

UNICOI COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
COMPONENT UNIT FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
PRINCIPAL OFFICIALS  
AS OF JUNE 30, 2011

BOARD OF DIRECTORS

W. A. Wilson, Jr.	Chairman
Ed Herndon	Vice-Chairman
Bill Hensley	Member
Glen Tilson	Member
Kent Harris	Member
Greg Lynch	Member
Brushy Lewis	Member
Jim Pate	Member
Johnny Lynch	Member
Robert Adams	Member

MANAGEMENT

Patsy Ledford	Director
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UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010

As financial management of the Unicoi County Emergency Communications District (the "District"), a component unit of the Unicoi County, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

**Financial Highlights**

Operating loss for the Emergency Communications District was \$27,984 for fiscal year 2011, compared to \$71,666 for fiscal year 2010 and \$52,738 for fiscal year 2009. Net loss produced a decrease in net assets of \$8,196 in 2011, \$49,502 in 2010, and \$27,657 in 2009. The term "net assets" refers to the difference between assets and liabilities. At the close of the fiscal year 2011, the District had net assets of \$389,739, a decrease of 2% over the prior year, and at the close of the fiscal year 2010, the District had net assets of \$397,935, a decrease of 11% over the prior year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the District consists of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report also contains other supplementary information concerning the District's budget to actual comparisons and certain non-financial information required by the Tennessee Emergency Communications Board.

Basic financial statements: The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statements of net assets present 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. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event 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.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget to actual comparison and certain non-financial information required by the Tennessee Emergency Communications Board.

**Financial Analysis**

Net assets may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$389,739 at June 30, 2011. This represents a decrease of \$8,196 (2%) over the previous year. The unrestricted net assets were \$148,377. At the close of June 30, 2010, assets exceeded liabilities by \$397,935 and represented a decrease of \$49,502 (11%) over the previous year. The unrestricted net assets were \$84,282.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010

Emergency Communications District's Net Assets are as follows for the fiscal years ended June 30, 2011, 2010, and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 167,524	\$ 84,977	\$ 168,619
Capital Assets	<u>241,362</u>	<u>313,653</u>	<u>343,738</u>
Total Assets	408,886	398,630	512,357
Current Liabilities	19,147	695	64,920
Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	19,147	695	64,920
Net Assets:			
Invested in Capital Assets; Net of Related Debt	241,362	313,653	283,737
Unrestricted	<u>148,377</u>	<u>84,282</u>	<u>163,700</u>
Total Net Assets	<u>\$ 389,739</u>	<u>\$ 397,935</u>	<u>\$ 447,437</u>

Emergency Communications District's Changes in Net Assets are as follows for the fiscal years ended June 30, 2011, 2010, and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ 354,208	\$ 322,308	\$ 307,797
Operating Expenses	<u>382,192</u>	<u>393,974</u>	<u>360,535</u>
Income (loss) from Operations	(27,984)	(71,666)	(52,738)
Non-Operating Revenues (Expenses):			
State Grants and Reimbursements	18,000	22,251	25,677
Interest Income	1,788	339	1,972
Interest Expense	<u>-</u>	<u>(426)</u>	<u>(2,568)</u>
Non-Operating Revenues (Expenses):	<u>19,788</u>	<u>22,164</u>	<u>25,081</u>
Change in Net Assets	(8,196)	(49,502)	(27,657)
Net Assets, Beginning of Year	<u>397,935</u>	<u>447,437</u>	<u>475,094</u>
Net Assets, End of Year	<u>\$ 389,739</u>	<u>\$ 397,935</u>	<u>\$ 447,437</u>

**Significant Event**

In October 2004, the District signed a capital outlay note to purchase communications equipment. The original amount of the loan was \$300,000, with principal payments of \$60,000 due annually. The loan was paid in full as of October 2009. The District currently has no outstanding debt.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011 AND 2010

**Cash Flows**

Net cash from operating activities during the year ended June 30, 2011, was \$65,923, an increase of \$38,530 from the prior year amount. This increase was principally due to higher operating revenues. Net cash used by capital and financing activities included the purchase of equipment of \$3,389 during the year ended June 30, 2011. Net cash from investing activities for the year ended June 30, 2011 consisted of interest income totaling \$1,788.

