 (net of accumulated depreciation). This investment in capital assets includes improvements, machinery and equipment, and software.

### Hawkins County Emergency Communications District's Capital Assets

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 11,510	\$ 11,510
Vehicles	15,500	15,500
Office Equipment	17,440	17,440
Land	126,314	126,314
Building	553,601	551,751
Communications system	<u>812,769</u>	<u>812,769</u>
Total capital assets	<u>\$ 1,537,134</u>	<u>\$ 1,535,284</u>

Additional information on the District's capital assets can be found in Note 3 on pages 13 and 14 of this report.

## Debt

At the fiscal year end June 30, 2011, the District had outstanding notes payable of \$779,561. Principal repayments in the amount of \$40,513 were made during the current fiscal year. Principal amounts due in the coming fiscal year amount to \$38,990.

## Economic Factors and Next Year's Budget and Rates

Appropriations from Hawkins County will increase during the fiscal year 2012. These factors were considered in preparing the District's budget for fiscal year 2012.

Rates were not increased for fiscal year 2011.

## Requests for Information

This financial report is designed to provide a general overview of the Hawkins County Emergency Communications District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Hawkins County Emergency Communications District, 2291 E. Main Street, Rogersville, TN 37857

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2011**

**ASSETS**

<b>Current Assets</b>		
Cash and Equivalents	\$ 26,844	
Accounts Receivable	26,181	
Prepaid Expenses	<u>3,336</u>	
<b>Net Cash Used by Operating Activities</b>		<b>\$ 56,361</b>
<b>Non-current Assets</b>		
<b>Capital Assets</b>		
Land	126,314	
Building and Improvements	553,601	
Communications Equipment	812,769	
Office Equipment	17,440	
Furniture and Fixtures	11,510	
Vehicles	<u>15,500</u>	
<b>Total Capital Assets</b>	<b>1,537,134</b>	
Accumulated Depreciation	<u>(556,487)</u>	
<b>Net Capital Assets</b>		<u><b>980,647</b></u>
<b>Total Assets</b>		<u><u><b>\$ 1,037,008</b></u></u>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts Payable	\$ 46,166	
Accrued Penalties	16,026	
Accrued Interest	3,305	
Notes Payable - Current	41,337	
Payroll Deductions Payable	87,116	
Compensated Absences Payable	<u>16,762</u>	
<b>Total Current Liabilities</b>		<b>\$ 210,712</b>
<b>Long-Term Liabilities</b>		
Note Payable - Long-term	<u>738,224</u>	
<b>Total Long-Term Liabilites</b>		<u><b>738,224</b></u>
<b>Total Liabilities</b>		<b>948,936</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		201,086
Restricted Net Assets		-
Unrestricted Net Assets		<u>(113,014)</u>
<b>Total Liabilities and Net Assets</b>		<u><u><b>\$ 1,037,008</b></u></u>

The accompanying notes are an integral part of the financial statements.

**HAWKINS COUNTY**  
**EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET ASSETS**  
**For the year ended June 30, 2011**

Operating Revenues

Emergency Telephone Service Charge	\$ 252,210	
Tennessee Emergency Comm. Board - Shared Wireless Charge	139,800	
Tennessee Emergency Comm. Board- Operational Funding	188,855	
Net Cash Used by Operating Activities	<u>2,596</u>	
 Total Operating Revenues		 \$ 583,461

Operating Expenses

Salaries and Wages	434,674	
Employee Benefits	113,040	
Addressing/Mapping Expenses	26,413	
Advertising	1,200	
Audit Services	6,500	
Bank Charges	407	
Custodial Supplies	762	
Dues and Subscriptions	846	
Insurance	15,777	
Internet Charges	2,021	
Lease/Rental - Communications Equipment	52,942	
Legal Services	6,500	
Maintenance Agreements	10,460	
Maintenance and Repairs - Buildings and Facilities	3,873	
Maintenance and Repairs - Office Equipment	66	
Maintenance and Repairs - Vehicle	1,677	
NCIC/TBI/TIES Fees	8,225	
Office/General Supplies	508	
Postage	176	
Small Equipment	975	
Training Expenses	5,289	
Travel Expenses	261	
Uniforms and Shirts	390	
Utilities - General Telephone	17,125	
Utilities - Water and Sewer	1,221	
Utilities - Electric	5,462	
Depreciation	62,625	
Other Expenses	<u>13,641</u>	
 Total Operating Expenses		 <u>793,056</u>

Operating Loss \$ (209,595)

The accompanying notes are an integral part of the financial statements.

