

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2012

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
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June 30, 2012**

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**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2012**

BOARD MEMBERS:

Andrew Bradley
Jim Klepper
Gary Murrell
Daniel Boyd
Robert Palmer
Ronnie Lawson
Johnny Gulley
Gary Lawson
Larry Wheeler

MANAGEMENT OFFICIALS

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

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Hawkins County Emergency Communications District as of and for the year ended June 30, 2012, which collectively comprise Hawkins County Emergency Communications District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of Hawkins County Emergency Communications District as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 3, 2012, on my consideration of Hawkins County Emergency Communications District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress on pages 4 through 6 and page 18 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hawkins County Emergency Communications District's financial statements. The Budgetary Comparison Schedule and Schedule of State Financial Assistance on pages 19 through 20 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Budgetary Comparison Schedule and Schedule of State Financial Assistance are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

David M. Ellis, CPA
December 3, 2012

Management's Discussion and Analysis

As management of the Hawkins County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. Please note the District presents prior comparative financial information when available.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$190,865 (net assets). Of this amount, \$12,715 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District reported ending net assets of \$190,865, an increase of \$102,793 in comparison with the prior year.

Overview of the Financial Statements

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

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

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

Financial Analysis of the District's Funds

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

Hawkins County Emergency Communications District Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 97,769	\$ 56,361
Capital Assets	<u>918,007</u>	<u>980,647</u>
Total Assets	<u>\$ 1,015,776</u>	<u>\$ 1,037,008</u>

Total Liabilities	\$ 824,911	\$ 948,936
Net Assets:		
Invested in capital assets	178,150	201,086
Unrestricted	<u>12,715</u>	<u>(58,308)</u>
Total Liabilities and Net Assets	<u>\$ 1,015,776</u>	<u>\$ 1,091,714</u>

The balance of unrestricted net assets, 12,715, may be used to meet the District's ongoing obligations to citizens and creditors.

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

The District's net assets increased by \$48,087 during the current fiscal year.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2012:

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

	<u>2012</u>	<u>2011</u>
Revenues:		
Operating Revenues:		
Charges for services	\$ 657,992	\$ 583,461
Non-Operating Revenues:		
Government appropriations	59,513	22,000
Other	183,547	140,000
Interest income	<u>0</u>	<u>23</u>
Total Revenues	901,052	745,484
Total Expenses	<u>852,965</u>	<u>867,435</u>
Change in net assets	48,087	(121,951)
Beginning Net Assets	142,778	210,023
Prior Period Adjustment	<u>0</u>	<u>54,706</u>
Ending Net Assets	<u>\$ 190,865</u>	<u>\$ 142,778</u>

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

Budgetary Highlights

There were no changes to the original budget.

Capital Asset Administration

The District's investment in capital assets for its activities as of June 30, 2012, amounts to \$918,007 (net of accumulated depreciation). This investment in capital assets includes improvements, machinery and equipment and software.

Hawkins County Emergency Communications District's Capital Assets

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 11,510	\$ 11,510
Vehicles	15,500	15,500
Office Equipment	17,440	17,440
Land	126,314	126,314
Building	553,601	553,601
Communications system	<u>812,769</u>	<u>812,769</u>
Total capital assets	<u>\$ 1,537,134</u>	<u>\$ 1,537,134</u>

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

Debt

At the fiscal year end June 30, 2012, the District had outstanding notes payable of \$739,856. Principal repayments in the amount of \$39,705 were made during the current fiscal year. Principal amounts due in the coming fiscal year amount to \$42,584.

Economic Factors and Next Year's Budget and Rates

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

Rates were increased for fiscal year 2012.