Net cash from operating activities during the year ended June 30, 2010, was \$27,393, an increase of \$27,511 from the prior year amount. This increase was principally due to higher operating revenues. Net cash used by capital and financing activities included repayment of debt of \$60,000 and purchase of equipment of \$41,294 during the year ended June 30, 2010. Net cash from investing activities for the year ended June 30, 2010 included the redemption of a CD totaling \$24,994.

**Budgeting Highlights**

The original budgets were approved in June 2010 for the fiscal year ended June 30, 2011; and in June 2009 for the fiscal year ended June 30, 2010. The original and final budgets are presented as separate columns in the supplementary information. Budget variances for the June 30, 2011 and 2010 fiscal years are a result of a failure to formally amend the budget during the year. The largest variance was depreciation being over budget by \$73,900.

**Capital Asset and Debt Administration**

Capital Assets: The District's investment in capital assets amounts to \$241,362, net of accumulated depreciation as of June 30, 2011, a decrease of \$72,291. Capital assets primarily include building, communications equipment, and computer hardware and software used in 911 communications.

Long-Term Debt: The District had no long-term debt as of June 30, 2011 and 2010, respectively.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Unicoi County Emergency Communications District, 102 North Main Street, Erwin, Tennessee 37650.

Lewis  
& Associates, P.C.  
Certified Public Accountants

Kenneth L. Lewis, C.P.A.,  
President

John F. Hunter, CPA  
T. Craig Ratliff, CPA  
Wayne Turbyfield, CPA  
Jeff Jennings, CPA  
Jennifer C. Penix, CPA  
Martha Burge, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Unicoi County Emergency  
Communications District  
Unicoi, Tennessee 37650

We have audited the accompanying basic financial statements of the Unicoi County Emergency Communications District, a component unit of the Unicoi County, Tennessee, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Emergency Communications District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Unicoi County Emergency Communications District, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years 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 April 30, 2012 on our consideration of the Unicoi County Emergency Communications 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 audits.



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Virginia Society of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 14 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Unicoi County Emergency Communications District. Such information 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 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 as a whole.



Lewis & Associates, P.C.  
Johnson City, Tennessee

April 30, 2012

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
 STATEMENTS OF NET ASSETS  
 JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets		
Cash-Checking	\$ 102,072	\$ 19,750
Cash-Savings and Certificates of Deposit	54,213	52,433
Accounts Receivable	<u>11,239</u>	<u>12,794</u>
Total Current Assets	167,524	84,977
Capital Assets		
Building	188,857	188,857
Office Equipment	46,792	46,142
Communications Equipment	<u>560,411</u>	<u>559,750</u>
	796,060	794,749
Less: Accumulated Depreciation	<u>(554,698)</u>	<u>(481,096)</u>
Net Capital Assets	<u>241,362</u>	<u>313,653</u>
Total Assets	\$ <u><u>408,886</u></u>	\$ <u><u>398,630</u></u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 181	\$ 695
Accrued Liabilities	<u>18,966</u>	<u>-</u>
Total Liabilities	19,147	695
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	241,362	313,653
Unrestricted Net Assets	<u>148,377</u>	<u>84,282</u>
Total Net Assets	\$ <u><u>389,739</u></u>	\$ <u><u>397,935</u></u>