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
For the year ended June 30, 2011**

Non-Operating Revenues and (Expenses)		
Contributions from Other Governments and Agencies	\$ 22,000	
Contributions from Primary Government	140,000	
Interest Income	23	
Interest Expense	(60,043)	
Penalties	<u>(14,336)</u>	
Total Non-Operating Revenues		<u>\$ 87,644</u>
Change in Net Assets		(121,951)
Net Assets June 30, 2010		<u>210,023</u>
Net Assets June 30, 2011		<u><u>\$ 88,072</u></u>

The accompanying notes are an integral part of the financial statements.

**HAWKINS COUNTY**  
**EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2011**

Cash Flows from Operating Activities

Cash Received from Surcharges and Other Revenues	\$ 583,573
Cash Payments for Payroll, Taxes and Related Benefits	(497,445)
Other Program Revenues	<u>(156,609)</u>
Net Cash Used by Operating Activities	(70,481)

Cash Flows from Capital and Related Financing Activities

Purchase of Capital Assets	(1,850)
Principal Paid on Notes Payable	(40,513)
Interest Paid on Notes Payable	<u>(57,019)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(99,382)</u>

Cash Flows from Non-Capital Financing Activities

Contributions from Primary Government	140,000
Grants/Reimbursements TECB	22,000
Penalties Paid	<u>(7,144)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>154,857</u>

Cash Flows from Investing Activities

Interest income	<u>23</u>
Net Cash Provided by Investing Activities	<u>23</u>

Net Decrease in Cash and Equivalents	(14,984)
Cash and Equivalents, Beginning of Year	<u>41,827</u>
Cash and Equivalents, End of Year	<u><u>\$ 26,843</u></u>

The accompanying notes are an integral part of the financial statements.

**HAWKINS COUNTY**  
**EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2011**

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (209,595)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	62,625
(Increase)/Decrease in receivables	112
(Increase)/Decrease in prepaid expenses	(2,076)
Increase/(Decrease) in accounts payable	28,184
Increase/(Decrease) in accrued liabilities	<u>50,269</u>
Net Cash Used by Operating Activities	<u><u>\$ (70,481)</u></u>

The accompanying notes are an integral part of the financial statements.

**HAWKINS COUNTY**  
**EMERGENCY COMMUNICATIONS DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Creation of Hawkins County Emergency Communications District (the District) was approved in a countywide referendum in August 1990. In accordance with Chapter 86 of the Tennessee Code Annotated, members of the District's Board of Directors were appointed by the Hawkins County Commission. Customer surcharges were initiated, collected and remitted by telephone companies serving Hawkins County soon thereafter.

The District complies with accounting principles generally accepted in the United States of America (GAAP). The District uses the required *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* effective July 1, 2008. GAAP includes all relevant Governmental Accounting Board (GASB) pronouncements. In the basis financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. After November 30, 1989, the District follows GASB pronouncements only, and does not follow any FASB guidance issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**Basis of Accounting**

The District's financial statements are reported using the accrual basis of accounting. Under this accounting basis, revenues are recognized when earned and expenses are recorded when incurred.

The financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Reporting Entity**

Hawkins County Emergency Communications District is a component unit of the county government of Hawkins County. Per T.C.A. 7-86-114, the District cannot "issue its negotiable bonds, notes and debt obligations for lease and/or lease purchases in anticipation of the collection of revenues for the purpose of constructing, acquiring, reconstructing, improving, bettering or expanding any facility or service authorized by this chapter or any combination thereof, and to pledge to the payment of the interest and principal of such bonds, notes or debt obligations all or any part of the revenues derived from the operation of such facility, service or combination thereof without the approval of the legislative body of Hawkins County."

