

# Knoxville-Knox County

# E911

## Emergency Communications District



**FINANCIAL STATEMENTS**  
**JUNE 30, 2011 and JUNE 30, 2010**

*Prepared By:*  
*Knox County Finance Department*

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2011 and June 30, 2010

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

Knoxville, Tennessee

**FINANCIAL STATEMENTS**

June 30, 2011 and June 30, 2010

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**INTRODUCTORY  
SECTION**

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**BOARD OF DIRECTORS**

June 30, 2011

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*Mr. Nathan Rothchild, Chair*

*Mayor Tim Burchett, Vice Chair*

*Chief Stan Sharp, Secretary and Treasurer*

*Interim Mayor Mark Brown*

*Ms. Linda Murawski*

*Commissioner Brad Anders*

*Mr. Marvin Hammond*

*Sheriff Jimmy "J.J." Jones*

*Mr. Bill Cole*

*Mrs. Sheryl Rollins*

*Chief David Rausch*

## **FINANCIAL SECTION**



KPMG LLP  
Suite 1000  
401 Commerce Street  
Nashville, TN 37219-2422

## Independent Auditor's Report

The Board of Directors  
Knoxville – Knox County Emergency Communications District:

We have audited the accompanying financial statements of the Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Knoxville – Knox County Emergency Communications District as of June 30, 2011 and 2010, and the changes in financial position, and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information in the management's discussion and analysis on pages four through ten is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The information in the introductory and supplementary information sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

November 22, 2011



Knox County Emergency Communications District  
605 Bernard Avenue, Knoxville, TN 37921

J. Robert Coker, Executive Director

Phone: 865-215-1100

Fax: 865-215-1134

*The first CALEA certified 9-1-1 center in Tennessee*

### **Management's Discussion and Analysis**

As management of the Knoxville - Knox County Emergency Communications District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2011 and June 30, 2010. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements, and supplementary information when reviewing the District's financial activities and condition.

#### **Financial Highlights for Fiscal Year 2011**

- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$14,902,597 (*net assets*). Of this amount, \$10,451,607 is unrestricted. The unrestricted net assets amount is a total of two amounts: \$2,570,324 may be used to meet the District's ongoing obligations to citizens and creditors, while the remaining amount of \$7,881,283 is designated for the equipment reserve.
- ❖ The District's total net assets increased by \$2,139,890. This increase is primarily the result of the ongoing principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$1,389,919 out of the State of Tennessee's Operational Funding Program.
- ❖ The Districts total capital assets before depreciation increased by \$32,276. This increase is due to a purchase of a new vehicle for the District's operations.
- ❖ The District's total debt decreased by \$821,000. This decrease reflects the final \$660,000 in principal paid on the capital leases as well as \$161,000 paid to the County to reduce the Districts' indebtedness to the County for long-term funds previously advanced to the District. These items are discussed in Notes 6 and 7 of the Notes to the Financial Statements.

#### **Financial Highlights for Fiscal Year 2010**

- ❖ The assets of the District exceeded its liabilities at the close of the fiscal year by \$12,762,707 (*net assets*). Of this amount, \$8,573,545 is unrestricted. The unrestricted net assets amount is a total of two amounts: \$3,258,861 may be used to meet the District's ongoing obligations to citizens and creditors, while the remaining amount of \$5,314,684 is designated for the equipment reserve.
- ❖ The District's total net assets increased by \$2,091,271. This increase is primarily the result of the ongoing principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$1,094,269 out of the State of Tennessee's Operational Funding Program.
- ❖ The Districts total capital assets before depreciation decreased by \$77,268. This decrease is comprised of increased remodeling improvements made to the 911 call center facility, and the discontinued capital project that was in progress.

- ❖ The District's total debt decreased by \$801,000. This decrease reflects \$645,000 in principal paid on the capital leases as well as \$156,000 paid to the County to reduce the Districts' indebtedness to the County for long-term funds previously advanced to the District. These items are discussed in Notes 6 and 7 of the Notes to the Financial Statements.

## Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: 1) financial statements comprised of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial Statements.** 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.

The Statement of Revenues, Expenses, and Changes in Net Assets present information showing how the District's net assets changed during the last two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (full accrual accounting), regardless of the timing of the 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 (e.g., uncollected user service fees, uncollected subsidy payments, and earned but unused vacation leave).

The Statement of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the District for the last two fiscal years.

The financial statements can be found on pages 11-15 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16-26 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on pages 27-29 of this report.

## Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. As of June 30, 2011, the District's assets exceeded its liabilities by \$14,902,597 (*net assets*). At June 30, 2010, the District's net assets totaled \$12,762,707. The District's investment in capital assets consists of capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District utilizes these capital assets to provide services to citizens and

other user groups. As a result, these net assets, which currently amount to 30% of total net assets, are not available for future spending. Also, while the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$10,451,607 is a total of two amounts: \$2,570,324 may be used to meet the District's ongoing obligations to citizens and creditors and \$7,881,283 is designated for the District's equipment reserve.