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

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Emergency Telephone Service Charge	\$ 153,306	\$ 157,173
Tennessee Emergency Communications Board Shared Wireless Charge	46,111	44,655
Tennessee Emergency Communications Board Operating Fund	142,791	114,480
Other Income	<u>14,885</u>	<u>6,000</u>
Total Operating Revenues	357,093	322,308
Operating Expenses		
Address Mapping Expense	-	4,572
Audit Services	5,036	4,057
Accounting Services	6,000	6,163
Director	34,145	34,145
Maintenance Personnel	7,000	18,870
Dispatchers	163,041	152,555
Bonuses	11,200	11,500
Data Processing	2,530	5,695
Lease Office Equipment	2,661	1,474
Maintenance & Repairs - Communications Equipment	1,648	9,047
Maintenance & Repairs - Buildings & Facilities	88	185
Maintenance & Repairs - Vehicles	392	521
Maintenance Agreements	12,194	10,039
Office Supplies	6,363	3,650
Postage	-	101
Custodial Supplies	219	1,018
Dues & Memberships	150	588
Licenses & Fees	379	-
Small Equipment Purchases	425	295
Surety Bonds	120	100
TBI Access Missing Children	2,680	2,680
Travel Expenses	2,843	1,025
Training Expenses	4,785	3,163
Uniforms	455	1,074
Utilities - Cell Phones and Pagers	633	661
Utilities - General Telephone	46,190	51,218
Depreciation	<u>73,900</u>	<u>69,578</u>
Total Operating Expenses	<u>385,077</u>	<u>393,974</u>
Operating Income	(27,984)	(71,666)
Non-Operating Revenues (Expenses)		
Tennessee Emergency Communications Board Grants and Reimbursements	18,000	22,251
Interest Income	1,788	339
Interest Expense	<u>-</u>	<u>(426)</u>
Non-Operating Revenues (Expenses)	<u>19,788</u>	<u>22,164</u>
Increase (Decrease) in Net Assets	(8,196)	(49,502)
Net Assets, Beginning of Year	<u>397,935</u>	<u>447,437</u>
Net Assets, End of Year	<u>\$ 389,739</u>	<u>\$ 397,935</u>

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

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Receipts from Emergency Telephone Service Charges	\$ 154,861	\$ 158,896
Receipts from TN ECB Shared Wireless Charges	46,111	53,960
Receipts from TN ECB Operating Fund	142,791	128,841
Other Receipts	12,000	12,000
Payments to Service Providers	(46,236)	(51,242)
Payments to Suppliers for Goods and Services	(243,604)	(275,062)
	65,923	27,393
Net Cash Provided (Used) by Operating Activities	65,923	27,393
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(3,389)	(41,293)
Repayments of Principal	-	(60,000)
Interest Expense	-	(938)
State Grants and Reimbursements	-	4,251
	(3,389)	(97,980)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,389)	(97,980)
Cash Flows from Noncapital Financing Activities:		
State Grants and Reimbursements	18,000	29,004
	18,000	29,004
Net Cash Provided (Used) by Noncapital Financing Activities	18,000	29,004
Cash Flows from Investing Activities:		
Redemption of Certificates of Deposit	-	24,994
Interest Income	1,788	339
	1,788	25,333
Net Cash Provided (Used) by Investing Activities	1,788	25,333
Increase in Cash	82,322	(16,250)
Cash - Beginning of Year	19,750	36,000
Cash - End of Year	102,072	19,750
Reconciliation of Operating Income to Net Cash		
Flows from Operating Activities:		
Operating Income (Loss)	(27,984)	(71,666)
Adjustments to Reconcile Operating Income		
to Net Cash Flows from Operating Activities:		
Depreciation	73,900	69,578
(Increase) Decrease in Accounts Receivable	1,555	9,523
(Increase) Decrease in Due from TN ECB	-	23,666
Increase (Decrease) in Accounts Payable	(514)	(3,708)
Increase (Decrease) in Accrued Liabilities	18,966	-
	18,966	-
Net Cash Provided by Operating Activities	\$ 65,923	\$ 27,393

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

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The purpose of the Unicoi County Emergency Communications District is to oversee the operations of the 911 emergency telephone services for the city. The Board consists of nine members and is comprised of the Unicoi County Mayor, Town of Erwin Mayor, Town of Unicoi Mayor, Sheriff of Unicoi County, Director of Emergency Preparedness for Unicoi County, Administrator of Unicoi County Memorial Hospital, Member appointed by Unicoi County Commission, Member of Firefighters Association, and a Member at Large who is appointed by the County Mayor and confirmed by the County Commission.