**Property, Plant and Equipment**

Capital Assets are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Property, plant and equipment are accounted for at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

**Compensated Absences**

The District allows employees to accumulate unlimited sick leave at the rate of eight hours per month or twelve days per year. Unused vacation days (180 hours maximum) are redeemable for cash or may be accumulated. Unused sick days will not be paid upon early termination. However,

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011**

sick days may be accumulated and taken as early time off prior to an employee's normal retirement. Since the employee's accumulating rights to receive compensation are contingent upon the absences being caused by future illnesses and since such amounts cannot be reasonably estimated, a liability for unused sick days is not recorded in the financial statements.

**Cash and Cash Equivalents**

The District includes cash and cash equivalents in the presentation of the Statement of Cash Flows. Cash equivalents for this purpose are highly liquid investments with an original maturity of three months or less when purchased.

**Use of Estimates**

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

**NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT**

The District is allowed to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Tennessee or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Tennessee or the United States; (4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks, domiciled in Tennessee, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date. Cash (all in checking account) was covered by FDIC insurance or the Tennessee Collateral Pool. There were no certificates of deposit.

**NOTE 3 - CAPITAL ASSETS AND DEPRECIATION**

Property, plant and equipment and estimated useful lives used for depreciation purposes consisted of the following at June 30, 2011:

	<u>2010</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>2011</u>	<u>ESTIMATED USEFUL LIFE</u>
Capital assets, not being depreciated:					
Land	\$ 126,314	\$ 0	\$ 0	\$ 126,314	
Capital assets, being depreciated:					
Building	\$ 551,751	\$ 1,850	\$ 0	\$ 53,601	40 years
Furniture & Fixtures	11,510	0	0	11,510	5 years
Vehicles	15,500	0	0	15,500	5 years
Office Equipment	17,440	0	0	17,440	5 years
Communications System	<u>812,769</u>	<u>0</u>	<u>0</u>	<u>812,769</u>	5-10 years
Total depreciable assets:	1,408,970	1,850	0	1,410,820	
Less Accumulated Depreciation:					
Building	14,981	13,825	0	28,804	

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011**

Furniture & Fixtures	\$ 1,649	\$ 2,302	\$ 0	\$ ,951
Vehicles	7,750	3,100	0	10,850
Office Equipment	6,970	2,788	0	9,758
Communications System	<u>462,512</u>	<u>40,611</u>	<u>0</u>	<u>503,124</u>
Total Accumulated Depreciation:	<u>493,862</u>	<u>62,626</u>	<u>0</u>	<u>556,487</u>
Net Fixed Assets	<u>\$ 1,041,422</u>	<u>\$ (60,775)</u>	<u>\$ 0</u>	<u>\$ 980,647</u>

**NOTE 4 - ECONOMIC DEPENDENCY**

Tennessee state law mandates collection of a surcharge by telephone companies from their customers to fund established E-911 agencies. Hawkins County Emergency Communications District received approximately 34% of its total revenue from surcharges collected by Embarq, CenturyLink and AT&T. Another \$328,655, or 44%, comes from the State Emergency Communications Board from cellular telephone charges and grants. These revenues are insufficient to pay the costs of District operations. For the agency to function, it also depends on appropriations from the county, which this year amounted to \$140,000, or 19%, of total (operating and non-operating) revenues.

**NOTE 5 - RISK MANAGEMENT**

Significant losses in the areas of employee health, accident, general liability, errors and omissions and auto liability are covered through commercial insurance policies. There have been no reductions in coverage, and settlement amounts have not exceeded insurance coverage for the current year or three prior years.

**NOTE 6 - EMPLOYEE'S RETIREMENT PLAN**

**Plan Description**

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). 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 Hawkins County Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew

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June 30, 2011**

Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

**Funding Policy**

Hawkins County Emergency Communication District requires employees to contribute 5.0 percent of earnable compensation. The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 6.11% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2011, the District's annual pension cost of \$22,068 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 2.5 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 ten-year period. Hawkins County 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, 2009 was 14 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

**Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
June 30, 2011	\$ 22,068	100.00%	\$0.00
June 30, 2010	\$ 26,599	100.00%	\$0.00
June 30, 2008	\$ 23,020	100.00%	\$0.00

**Funded Status and Funding Progress**

As of July 1, 2010, the most recent actuarial valuation date, the plan was 80.23% percent funded. The actuarial accrued liability for benefits was \$0.4 million, and the actuarial value of assets was \$0.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.3 million, and the ratio of the UAAL to the covered payroll was 24.36% percent.