As the following table shows, the District reported an increase in net assets of \$2,139,890 for the current fiscal year ended June 30, 2011. As previously noted, this increase is primarily the result of the principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$1,389,919 out of the State of Tennessee's Operational Funding Program. The increase of \$261,828 invested in capital assets, net of related debt, is primarily due to a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$660,000; 2) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$430,448; 3) an increase in invested in capital assets, net primarily due to the purchase of a new vehicle totaling \$32,276.

During the fiscal year ended June 30, 2010, the District reported an increase in net assets of \$2,091,271. This increase was primarily the result of the principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$1,094,269 out of the State of Tennessee's Operational Funding Program. The decrease of \$236,360 invested in capital assets, net of related debt, results chiefly from a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$645,000; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the 2010 fiscal year totaling \$804,092; 3) a decrease in invested in capital assets, net due to the increased remodeling improvements at the call center, and the discontinued capital project in progress totaling \$77,268.

**Knoxville-Knox County Emergency Communications District  
Net Assets**

	FYE June 30, 2011	FYE June 30, 2010	FYE June 30, 2009
Current and Other Assets	\$ 14,519,528	\$ 12,660,739	\$ 10,592,507
Capital Assets	4,450,990	4,849,162	5,730,522
Total Assets	<u>\$ 18,970,518</u>	<u>\$ 17,509,901</u>	<u>\$ 16,323,029</u>
Long-term Liabilities Outstanding	\$ 3,278,795	\$ 3,443,074	\$ 4,262,921
Other Liabilities	789,126	1,304,120	1,388,672
Total Liabilities	<u>\$ 4,067,921</u>	<u>\$ 4,747,194</u>	<u>\$ 5,651,593</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 4,450,990	\$ 4,189,162	\$ 4,425,522
Unrestricted:			
Designated equipment reserve	7,881,283	5,314,684	3,751,006
Undesignated	2,570,324	3,258,861	2,494,908
Total Net Assets	<u>\$ 14,902,597</u>	<u>\$ 12,762,707</u>	<u>\$ 10,671,436</u>

The next table shows the key elements from ongoing operations that contributed to the increase in net assets of \$2,139,890 during the current fiscal year. This increase compares to the fiscal year 2010 increase of \$2,091,271. There are a few reasons for this year's increase as opposed to last year's increase. Operating revenues, comprised mainly of user service fees, decreased by \$39,331 or approximately .66% during fiscal year 2011, operating expenses decreased by \$210,589 or 3.24%, a result primarily of decreased depreciation and amortization. Also, Nonoperating Revenues decreased by \$136,597 or 4.94%, the result of decreased grant funding, and Miscellaneous Revenue, while Nonoperating Expenses decreased by \$13,958 or 9.61%, due to interest payments on debt. In fiscal year 2010 operating revenues increased by \$20,911, while Nonoperating Revenues decreased by \$12,488.

For fiscal year 2011 Nonoperating Revenues decreased by \$136,597, that decrease is the combination of: decrease of the Tennessee Emergency Communications Board – Grants and Reimbursements totaling \$52,716, decrease of radio maintenance totaling \$38,113, decrease of \$33,195 in miscellaneous revenue which is comprised chiefly of charges for tower and facility rental, and interest earnings decreased by \$12,573 primarily as a result of lower interest rates during FY 2011.

Total expenses for FY 2011 decreased by \$224,547, with the decrease being comprised of an increase of \$281,958 in personnel costs: salaries and wages and employee benefits, decreased costs of contracted services totaling \$84,271, an increase in supplies and materials totaling \$28,127, a decrease in other charges totaling \$62,759, combined with decreased interest costs, and a lower depreciation expense. The difference in depreciation from the current fiscal year and the previous fiscal year amounted to \$373,644. The fiscal year 2011 decrease in interest expense was \$13,958. This decrease is the result of additional payments on debt. During FY 2010, total expenses decreased by \$269,170, with the decrease being comprised of increased costs of personnel (salaries and wages and employee benefits), an increase in contracted services, a decrease in supplies and materials, an increase in other charges, combined with reduced interest costs, and lower depreciation expense.