Reporting Entity

The criteria set forth in Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity* was used to determine that the Emergency Communications District is a component unit of Unicoi County, Tennessee. The basic, but not the only, criterion for including a potential component unit within the primary government's reporting entity is the primary government's financial accountability for the potential component unit. Unicoi County is the primary government and exercises influence. Several positions of the Board of the Emergency Communications District are appointed by the primary government and the remaining positions are based on elected officials of the County and seats maintained by various occupants in the County. The County controls the borrowing power of the Emergency Communications District and sets the rate for the E-911 surcharge income.

Basis of Accounting

The financial statements of the Emergency Communications District have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. As required by Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the Emergency Communications District follows all GASB pronouncements and FASB Statements issued on or before November 30, 1989 except those that conflict with a GASB pronouncement. The District follows only GASB guidance issued after November 30, 1989 and does not follow any FASB guidance issued after that date.

Budgets and Budgetary Accounting

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

- 1 Formal budgetary integration is employed throughout the year as a management control device.
- 2 Budgets are adopted on a modified cash basis. A reconciliation of the budgetary data to the accrual basis financial statements is included with the accompanying financial statements.
- 3 All budgetary data presented in the accompanying financial statements is the final approved revised data.
- 4 Budget items can only be revised upon approval of the Board of Directors.

Income Taxes

The Emergency Communications District is an agency organized and existing pursuant to the provisions of Tennessee Code Ann. 7-86-101, which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses

The Emergency Communications District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of the Emergency Communications District are 911 surcharges paid by Unicoi County customers and state shared revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues are recognized as earned on a monthly basis. When an expense is incurred for the purposes for which both restricted and unrestricted net assets are available, restricted net assets are applied first.

Cash

For purposes of the Statement of Cash Flows, the Emergency Communications District considers all bank and certificate of deposits and any highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of deposits, less amounts insured by federal deposit insurance. The collateral must be held by the Emergency Communications District, its agent, or by the Federal Reserve, in the Emergency Communications District's name.

Depreciation

Depreciation of capital assets is charged as an expense against operations and accumulated depreciation is reported on the balance sheet. Depreciation is computed using straight-line method over the estimated useful lives, ranging from 5-40 years.

Concentrations of Credit Risk

Financial instruments that potentially subject the Emergency Communications District to concentrations of credit risk are primarily cash and accounts receivable. The District's bank deposits, including certificates of deposit, are maintained in banks participating in the Tennessee Collateral Pool for Public Deposits and, consequently, are fully insured. Management does not believe that significant credit risk exists at June 30, 2011 and 2010.

NOTE 2—CASH AND INVESTMENTS

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

At June 30, 2011 and 2010, total demand deposits and certificates of deposit for the Emergency Communication District were insured and/or collateralized in one of the following ways. Deposits were insured by the FDIC up to \$250,000. Deposits in excess of FDIC limits were collateralized by securities pledged by the bank.

At June 30, 2011, the District's carrying amount of deposits was \$156,285 and the bank balance was \$156,486. Of the bank balance, all of the \$156,486 was covered by federal depository insurance. At June 30, 2010, the District's carrying amount of deposits was \$72,183 and the bank balance was \$72,326. Of the bank balance, all of the \$72,326 was covered by federal depository insurance.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3—PROPERTY, PLANT, AND DEPRECIATION

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

	June 30, 2010	Additions	Deletions	June 30, 2011
Building and Improvements	\$ 188,857	\$ -	\$ -	\$ 188,857
Communications Equipment	559,750	1,186	(525)	560,411
Office Equipment	46,142	650	-	46,792
Total	794,749	1,836	(525)	796,060
Less Accumulated Depreciation				
Building and Improvements	(45,495)	(11,419)	-	(56,914)
Communications Equipment	(396,247)	(60,708)	296	(456,659)
Office Equipment	(39,354)	(1,771)	-	(41,125)
Total Accumulated Depreciation	(481,096)	(73,898)	296	(554,698)
Net Capital Assets	\$ 313,653	\$ (72,062)	\$ (229)	\$ 241,362