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

**HAWKINS COUNTY  
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NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011**

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.

**NOTE 7 - EQUIPMENT RENTAL**

The District rents equipment from telephone companies for use in daily operations. These rents are paid on a month-to-month basis with no minimum requirements, no terms and no buy-out provisions.

**NOTE 8 - LONG-TERM LIABILITES**

During the fiscal year ended June 30, 2010, the District borrowed funds in the amount of \$678,400 from First Community Bank to finance the new communications facility. Note principal and interest payments are due in monthly installments of \$5,946. This note bears a 6.5% interest rate payable monthly for fifteen years through 2024. The District made principal payments of \$31,929 and interest payments of \$39,423 during the year. Balance at year-end is \$621,766 with \$31,193 being classified as current.

During the fiscal year ended June 30, 2010, the District borrowed funds in the amount of \$169,600 from First Community Bank to finance communications equipment. Note principal and interest payments are due in monthly installments of \$1,486. This note bears a 6.5% interest rate payable monthly for five years through 2014 with a balloon payment due July 29, 2014. The District made principal payments of \$10,931 and interest payments of \$6,901 during the year. Balance at year-end is \$155,448 with \$7,797 being classified as current.

Changes in outstanding long-term debt for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Building Note	\$ 653,695	\$ 0	\$ 31,929	\$ 621,766	\$ 31,193
Equipment Note	<u>166,379</u>	<u>0</u>	<u>10,931</u>	<u>155,448</u>	<u>7,797</u>
Total	<u>\$ 820,074</u>	<u>\$ 0</u>	<u>\$ 42,860</u>	<u>\$ 777,214</u>	<u>\$ 38,990</u>

Scheduled principal payments for the next five years and in the aggregate on the above notes:

2012	\$ 38,990
2013	41,778
2014	44,816
2015	171,694
2016	40,623
2017-2021	248,805
2022-2024	<u>190,508</u>
	<u>\$ 777,214</u>

**HAWKINS COUNTY**  
**EMERGENCY COMMUNICATIONS DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 9 - CAPITAL LEASES**

The District leases a vending machine from Evending under a capital lease. The economic substance of the lease is that the District is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the District's assets and liabilities. The leased asset is included in Furniture and Fixtures.

**NOTE 10 - SUBSEQUENT EVENTS**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through February 2, 2012, the date the financial statements were available to be issued.

For fiscal year June 30, 2012, the District will receive an additional \$35,000 in county appropriations. On August 25, 2011, the District was approved for a rate increase from the State of Tennessee, Tennessee Emergency Communications Board. It is estimated that this will generate additional revenue of approximately \$12,000 monthly.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2011**