**Knoxville-Knox County Emergency Communications District  
Changes in Net Assets**

	FYE <u>June 30, 2011</u>	FYE <u>June 30, 2010</u>	FYE <u>June 30, 2009</u>
Revenues:			
Operating Revenues:			
Emergency Telephone Service Charges	\$ 3,530,553	\$ 3,897,051	\$ 4,170,255
TECB-Wireless Fees	997,110	965,618	999,501
TECB-Operational Funding Program	1,389,919	1,094,269	765,516
Other Operating Revenues - Tape Sales	23,795	23,770	24,525
Nonoperating Revenues:			
Contributions from Other Governments and Agencies	1,719,140	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828	492,828
Rental Income	159,000	159,000	159,000
TN Emergency Comm. Board - Grants and Reimbursements	80,046	132,762	120,997
Radio Maintenance (Non Public Safety Agencies)	122,136	160,249	122,976
Miscellaneous Income	28,616	61,811	31,487
Interest Income	25,664	38,237	130,087
<b>Total Revenues</b>	<b><u>8,568,807</u></b>	<b><u>8,744,735</u></b>	<b><u>8,736,312</u></b>
Expenses:			
Operating Expenses:			
Salaries and Wages	3,476,614	3,237,695	3,126,924
Employee Benefits	991,328	948,289	905,275
Contracted Services	1,134,169	1,218,440	1,155,264
Supplies and Materials	191,725	163,598	185,660
Other Charges	73,414	136,173	61,742
Depreciation and Amortization	430,448	804,092	1,301,611
Nonoperating Expenses:			
Interest	131,219	145,177	186,158
<b>Total Expenses</b>	<b><u>6,428,917</u></b>	<b><u>6,653,464</u></b>	<b><u>6,922,634</u></b>
<b>Change in Net Assets</b>	<b>2,139,890</b>	<b>2,091,271</b>	<b>1,813,678</b>
Net Assets July 1	<u>12,762,707</u>	<u>10,671,436</u>	<u>8,857,758</u>
<b>Net Assets June 30</b>	<b><u>\$ 14,902,597</u></b>	<b><u>\$ 12,762,707</u></b>	<b><u>\$ 10,671,436</u></b>

## **Budgetary Highlights**

Differences between the original budget and final amended budget for ongoing operations were relatively minor. The only revisions to the budget were within the major budget categories to cover individual line items that exceeded budget and also included the reappropriation of amounts reserved at the end of the previous fiscal year. Amendments to the budget increased the total revenue budget for the District in the amount of \$28,885, and amendments increased the total expense budget for the District in the same amount of \$28,885. The Schedule of Revenues and Expenses – Budget to Actual (Budget Basis), which is found in the supplementary information section of this report on pages 27, and 28, details the original budget, budget amendments, amended budget, and actual revenues and expenditures, as well as the variances from the final amended budget. The District did not exceed their original total budgets at the level of budgetary control, which is at the individual line item level.

Operating Revenues were \$18,066 under budget, while Nonoperating Revenues were a combined \$63,462 over budget. Operating expenses were \$1,200,628 under budget, and of the reserved and reappropriated amounts that were budgeted for Capital Outlay and the repayment of debt \$996,835 was spent. The net result of these budgetary variations was that the Fund Balance increased by \$1,717,062 compared with the budgeted net increase of \$672,907 in the final amended budget.

## **Capital Assets and Debt Administration**

**Capital Assets.** The District's investment in capital assets as of June 30, 2011, amounts to \$4,450,990 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, communications and office equipment, vehicle, software, and leasehold improvements. The District's investment in capital assets, net increased for the current fiscal year by 6%, or \$261,828, due chiefly to a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$660,000; 2) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$430,448; 3) an increase in invested in capital assets, net due to the purchase of a new vehicle totaling \$32,276. As of June 30, 2010, the District's net assets invested in capital assets amounted to \$4,189,162 (net of accumulated depreciation and related debt). For the fiscal year ending June 30, 2010, the District's investment in capital assets, net decreased 5%, or \$236,360, from the FY 2009 balance of \$4,425,522. This fiscal year 2010 decrease resulted chiefly from a combination of three items: 1) an increase in invested in capital assets, net due to a decrease in associated debt of \$645,000; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the 2010 fiscal year totaling \$804,092; 3) a decrease in invested in capital assets, net due to the increase in remodeling improvements at the call center, and a decrease in the discontinued capital project in progress totaling \$77,268. For a detailed schedule of the District's capital assets, see Note 5: Capital Assets on pages 22 and 23 in the Notes to the Financial Statements.

**Long-term Debt.** At the end of the current fiscal year, the District had paid the final capital lease obligation of \$660,000. The capital lease representing payment of principal on the CAD/CTI capital lease is now retired. At June 30, 2010 the District had capital lease obligations totaling \$660,000, or \$645,000 less than at June 30, 2009, resulting from payment of principal on the CAD/CTI capital lease. Compensated absences payable increased by a net of \$27,208 in FY 2011, and increased by a net of \$11,538 in FY 2010. For a detailed schedule of the District's long term debt, see Note 7: Long Term Liabilities on pages 24 and 25 in the Notes to the Financial Statements.