Capital Assets activity for the year ended June 30, 2010 was as follows:

	June 30, 2009	Additions	Deletions	June 30, 2010
Building and Improvements	\$ 188,857	\$ -	\$ -	\$ 188,857
Communications Equipment	525,252	34,498	-	559,750
Office Equipment	41,384	4,758	-	46,142
Total	755,493	39,256	-	794,749
Less Accumulated Depreciation				
Building and Improvements	(34,060)	(11,435)	-	(45,495)
Communications Equipment	(339,761)	(56,486)	-	(396,247)
Office Equipment	(37,934)	(1,420)	-	(39,354)
Total Accumulated Depreciation	(411,755)	(69,341)	-	(481,096)
Net Capital Assets	\$ 343,738	\$ (30,085)	\$ -	\$ 313,653

NOTE 4—LONG-TERM DEBT

On October 4, 2004, the Emergency Communications District signed a capital outlay note in the amount of \$300,000 to purchase communications equipment at a rate of 3.45%. The note was paid in full in September 2009.

Long-term debt activity for the year ended June 20, 2010 was as follows:

	June 30, 2009	Additions	Reductions	June 30, 2010	Amount Due Within One Year
Notes Payable	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -
Total Notes Payable	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 5— RELATED PARTY TRANSACTIONS

The Emergency Communications District contracts monthly bookkeeping services. The contracted bookkeeper as of June 30, 2011 is the wife of a member of the Board of Directors. The contracted bookkeeper provides monthly accounting services for the District which, includes the maintaining of accounting records, payment of various bills, and reconciliation of bank accounts.

The Emergency Communications District is a component unit of the Unicoi County. Employees providing dispatch services are employees of Unicoi County and are paid through the County. The District reimburses the County for payroll expenses for these services. During 2011, total payments to the County for employee services were \$204,186.

NOTE 6—RISK MANAGEMENT

The Emergency Communications District is exposed to various risks of loss to theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The Emergency Communications District's risk of loss on the building is covered by its commercial package insurance policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The loss to other assets is not covered. The Emergency Communications District feels that as the prices for equipment dropped, it would cost less to replace damaged items than the cost of insurance.

NOTE 7—SUBSEQUENT EVENTS

Events and transactions were evaluated through April 30, 2012, the date financial statements were issued. During this period, no material recognizable or nonrecognizable subsequent events were noted.

NOTE 8—LITIGATION

The Emergency Communications District is a codefendant in a lawsuit arising from former and present dispatchers of the Unicoi County 911 System alleging failure to pay overtime wages to the dispatchers. In addition to the overtime wages, the lawsuit requests liquidated damages and attorney fees. The amount and extent of the said liability is still in dispute. The Emergency Communications District feels they may have liability to the dispatchers due to establishing a work schedule for dispatchers beyond a 40-hour work week. The Unicoi County Emergency Communications District has accrued \$18,966 with the expectation of paying the dispatchers for the overtime worked. This amount has been recorded in the financial statements.