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE UNDER (OVER)</u>
Operating Revenue				
Telephone Surcharges	\$ 226,301	\$ 226,301	\$ 252,210	\$ (25,909)
Operational Funding	187,532	187,532	188,855	(1,323)
Cellular Income	<u>152,350</u>	<u>152,350</u>	<u>139,800</u>	<u>12,550</u>
Total Operating Revenue	566,183	566,183	580,865	(14,682)
Operating Expenses				
Salaries	355,233	355,233	434,674	(79,441)
Employee Benefits	109,055	109,055	113,040	(3,985)
Addressing/Mapping Expense	1,500	1,500	26,413	(24,913)
Advertising	125	125	1,200	(1,075)
Audit Services	9,500	9,500	6,500	3,000
Bank Service Charges	89,183	89,183	407	88,776
Internet Charges	1,400	1,400	2,021	(621)
Legal Services	6,000	6,000	6,500	(500)
Maintenance Agreements	-	-	10,460	(10,460)
Lease/Rental - Communications Equipment	37,513	37,513	52,942	(15,429)
Maintenance and Repairs - Communications Equipment	9,480	9,480	-	9,480
Maintenance and Repairs - Buildings and Facilities	270	270	3,873	(3,603)
Maintenance and Repairs - Office Equipment	-	-	66	(66)
Maintenance and Repairs - Vehicle	2,300	2,300	1,677	623
NCIC/TBI/TIES	24,332	24,332	8,225	16,107
Office Supplies	5,400	5,400	508	4,892
Custodial Supplies	1,200	1,200	762	438
Postage	125	125	176	(51)
Small Equipment	4,700	4,700	975	3,725
Uniforms and Shirts	500	500	390	110
Utilities - Electric, Water and Sewer	5,763	5,763	6,683	(920)
Utilities - General Telephone and Pagers	7,900	7,900	17,125	(9,225)
Dues & Subscriptions	1,090	1,090	846	244
Training	3,500	3,500	5,289	(1,789)
Travel Expenses	2,500	2,500	261	2,239
Insurance	16,459	16,459	15,777	682
Other Charges	-	-	13,641	(13,641)
Depreciation	<u>52,036</u>	<u>52,036</u>	<u>62,625</u>	<u>(10,589)</u>
Total Operating Expenses	747,064	747,064	793,056	(45,992)
Non-Operating Revenue/(Expenses)				
County Appropriations	140,000	140,000	140,000	-
TECB Grants and Reimbursements	22,000	22,000	22,000	-
Miscellaneous Income	-	-	2,596	2,596
Interest Expense	-	-	(60,043)	(60,043)
Penalties Expense	-	-	(14,336)	(14,336)
Interest Income	<u>-</u>	<u>-</u>	<u>23</u>	<u>23</u>
Total Non-Operating Revenue	162,000	162,000	90,240	(71,760)
Increase (Decrease) in Net Assets	\$ (18,881)	\$ (18,881)	\$ (121,951)	\$ (103,070)
Net Assets-Beginning of Period	<u>210,023</u>	<u>210,023</u>	<u>210,023</u>	
Net Assets - End of Period	<u>\$ 191,142</u>	<u>\$ 191,142</u>	<u>\$ 88,072</u>	

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
June 30, 2011**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$321	\$400	\$79	80.23%	\$325	24.36%
July 01, 2007	\$241	\$297	\$56	81.14%	\$265	21.13%

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

**SUPPLEMENTARY INFORMATION**

**HAWKINS COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF STATE FINANCIAL ASSISTANCE**

**For the year ended June 30, 2011**

Grantor	Grant Number	Beginning (Accrued) Deferred	Receipts	Expenditures	Ending (Accrued) Deferred
Tennessee Emergency Communications Board Training Reimbursement Program	N/A	\$ -	\$ 12,000	\$ 12,000	\$ -
Tennessee Emergency Communications Board GIS Mapping Maintenance Grant		-	10,000	10,000	-
		<u>\$ -</u>	<u>\$ 22,000</u>	<u>\$ 22,000</u>	<u>\$ -</u>

**DAVID M. ELLIS**

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

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

To the Board of Directors of  
Hawkins County Emergency Communications District  
Rogersville, Tennessee

I have audited the financial statements of Hawkins County Emergency Communications District, as of and for the year ended June 30, 2011, which collectively comprise the Hawkins County Emergency Communications District's basic financial statements and have issued my report thereon dated February 2, 2012. I conducted my 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 my audit, I considered Hawkins County Emergency Communications District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hawkins County Emergency Communications District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Hawkins County Emergency Communications District's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Items 11-03 and 11-04 described in the accompanying schedule of findings and questioned costs

were identified as deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawkins County Emergency Communications District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-01, 11-02, 11-05 and 11-06.

Hawkins County Emergency Communications District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Hawkins County Emergency Communications District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the Comptroller of the State of Tennessee and the U.S. Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.



David M. Ellis, CPA  
February 2, 2012

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011**

**Prior and Current Year Findings:**

**11-01 Non-Compliance:**

*Condition:* The District has not made required payroll related tax deposits, and in some cases payroll related tax returns in a proper or timely manner.

*Criteria:* The Internal Control and Compliance Manual for Tennessee Municipalities states that "Officials should ensure that a detailed review is made of all known compliance requirements."