### **Requests for Information**

This financial report is designed to provide a general overview of the Knoxville-Knox County Emergency Communications District's finances for all of 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 the Office of the Executive Director, Knoxville-Knox County Emergency Communications District, 605 Bernard Avenue, Knoxville, Tennessee, 37917.

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET ASSETS  
June 30, 2011 and June 30, 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 13,899,563	\$ 12,007,953
Accounts Receivable	617,542	642,924
Due from Primary Government	2,423	4,400
Prepaid Items	-	5,462
Total Current Assets	14,519,528	12,660,739
 <b>Noncurrent Assets:</b>		
Capital Assets:		
Land	56,089	56,089
Buildings	5,099,736	5,099,736
Communications and Office Equipment	12,366,144	12,366,144
Vehicles	32,276	-
Computer Software	29,345	29,345
Leasehold Improvements	207,735	207,735
Subtotal	17,791,325	17,759,049
Less: Accumulated Depreciation	(13,340,335)	(12,909,887)
Total Capital Assets (Net of Accumulated Depreciation)	4,450,990	4,849,162
Total Assets	\$ 18,970,518	\$ 17,509,901

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

continued . . .

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET ASSETS - (Continued)  
June 30, 2011 and June 30, 2010**

	<b>2011</b>	<b>2010</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 75,269	\$ 28,892
Accrued Payroll Payable	287,133	238,336
Compensated Absences Payable	238,909	214,422
Due to Primary Government	20,815	1,470
Advances from Primary Government - Current	167,000	161,000
Capital Lease Obligations - Current	-	660,000
Total Current Liabilities	789,126	1,304,120
<b>Noncurrent Liabilities:</b>		
Compensated Absences Payable - Long Term	26,545	23,824
Advances from Primary Government - Long Term	3,252,250	3,419,250
Total Noncurrent Liabilities	3,278,795	3,443,074
Total Liabilities	4,067,921	4,747,194
 <b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	4,450,990	4,189,162
Unrestricted	10,451,607	8,573,545
Total Net Assets	\$ 14,902,597	\$ 12,762,707

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

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
For the Years Ended June 30, 2011 and June 30, 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues:</b>		
Emergency Telephone Service Charges	\$ 3,530,553	\$ 3,897,051
TECB - Wireless Fees	997,110	965,618
TECB - Operational Funding Program	1,389,919	1,094,269
Other Operating Revenues - Tape Sales	23,795	23,770
Total Operating Revenues	5,941,377	5,980,708
<b>Operating Expenses:</b>		
Salaries and Wages	3,476,614	3,237,695
Employee Benefits	991,328	948,289
Contracted Services	1,134,169	1,218,440
Supplies and Materials	191,725	163,598
Other Charges	73,414	136,173
Depreciation and Amortization	430,448	804,092
Total Operating Expenses	6,297,698	6,508,287
Operating Loss	(356,321)	(527,579)
<b>Nonoperating Revenues (Expenses):</b>		
Contributions from Other Governments and Agencies	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828
Rental Income	159,000	159,000
Tennessee Emergency Communications Board - Grants and Reimbursements	80,046	132,762
Radio Maintenance (Non Public Safety Agencies)	109,032	134,377
Radio Maintenance - County Highway Dept.	13,104	25,872
Miscellaneous Income	28,616	61,811
Interest Income	25,664	38,237
Interest Expense	(131,219)	(145,177)
Total Nonoperating Revenues (Expenses)	2,496,211	2,618,850
Change in Net Assets	2,139,890	2,091,271
Total Net Assets, July 1	12,762,707	10,671,436
Total Net Assets, June 30	\$ 14,902,597	\$ 12,762,707

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

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and June 30, 2010**

	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Surcharges and Other Revenues	\$ 6,276,511	\$ 6,818,089
Cash Payments to Suppliers for Goods and Services	(1,326,147)	(1,536,874)
Cash Payments for Payroll, Taxes and Related Benefits	(4,391,937)	(4,154,820)
	558,427	1,126,395
<b>Cash Flows from Noncapital Financing Activities</b>		
Contributions from Other Governments and Agencies	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828
Tennessee Emergency Communications Board - Grants and Reimbursements	80,046	132,762
	2,292,014	2,344,730
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Equipment	(32,276)	(30,257)
Principal Paid on Capital Leases Payable	(660,000)	(645,000)
Interest Paid on Capital Leases Payable	(131,219)	(145,177)
Payment to Primary Government for Debt Service	(161,000)	(156,000)
	(984,495)	(976,434)
<b>Cash Flows from Investing Activities</b>		
Interest Received	25,664	38,237
Net Increase in Cash and Cash Equivalents	1,891,610	2,532,928
Cash and Cash Equivalents - Beginning of Year	12,007,953	9,475,025
Cash and Cash Equivalents - End of Year	\$ 13,899,563	\$ 12,007,953

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

continued . . .