NOTE 9—DISTRESSED STATUS

On May 4, 2011 the Tennessee Emergency Communications Board placed the Unicoi County 911 in "distressed" status as a result of the Unicoi County 911 having a negative change in net assets for three consecutive years.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance
<b>Operating Revenues</b>				
Emergency Telephone Service Charge	\$ 150,000	\$ 150,000	\$ 153,306	\$ 3,306
TN ECB Shared Wireless Charge	196,000	196,000	46,111	(149,889)
TN ECB Operating Fund	-	-	142,791	142,791
Other Income	12,000	12,000	14,885	2,885
<b>Total Operating Revenues</b>	<b>358,000</b>	<b>358,000</b>	<b>357,093</b>	<b>(907)</b>
<b>Operating Expenses</b>				
Address Mapping Expense	-	-	-	-
Audit Services	5,000	5,000	5,036	(36)
Accounting Services	6,000	6,000	6,000	-
Director	34,145	34,145	34,145	-
Maintenance Personnel	7,000	7,000	7,000	-
Dispatchers	186,615	186,615	163,041	23,574
Bonuses	13,000	13,000	11,200	1,800
Data Processing	9,500	9,500	2,530	6,970
Lease Office Equipment	2,500	2,500	2,661	(161)
Maintenance & Repairs - Communications Equipment	9,000	9,000	1,648	7,352
Maintenance & Repairs - Buildings & Facilities	-	-	88	(88)
Maintenance & Repairs - Vehicles	1,000	1,000	392	608
Maintenance Agreements	9,200	9,200	12,194	(2,994)
Office Supplies	7,000	7,000	6,363	637
Postage	250	250	-	250
Custodial Supplies	1,500	1,500	219	1,281
Dues & Memberships	1,600	1,600	150	1,450
Licenses & Fees	-	-	379	(379)
Small Equipment Purchases	4,000	4,000	425	3,575
Surety Bonds	1,200	1,200	120	1,080
TBI Access Missing Children	2,500	2,500	2,680	(180)
Travel Expenses	5,000	5,000	2,843	2,157
Training Expenses	3,000	3,000	4,785	(1,785)
Uniforms	1,500	1,500	455	1,045
Utilities - Cell Phones and Pagers	990	990	633	357
Utilities - General Telephone	55,000	55,000	46,190	8,810
Depreciation Expense	-	-	73,900	(73,900)
<b>Total Operating Expenses</b>	<b>366,500</b>	<b>366,500</b>	<b>385,077</b>	<b>(18,577)</b>
<b>Operating Income (Loss)</b>	<b>(8,500)</b>	<b>(8,500)</b>	<b>(27,984)</b>	<b>(19,484)</b>
<b>Non-Operating Revenues (Expenses)</b>				
Reimbursement TN Emergency Communications				
Board Grants and Reimbursements	8,000	8,000	18,000	10,000
Interest Income	500	500	1,788	1,288
Interest Expense	-	-	-	-
<b>Non-Operating Revenues (Expenses)</b>	<b>8,500</b>	<b>8,500</b>	<b>19,788</b>	<b>11,288</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,196)</b>	<b>\$ (8,196)</b>

See independent auditors' report.

UNICOI COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues				
Emergency Telephone Service Charge	\$ 128,735	\$ 128,735	\$ 157,173	\$ 28,438
TN ECB Shared Wireless Charge	267,723	267,723	44,655	(223,068)
TN ECB Operating Fund	-	-	114,480	114,480
Other Income	12,000	12,000	6,000	(6,000)
Total Operating Revenues	408,458	408,458	322,308	(86,150)
Operating Expenses				-
Address Mapping Expense	-	-	4,572	(4,572)
Audit Services	6,000	6,000	4,057	1,943
Accounting Services	6,000	6,000	6,163	(163)
Contracts with Government Agencies	62,000	62,000	-	62,000
Director	34,145	34,145	34,145	-
Maintenance Personnel	-	-	18,870	(18,870)
Dispatchers	152,555	152,555	152,555	-
Bonuses	12,200	12,200	11,500	700
Data Processing	8,000	8,000	5,695	2,305
Lease Office Equipment	2,500	2,500	1,474	1,026
Maintenace & Repairs - Communications Equipment	7,300	9,300	9,047	253
Maintenace & Repairs - Buildings & Facilities	-	-	185	(185)
Maintenace & Repairs - Vehicles	5,000	3,000	521	2,479
Maintenace Agreements	5,000	5,000	10,039	(5,039)
Office Supplies	7,000	6,800	3,650	3,150
Postage	500	500	101	399
Custodial Supplies	2,500	2,500	1,018	1,482
Dues & Memberships	2,800	2,800	588	2,212
Licenses & Fees	-	-	-	-
Small Equipment Purchases	-	-	295	(295)
Surety Bonds	1,200	1,200	100	1,100
TBI Access Missing Children	2,500	2,500	2,680	(180)
Travel Expenses	5,000	5,000	1,025	3,975
Training Expenses	3,000	3,000	3,163	(163)
Uniforms	1,000	1,200	1,074	126
Utilities - Cell Phones and Pagers	1,500	1,500	661	839
Utilities - General Telephone	46,000	46,000	51,218	(5,218)
Depreciation	-	-	69,578	(69,578)
Total Operating Expenses	373,700	373,700	393,974	(20,274)
Operating Income (Loss)	34,758	34,758	(71,666)	(106,424)
Non-Operating Revenues (Expenses)				
Reimbursement TN Emergency Communications				
Board Grants and Reimbursements	10,000	10,000	22,251	12,251
Interest Income	600	600	339	(261)
Interest Expense	-	-	(426)	(426)
Non-Operating Revenues (Expenses)	10,600	10,600	22,164	11,564
Increase (Decrease) in Net Assets	\$ 45,358	\$ 45,358	\$ (49,502)	\$ (94,860)