*Effect:* Failure to deposit and/or submit required deposits/returns have resulted in a loss to the District due to interest and penalties assessed by state and federal agencies.

*Recommendation:* The District should take any possible steps to ensure that all required payroll related tax deposits and/or returns be submitted/filed within required due dates.

*Management's Comments:* Management concurs and will establish procedures to ensure proper submission of required payroll tax related deposits and returns.

**11-02 Actual Expenses over Budgeted Amounts:**

*Condition:* Actual expenses of some line items were more than budgeted amounts.

*Criteria:* Tennessee Code Annotated 7-86-120 requires emergency communications districts to adopt and operate under an annual budget. Expenses must be presented at the legal level of control, which is defined to be at the line item level.

*Effect:* The district may spend money that has not been budgeted.

*Recommendation:* The district should review and amend the budget prior to purchase.

*Management's Comments:* The board will review and amend the budget at the meeting prior to year end.

**11-03 Audit Adjustments Were Required for Proper Financial Statement Presentation**

*Condition:* At June 30, 2011, certain general ledger accounts were materially incorrect, and audit adjustments were required for the financial statements to be free of misstatements at year-end.

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 4, Chapter 2, Section 1 states:

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011**

Municipal officials should ensure that a complete, self-balancing group of accounts is established and maintained for each fund. For adequate accounting, municipalities must maintain a general ledger, cash receipts journal, and cash disbursements journal for each fund, as well as subsidiary account records necessary to comply with legal provisions and generally accepted accounting principles and to present the financial position and changes in financial position.

*Effect:* The District's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

*Recommendation:* The District should have appropriate processes in place to ensure that its general ledger is accurate.

*Managements Comments:* Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

**Current Year Findings**

**11-04 Credit Card Receipts**

*Condition:* At June 30, 2011, receipts for credit card charges were not retained and matched to the charges on the credit card statement. A credit card statement is not adequate documentation for credit card charges

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, Section 7 states:

Municipal officials should ensure that purchases made with municipal debit or credit cards are approved in the same manner as any other purchase. All invoices from the vendor (duplicate copy of the credit or debit card transaction and the detailed invoice when a separate detailed invoice is returned with the summary debit or credit card receipt) must be maintained and included with the reconciliation of the credit card statement or bank statement.

*Effect:* The District's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

*Recommendation:* The District should have appropriate processes in place to ensure that credit card receipts be retained and matched against the charges as they appear on the credit card statement. The receipts should be attached to the statement and retained as documentation for the charges made.

*Managements Comments:* Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

**HAWKINS COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2011**

11-05 Deposit Procedures

*Condition:* Deposits were not made within three days of collection.

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 11, Section 1 states:

Municipal officials should ensure that collections are deposited daily, if possible, but no more than three business days after the initial collection, as required by state law.

*Effect:* Due to not depositing funds, the District is noncompliant with Tennessee state law.

*Recommendation:* Management of the District should follow procedures to ensure compliance.

*Managements Comments:* Management concurs.

11-06 Current Year Significant Deficiency

*Condition:* For the past two years, the District has incurred a negative change in net assets. For the June 30, 2010 fiscal year, the decrease in net assets was \$55,999 and for June 30, 2011, the decrease in net assets was \$121,951.

*Criteria:* The District should be structured such that the revenues received are adequate to cover expenses incurred. Public Charter 86 (effective July 1, 1999) T.C.A. 7-86-304 defines a financially distressed district based upon the District having a negative change in net assets for three consecutive years, having a deficit in total net assets or being in default on any indebtedness. A negative change in net assets indicates a District is not financially balanced for that term.

*Effect:* The effect of this deficiency results in the District not being considered financially balanced and the possibility of being considered financially distressed increases given two consecutive years of incurring a negative change in net assets.

*Recommendation:* Management of the District should continue to monitor revenue sources, expenses planned and incurred as well as monthly budgets. The District should be considering possible solutions and courses of action regarding the financial operations including contacting the Tennessee Emergency Communications Board.

*Managements Comments:* The District will approve a balanced budget. The budget and revenues will be monitored closely. The Tennessee Emergency Communications Board has been contacted for assistance. The Board of Directors have received approval for PSAP rate increases, as well as increased county appropriations.