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS - (Continued)  
For the Years Ended June 30, 2011 and June 30, 2010**

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**Reconciliation of Operating Loss to  
Net Cash Provided by Operating Activities**

	<u>2011</u>	<u>2010</u>
Operating Loss	\$ (356,321)	\$ (527,579)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	430,448	804,092
Rental Income	159,000	159,000
Radio Maintenance (Non Public Safety Agencies)	122,136	160,249
Miscellaneous Income	28,616	61,811
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	25,382	456,321
(Increase) Decrease in Due from Primary Government	1,977	3,038
(Increase) Decrease in Prepaid Items	5,462	5,337
Increase (Decrease) in Accounts Payable	46,377	(24,215)
Increase (Decrease) in Accrued Payroll Payable	48,797	19,626
Increase (Decrease) in Compensated Absences Payable	27,208	11,538
Increase (Decrease) in Due to Primary Government	19,345	(2,823)
Net Cash Provided by Operating Activities	<u>\$ 558,427</u>	<u>\$ 1,126,395</u>

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

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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

**A. Reporting Entity**

The Knoxville - Knox County Emergency Communications District (the District) was established January 1, 1985, pursuant to the provisions of Section 7-86-101, Tennessee Code Annotated. The District has established and operates a consolidated public safety answering point (PSAP) service and emergency radio dispatch service for the residents of the City of Knoxville and Knox County, Tennessee.

The District is considered a component unit of Knox County, Tennessee and is discretely presented in the Knox County Comprehensive Annual Financial Report. The District is governed by an eleven-member Board of Directors (the Board). The majority of the Board is appointed by the Knox County Commission. Debt issuances or lease agreements exceeding five years require the approval of the Knox County Commission. The District has the authority to levy an emergency telephone service charge to be used to fund the emergency telephone service. The Knox County Commission, however, may reduce the levy established by the District, provided that the reduction does not preclude the District from the authorized activities provided in the Tennessee Code Annotated.

**B. Basis of Accounting**

The financial statements of the District are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The District has elected not to adopt the Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Governmental Accounting Standards Board Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*".

Additionally, proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are user fees for landline and wireless telephone

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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

customers, as well as charges for tapes. Operating expenses for proprietary funds include the cost of sales and services such as salaries and wages, employee benefits, contracted services, supplies and materials, other charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**C. Assets, Liabilities, and Net Assets**

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The District's cash, cash equivalents and investments are pooled and managed by the Trustee of Knox County. State Statutes authorize the District to invest in obligations of the federal government, State of Tennessee, U.S. governmental agencies, the State of Tennessee Local Government Investment Pool, certificates of deposit and repurchase agreements. All investments are reported at fair value. Short-term investments, however, are reported at cost, which approximates fair value. Currently, no investments are held in the District's name. Tennessee Code Annotated Section 5-8-201 requires financial institutions to secure the District's deposits by pledging governmental securities as collateral. The market value of the securities must be equal to 105 percent of the average daily balance of the District's deposits.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded at full value. Any amounts later determined to be uncollectible are written off when that determination is made. Any necessary allowance for doubtful accounts would not be material.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when paid, and expensed in the applicable future accounting period.

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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

4. Capital Assets

Capital assets, which include property, buildings, equipment, software and leasehold improvements, are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings, equipment, software and leasehold improvements are depreciated using the straight-line method over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Years</u>
Buildings	45
Communication and Office Equipment	5-15
Leasehold Improvements	15
Computer Software	7
Vehicles	5

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When capital assets are sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is charged or credited to operations.

Capital assets considered construction in progress are stated at cost and are depreciated using the straight-line method over their estimated useful lives when placed into service.

5. Compensated Absences Payable

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy that, upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned.

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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

Employees may accumulate vacation leave according to the following schedule:

<u>Years of Service</u>	<u>Maximum Accrual</u>
0-8	36 days
9-20	39 days
21 and greater	42 days

6. Fee Income

Emergency telephone user service fees are recognized on the accrual basis.

7. Designated Net Assets

The District's Board established an equipment reserve and this reserve is designated to purchase equipment for the District. The amount in the reserve for the years ended June 30, 2011 and 2010 totaled \$7,881,283 and \$5,314,684, respectively. These reserve amounts are included as a component of unrestricted net assets on the Statements of Net Assets.

8. Estimates

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

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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**NOTE 2: BUDGETARY INFORMATION**

As required by State Statutes, the District adopts an annual operating budget. The budget proposal is prepared by the Executive Director of the District and approved by the Board. The appropriated budget is prepared by division, major category, and line item. Expenditures cannot exceed a line item or major category within a division without an amendment to the budget approved by the Board. All annual appropriations lapse at fiscal year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are not reported as expenditures or liabilities because the commitments will be honored in the subsequent year. Outstanding encumbrances are reappropriated in the subsequent year. Encumbrances at June 30, 2011 and 2010 were \$66,517 and \$32,301, respectively. These encumbrances are related primarily to capital expenditures for the ongoing equipment projects. See Note 5.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The District reports a total increase or decrease in fund balance which enables the Board to determine the funds available for appropriation.