See independent auditors' report.

# Lewis & Associates, P.C.

— Certified Public Accountants —

Kenneth L. Lewis, C.P.A.,  
President

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## 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  
Unicoi County Emergency Communications District

We have audited the financial statements of the Unicoi County Emergency Communications District as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated April 30, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the audit of the financial statements of the Unicoi County Emergency Communications District as of and for the years ended June 30, 2011 and 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Unicoi County Emergency Communications District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Unicoi County Emergency Communications District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Unicoi County Emergency Communications District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 the following deficiencies in Unicoi County Emergency Communications District's internal control to be material weaknesses:



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### **2011-1 Current Year Finding: Property, Plant, & Equipment**

The Unicoi County Emergency Communications District has invested a significant amount of money in its fixed assets. It is essential that the Organization accurately report these assets to its Board of Directors, its lenders, shareholders, the public, and other interested parties. To accomplish this objective, it must maintain a reliable fixed asset system and follow its procedures to accurately identify, record, accumulate, reconcile, and report its fixed assets and related depreciation costs. The District has not established internal control policies and procedures to properly record and report fixed assets. In addition, the District lacks a complete and accurate listing of fixed assets.

Recommendation:

We recommend that the District ensure that a complete physical inventory is performed to provide an accurate listing; reconcile the current year's fixed asset list to the prior year's list using current-year additions and deletions, and make all necessary corrections; accurately calculate current year depreciation expense and accumulated depreciation in accordance with generally accepted accounting principles in the United States of America; and retain documentation such as disposal forms to support deleted fixed assets.

Management Response:

The District is in the process of compiling a physical inventory of all fixed assets. When completed, the District will follow all generally accepted accounting principles and maintain appropriate documentation.

### **2010-1 Prior Year Finding: Financial Statement Preparation**

As required by SAS 115, *Communicating Internal Control Related Matters Identified in an Audit*, those responsible for the accounting and reporting function must have the skills and knowledge to apply generally accepted accounting principles in the preparation of the Organization's financial statements. The Unicoi County Communications District does not have personnel with qualifications and training to fulfill these responsibilities. The Unicoi County Communications District did not prepare the Unicoi County Communications District's financial statements and therefore, we as the auditor, drafted the financial statements in accordance with generally accepted accounting principles.

Recommendation:

We recommend that for future years, Unicoi County Communications District obtain the training required to prepare the financial statements in accordance with generally accepted accounting principles or contract that function with someone outside the entity that is capable of preparing the financial statements and is not employed by the audit firm.

Management Response:

This recommendation will be discussed by the Board of Directors to determine if the cost verses the benefit of obtaining the knowledge to prepare the financial statements or of hiring an outside firm to prepare the financial statements.