**NOTE 3: DEPOSITS AND INVESTMENTS**

At June 30, 2011, and June 30, 2010, the bank collateral pool administered by the Treasurer of the State of Tennessee covered the District's cash and cash equivalents, which were pooled and managed by the Trustee of Knox County. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the District.

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

The amount of collateral required to secure these deposits must be equal to 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

**NOTE 4: DEFERRED COMPENSATION PLAN**

The District provides the opportunity for each of its employees to participate in a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Under this plan, employees may elect to reduce their salary by at least \$20 per month in tax-deferred savings to supplement retirement income. The deferred compensation is generally not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as an asset or liability of the District.

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

**NOTE 5: CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Total Capital Assets Not Being: Depreciated				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Capital Assets Being Depreciated:				
Buildings	5,099,736	-	-	5,099,736
Communications and Office Equipment	12,366,144	-	-	12,366,144
Vehicle	-	32,276	-	32,276
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	17,702,960	32,276	-	17,735,236
Less Accumulated Depreciation for:				
Buildings	(738,747)	(115,045)	-	(853,792)
Communications and Office Equipment	(11,990,968)	(294,989)	-	(12,285,957)
Vehicle	-	(6,565)	-	(6,565)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	(150,826)	(13,849)	-	(164,675)
Total Accumulated Depreciation	(12,909,887)	(430,448)	-	(13,340,335)
Total Capital Assets Being Depreciated, Net	4,793,073	(398,172)	-	4,394,901
Total Capital Assets, Net	\$4,849,162	\$ (398,172)	\$ -	\$4,450,990

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

**NOTE 5: CAPITAL ASSETS (Continued)**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Construction in Progress	107,525	-	(107,525)	-
Total Capital Assets, Not Being Depreciated	<u>163,614</u>	<u>-</u>	<u>(107,525)</u>	<u>56,089</u>
Capital Assets Being Depreciated:				
Buildings	5,009,736	-	-	5,099,736
Communications and Office Equipment	12,335,887	30,257	-	12,366,144
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	<u>17,672,703</u>	<u>30,257</u>	<u>-</u>	<u>17,702,960</u>
Less Accumulated Depreciation for:				
Buildings	(623,703)	(115,045)	-	(738,748)
Communications and Office Equipment	(11,315,770)	(675,198)	-	(11,990,968)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	(136,977)	(13,849)	-	(150,826)
Total Accumulated Depreciation	<u>(12,105,795)</u>	<u>(804,092)</u>	<u>-</u>	<u>(12,909,887)</u>
Total Capital Assets Being Depreciated, Net	<u>5,566,908</u>	<u>(773,835)</u>	<u>-</u>	<u>4,793,073</u>
Total Capital Assets, Net	<u>\$ 5,730,522</u>	<u>\$ (773,835)</u>	<u>\$ (107,525)</u>	<u>\$ 4,849,162</u>

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

**NOTE 6: CAPITAL LEASE OBLIGATIONS PAYABLE**

In the 2004 fiscal year, the District entered into a capital lease agreement totaling \$4,250,000 to finance the acquisition of the new CAD/CTI system. The lease agreement is payable over seven years in quarterly interest installments, with one principal installment annually, at an annual interest rate of 3.31%. The assets acquired through this capital lease totaled \$4,050,052 and were fully depreciated in the current fiscal year. Also in the current fiscal year, the final lease obligation was paid, therefore fulfilling the total capital lease obligation.

**NOTE 7: LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital leases	\$ 660,000	\$ -	\$ (660,000)	\$ -	\$ -
Advances from Primary Government	3,580,250	-	(161,000)	3,419,250	167,000
Compensated absences	238,246	295,663	(268,455)	265,454	238,909
Total long-term liabilities	<u>\$ 4,478,496</u>	<u>\$ 295,663</u>	<u>\$(1,089,455)</u>	<u>\$ 3,684,704</u>	<u>\$ 405,909</u>

The Advances from Primary Government represent General Obligation Debt issued by Knox County on behalf of the District. The total debt issued by the County on the District's behalf is \$4.5 million, and as of June 30, 2004 \$4,439,250 of this debt issue had been advanced to the District. The remaining balance of \$60,750 represents closing costs paid on the issuance of the debt which reduced the total proceeds available for the District's benefit. There are no official terms of repayment between the District and the County, but it is the District's intent to repay the County for all principal, interest and closing costs incurred on its behalf according to the same debt service schedule as the County. During FY 2011, the District repaid \$161,000 in principal on this Advance.

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital Leases	\$ 1,305,000	\$ -	\$ (645,000)	\$ 660,000	\$ 660,000
Advances from Primary Government	3,736,250	-	(156,000)	3,580,250	161,000
Compensated Absences	226,708	276,982	(265,444)	238,246	214,422
Total Long-term Liabilities	<u>\$ 5,267,958</u>	<u>\$ 276,982</u>	<u>\$(1,066,444)</u>	<u>\$ 4,478,496</u>	<u>\$ 1,035,422</u>

**NOTE 8: CONTRIBUTED SERVICES**

Knox County provides various administrative and internal service functions to the District at no cost to the District. Since the value of such services has not been determined, no income or related expenses have been included in these financial statements.

**NOTE 9: RELATED PARTY TRANSACTIONS**

Under an intergovernmental cooperation agreement setting forth their mutual understandings regarding financial assistance provided to the District in return for consolidated PSAP service and emergency radio dispatch service, the City of Knoxville and Knox County make annual allocations to the District. The City of Knoxville and Knox County, Tennessee provided funding of \$2,211,968 in the current fiscal year and past fiscal year to the District, which amounted to 25.8 percent and 25.3 percent of total revenues for the fiscal years 2011 and 2010, respectively. The City of Knoxville and Knox County are not legally responsible for funding operational deficits of the District.

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2011 and June 30, 2010

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**NOTE 10: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District controls these various risks by purchasing commercial insurance coverage. The District purchases workers' compensation, property and liability insurance.

The District has had no significant reduction in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

**NOTE 11: SUBSEQUENT EVENT**

The District's Board voted on October 19, 2011 to pay of the remaining balance of the Advances to Primary Government totaling \$3,419,250 to the County, therefore paying the County in full for the debt issued on behalf of the District.

**SUPPLEMENTARY  
INFORMATION**

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)**

(Unaudited)

For the Year Ended June 30, 2011

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)	YTD % of Budget
<b>Operating Revenues</b>						
Emergency Telephone Service Charges	\$ 3,619,524	\$ -	\$ 3,619,524	\$ 3,530,553	\$ (88,971)	98%
TECB - Wireless Fees	940,000	-	940,000	997,110	57,110	106%
TECB - Operational Funding Program	1,399,919	-	1,399,919	1,389,919	(10,000)	99%
Other Operating Revenue - Tape Sales	-	-	-	23,795	23,795	0%
<b>Total Operating Revenues</b>	<b>5,959,443</b>	<b>-</b>	<b>5,959,443</b>	<b>5,941,377</b>	<b>(18,066)</b>	<b>100%</b>
<b>Operating Expenses</b>						
<u>Salaries and Wages</u>						
Director	115,000	2,000	117,000	115,000	2,000	98%
Administrative Personnel	551,270	49,522	600,792	555,902	44,890	93%
Dispatchers	1,193,812	(188,812)	1,005,000	930,737	74,263	93%
Call Processors	1,422,710	(12,710)	1,410,000	1,335,789	74,211	95%
Part-time Personnel	130,000	150,000	280,000	222,712	57,288	80%
Other Salaries and Wages	443,203	-	443,203	316,474	126,729	71%
<b>Total Salaries and Wages</b>	<b>3,855,995</b>	<b>-</b>	<b>3,855,995</b>	<b>3,476,614</b>	<b>379,381</b>	<b>90%</b>
<u>Employee Benefits</u>						
Social Security	295,162	-	295,162	247,792	47,370	84%
Retirement	179,407	-	179,407	160,737	18,670	90%
Health Insurance	639,920	-	639,920	576,247	63,673	90%
Life Insurance	9,300	-	9,300	6,552	2,748	70%
<b>Total Employee Benefits</b>	<b>1,123,789</b>	<b>-</b>	<b>1,123,789</b>	<b>991,328</b>	<b>132,461</b>	<b>88%</b>
<u>Contracted Services</u>						
Medical Services	6,414	(116)	6,298	2,015	4,283	32%
Licensing and Related Costs	24,500	500	25,000	24,353	647	97%
Other Professional Services	19,750	-	19,750	18,566	1,184	94%
Equipment - Rent/Repair/Maintenance	556,363	4,916	561,279	510,555	50,724	91%
Vehicle - Rent/Repair/Maintenance	3,000	-	3,000	810	2,190	27%
Communications and IT Related	506,400	17,600	524,000	480,514	43,486	92%
Other Services Related to Daily Operations	12,750	(1,500)	11,250	1,052	10,198	9%
Services - Maintenance of Building and Grounds	6,802	(500)	6,302	1,079	5,223	17%
Contract with Other Agencies	120,960	-	120,960	76,859	44,101	64%
Space Rentals	300	-	300	-	300	0%
Employee, Travel, Educational Training	43,820	(400)	43,420	18,366	25,054	42%
<b>Total Contracted Services</b>	<b>1,301,059</b>	<b>20,500</b>	<b>1,321,559</b>	<b>1,134,169</b>	<b>187,390</b>	<b>86%</b>