### **2010-2 Prior Year Finding: Segregation of Duties**

Due to the small size of the bookkeeping staff, the segregation of duties is determined to be inadequate. No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. The bookkeeper handles all income checks, posts receipts to revenue accounts, takes the deposit to the bank, and receives and reconciles the monthly bank statement.

Recommendation:

We recommend that employees other than the bookkeeper open the mail, prepare a list of cash received, and prepare the deposit slip. The bank statement and canceled checks should be reviewed by management before turning them over to the bookkeeper to prepare the bank reconciliations.

Management Response:

Management acknowledges that segregation of duties is less than ideal but believes that the benefits of adding staff to provide greater segregation would not justify the added costs.

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 the following deficiencies in Unicoi County Emergency Communications District's internal control to be significant deficiencies.

**2011-2 Current Year Finding: Yearend Adjustments**

During the course of the audit, we noted several general ledger accounts had unusual balances at yearend that included accounts such as accounts payable, accounts receivable, accrued liabilities, interest income, depreciation expense, certificate of deposit accounts, and fixed asset accounts. These unusual yearend balances were a result of the organization failing to reconcile these accounts, failing to accrue liabilities and payables correctly, and failing to make normal yearend adjustments. As a result of the failure to perform reconciliations of these significant accounts, several audit adjustments were required to correct these account balances.

Recommendation:

We recommend that staff or a third party CPA firm perform formal reconciliations to ensure that all general ledger accounts agree with subsidiary ledgers, backup detail, and proper financial statement classification.

Management Response:

Management acknowledges deficiencies in previous accounting procedures and has taken steps to ensure that all general ledger accounts agree with subsidiary ledgers, backup detail, and proper financial statement classifications.

**2011-3 Current Year Finding: General Ledger Account Classifications**

During the course of the audit, we identified several disbursements and receipts being posted to the wrong general ledger accounts. Most deposits were not being broken out into the proper revenue accounts. They were posting mainly to the shared wireless charges account. A payment for accounting services was recorded under auditing services. The Organization does not have an accounting policies and procedures manual to indicate the appropriate account coding and the Organization lacks accounting personnel with the required knowledge to perform these tasks.

Recommendation:

We recommend that the Organization implement policies and procedures to ensure proper posting to general ledger accounts. Additionally, we recommend that the client obtain the training required to record and prepare the entity's financial records.

Management Response:

Management plans to adopt a policy and procedure manual to assist in future accounting practices, and will strive to employ trained personnel.

**2011-4 Current Year Finding: Untimely Deposits of Cash Receipts**

During our testing, we identified several deposits that were not deposited with the bank in a timely manner. Untimely deposits can result in lost interest revenues to the Organization and increase the risk for loss or misappropriation of funds. It also limits available resources for management purposes and decisions may be negatively impacted by untimely or inaccurate financial data.

Recommendation:

We recommend that deposits be made regularly to ensure deposits are made in a timely fashion.

Management Response:

Management recognizes that deposits should be made within three banking days of receipt and will strive to meet this requirement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Unicoi County 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is as follows:

**2011-5 Current Year Finding: Exceeding of Budget**

Tennessee Code Annotated Section 7-86-120 states that no emergency communications district may spend money except in accordance with an adopted budget. The Schedule of Revenues and Expenses - Budget and Actual beginning on page 14 of the District's financial statements for the year ended June 30, 2011 and 2010, showed several expense line items that exceeded the adopted budget.

Recommendation:

The Board should be more diligent in amending the budget to comply with *Tennessee Code Annotated* Section 7-86-120.

Management Response:

The District recognizes the problem. We will be more diligent to amend the budget in order to comply with *Tennessee Code Annotated* Section 7-86-120.

The Unicoi County Emergency Communications District's response to the findings identified in our audit is described above. We did not audit the Unicoi County Emergency Communications' response and, accordingly, we express no opinion on it.

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



Lewis & Associates, P.C.  
Johnson City, Tennessee

April 30, 2012