*continued...*

**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)  
(Unaudited)  
For the Year Ended June 30, 2011**

	Original Budget	Amendments	Amended Budget	Actual	Variance Favorable (Unfavorable)	YTD % of Budget
<b>Operating Expenses (continued)</b>						
<u>Supplies and Materials</u>						
Food	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ 2,000	0%
Utilities and Fuel	205,600	(21,000)	184,600	158,818	25,782	86%
Office Supplies and Minor Equipment	67,800	225	68,025	25,006	43,019	37%
Grounds/Buildings - Rent/Repair/Maintenance	500	-	500	-	500	0%
Educational Materials	10,600	(3,416)	7,184	336	6,848	5%
Other Materials for Daily Operations	14,900	300	15,200	7,565	7,635	50%
<b>Total Supplies and Materials</b>	<b>301,400</b>	<b>(23,891)</b>	<b>277,509</b>	<b>191,725</b>	<b>85,784</b>	<b>69%</b>
<u>Other Charges</u>						
Insurance Related Charges	7,000	-	7,000	4,780	2,220	68%
Worker's Compensation Charges	30,000	-	30,000	15,464	14,536	52%
Liability Charges	12,000	-	12,000	9,341	2,659	78%
Space Costs	28,100	(2,127)	25,973	25,862	111	100%
Other	3,500	2,127	5,627	5,627	-	100%
Capital Outlay	238,858	32,276	271,134	44,616	226,518	16%
<b>Total Other Charges</b>	<b>319,458</b>	<b>32,276</b>	<b>351,734</b>	<b>105,690</b>	<b>415,612</b>	<b>30%</b>
<b>Total Operating Expenses</b>	<b>6,901,701</b>	<b>28,885</b>	<b>6,930,586</b>	<b>5,899,526</b>	<b>1,200,628</b>	<b>85%</b>
<b>Operating Income (Loss)</b>	<b>(942,258)</b>	<b>(28,885)</b>	<b>(971,143)</b>	<b>41,851</b>	<b>1,182,562</b>	<b>-4%</b>
<b>Nonoperating Revenues (Expenses)</b>						
Contributions from Other Governments & Agencies	1,719,140	-	1,719,140	1,719,140	-	100%
Contributions from Primary Government	492,828	-	492,828	492,828	-	100%
Rental Income	159,000	-	159,000	159,000	-	100%
TECB - Grants and Reimbursements	-	-	-	80,046	80,046	0%
Radio Maintenance (Non Public Safety Agencies)	-	-	-	122,136	122,136	0%
Miscellaneous Income	168,000	-	168,000	28,616	(139,384)	17%
Interest Income	25,000	-	25,000	25,664	664	103%
Debt Principal	(821,000)	-	(821,000)	(821,000)	-	0%
Interest Expense	(127,803)	(3,416)	(131,219)	(131,219)	-	0%
Appropriations from Fund Balance	-	32,301	32,301	-	(32,301)	0%
<b>Total Nonoperating Revenues (Expenses)</b>	<b>1,615,165</b>	<b>28,885</b>	<b>1,644,050</b>	<b>1,675,211</b>	<b>31,161</b>	<b>102%</b>
<b>Net Income (Loss) (Budget Basis)</b>	<b>672,907</b>	<b>-</b>	<b>672,907</b>	<b>1,717,062</b>	<b>1,044,155</b>	<b>255%</b>

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**KNOXVILLE - KNOX COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**Reconciliation of the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis)  
To the Statement of Revenues, Expenses and Changes in Net Assets  
(Unaudited)**

For the Year Ended June 30, 2011

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Amounts reported in the Schedule of Revenues and Expenses - Budget to Actual  
(Budget Basis) are different because:

Total net change in fund balance, (Budget Basis) (page 28) \$ 1,717,062

Capital outlays are reported as expenditures in the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis). However, in the Statement of Revenues, Expenses and Changes in Net Assets the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (430,448) exceeds capital outlays (32,276) in the current year. (398,172)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources as recognized in the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis), while the repayment of the principal of long-term debt consumes the current financial resources. However, in the Statement of Revenues, Expenses and Changes in Net Assets, neither type of transaction has any effect. This amount is the net effect of these differences in the treatment of long-term debt (660,000) & (161,000). 821,000

Change in net assets (page 13) \$ 2,139,890

**INTERNAL CONTROL  
AND COMPLIANCE SECTION**



KPMG LLP  
Suite 1000  
401 Commerce Street  
Nashville, TN 37219-2422

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
Knoxville – Knox County Emergency Communications District:

We have audited the financial statements of Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The



results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

November 22, 2011