Requests for Information

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET ASSETS**

June 30, 2012

ASSETS

Current Assets	
Cash and equivalents	\$ 4,537
Accounts receivable	89,895
Prepaid expenses	<u>3,337</u>
Total Current Assets	\$ 97,769
Non-current Assets	
Capital Assets	
Land	126,314
Building and improvements	553,601
Communications equipment	812,769
Office equipment	17,440
Furniture and fixtures	11,510
Vehicles	<u>15,500</u>
Total Capital Assets	1,537,134
Accumulated depreciation	<u>(619,127)</u>
Net Capital Assets	<u>918,007</u>
Total Assets	\$ 1,015,776

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 50,763
Notes payable - current	42,584
Payroll deductions payable	15,545
Compensated absences payable	<u>18,747</u>
Total Current Liabilities	\$ 127,639
Long-Term Liabilities	
Notes payable - long-term	<u>697,272</u>
Total Long-Term Liabilities	<u>697,272</u>
Total Liabilities	824,911
Net Assets	
Invested in Capital Assets, Net of Related Debt	178,150
Unrestricted Net Assets	<u>12,715</u>
Total Net Assets	<u>\$ 190,865</u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2012

Operating Revenues

Emergency telephone service charge	\$ 343,462	
Tennessee Emergency Comm. Board - Shared wireless charge	125,645	
Tennessee Emergency Comm. Board- Operational funding	<u>188,885</u>	
 Total Operating Revenues		 \$ 657,992

Operating Expenses

Salaries and wages	436,608	
Employee benefits	114,726	
Addressing/mapping	18,160	
Advertising	1,156	
Audit services	6,500	
Bank charges	114	
Custodial supplies	1,292	
Dues and subscriptions	1,798	
Insurance	16,273	
Internet charges	2,658	
Legal services	6,000	
Maintenance agreements	8,663	
Maintenance and repairs - Buildings and facilities	7,149	
Maintenance and repairs - Office equipment	6,946	
Maintenance and repairs - Vehicle	2,665	
NCIC/TBI/TIES fees	10,805	
Office/general supplies	4,401	
Postage	108	
Small equipment	2,364	
Training	4,141	
Travel	915	
Uniforms	278	
Utilities - General telephone	63,895	
Utilities - Water and sewer	351	
Utilities - Electric	7,733	
Depreciation	62,641	
Other	<u>6,216</u>	
 Total Operating Expenses		 <u>794,556</u>

Operating Loss \$ (136,564)

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
For the year ended June 30, 2012**

Non-Operating Revenues and (Expenses)	
Contributions from other governments and agencies	\$ 59,513
Contributions from primary government	175,000
Miscellaneous income	8,547
Interest expense	(50,985)
Penalties	<u>(7,424)</u>
Total Non-Operating Revenues	<u>\$ 184,651</u>
Change in Net Assets	48,087
Net Assets June 30, 2011, as previously reported	88,072
Prior Period Adjustment	<u>54,706</u>
Net Assets June 30, 2011, as Restated	<u>142,778</u>
Net Assets June 30, 2012	<u><u>\$ 190,865</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2012**

Cash Flows from Operating Activities	
Cash Received from Surcharges and Other Revenues	\$ 648,984
Cash Payments for Payroll, Taxes and Related Benefits	(620,920)
Cash Payments to Suppliers for Goods and Services	<u>(175,984)</u>
Net Cash Used by Operating Activities	(147,920)
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Notes Payable	(39,705)
Interest Paid on Notes Payable	<u>(54,290)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(93,995)</u>
Cash Flows from Non-Capital Financing Activities	
Contributions from Primary Government	175,000
Grants/Reimbursements TECB	59,513
Miscellaneous	<u>(14,905)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>219,608</u>
Net Decrease in Cash and Equivalents	(22,307)
Cash and Equivalents, Beginning of Year	<u>26,844</u>
Cash and Equivalents, End of Year	<u><u>\$ 4,537</u></u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2012

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

Operating Income (Loss)	\$ (136,564)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities	
Depreciation	62,641
(Increase)/Decrease in receivables	(9,008)
(Increase)/Decrease in prepaid expenses	(1)
Increase/(Decrease) in accounts payable	4,597
Increase/(Decrease) in accrued liabilities	<u>(69,585)</u>
Net Cash Used by Operating Activities	<u>\$ (147,920)</u>

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

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

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

Reporting Entity

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

Property, Plant and Equipment

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

Compensated Absences

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

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

Cash and Cash Equivalents

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

Use of Estimates

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

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

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

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Property, plant and equipment and estimated useful lives used for depreciation purposes consisted of the following at June 30, 2012:

	<u>2011</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>2012</u>	<u>ESTIMATED USEFUL LIFE</u>
Capital assets, not being depreciated:					
Land	\$ 126,314	\$ 0	\$ 0	\$ 126,314	
Capital assets, being depreciated:					
Building	\$ 553,601	\$ 0	\$ 0	\$ 553,601	40 years
Furniture & Fixtures	11,510	0	0	11,510	5 years
Vehicles	15,500	0	0	15,500	5 years
Office Equipment	17,440	0	0	17,440	5 years
Communications System	<u>812,769</u>	<u>0</u>	<u>0</u>	<u>812,769</u>	5-10 years
Total depreciable assets:	1,410,820	0	0	1,410,820	
Less Accumulated Depreciation:					
Building	28,804	13,840	0	42,644	

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

Furniture & Fixtures	\$ 3,951	\$ 2,302	\$ 0	\$ 6,253
Vehicles	10,850	3,100	0	13,950
Office Equipment	9,758	2,788	0	12,546
Communications System	<u>503,124</u>	<u>40,610</u>	<u>0</u>	<u>543,734</u>
Total Accumulated Depreciation:	<u>556,487</u>	<u>62,640</u>	<u>0</u>	<u>619,127</u>
Net Capital Assets	<u>\$ 980,647</u>	<u>\$ 62,640)</u>	<u>\$ 0</u>	<u>\$ 918,007</u>

NOTE 4 - ECONOMIC DEPENDENCY

Tennessee state law mandates collection of a surcharge by telephone companies from their customers to fund established E-911 agencies. Hawkins County Emergency Communications District received approximately 38% of its total revenue from surcharges collected by Embarq, CenturyLink and AT&T. Another \$314,530, or 35%, comes from the State Emergency Communications Board from cellular telephone charges and grants. These revenues are insufficient to pay the costs of District operations. For the agency to function, it also depends on appropriations from the county, which this year amounted to \$175,000, or 19%, of total (operating and non-operating) revenues.

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - EMPLOYEE'S RETIREMENT PLAN

Plan Description

Employees of the District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hawkins County Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Hawkins County Emergency Communication District requires employees to contribute 5.0 percent of earnable compensation. The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 6.11% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, the District's annual pension cost of \$21,946 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hawkins County Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 14 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 21,946	100.00%	\$0.00
June 30, 2011	\$ 26,599	100.00%	\$0.00
June 30, 2010	\$ 22,068	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 99.21 percent funded. The actuarial accrued liability for benefits was \$0.48 million, and the actuarial value of assets was \$0.348 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.31 million, and the ratio of the UAAL to the covered payroll was 1.21 percent.

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTE 7 - EQUIPMENT RENTAL

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

NOTE 8 - LONG-TERM LIABILITES

During the fiscal year ended June 30, 2010, the District borrowed funds in the amount of \$678,400 from First Community Bank to finance the new communications facility. Note principal and interest payments are due in monthly installments of \$5,946. This note bears a 6.5% interest rate payable monthly for fifteen years through 2024. The District made principal payments of \$31,177 and interest payments of \$40,175 during the year. Balance at year-end is \$590,589 with \$33,423 being classified as current.

During the fiscal year ended June 30, 2010, the District borrowed funds in the amount of \$169,600 from First Community Bank to finance communications equipment. Note principal and interest payments are due in monthly installments of \$1,486. This note bears a 6.5% interest rate payable monthly for five years through 2014 with a balloon payment due July 29, 2014. The District made principal payments of \$7,794 and interest payments of \$10,038 during the year. Balance at year-end is \$147,654 with \$8,354 being classified as current.

Changes in outstanding long-term debt for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Building Note	\$ 621,766	\$ 0	\$ 31,177	\$ 590,589	\$ 33,423
Equipment Note	155,448	0	7,794	147,654	8,354
Capital Lease-Note 9	<u>2,347</u>	<u>0</u>	<u>734</u>	<u>1,613</u>	<u>807</u>
Total	<u>\$ 779,561</u>	<u>\$ 0</u>	<u>\$ 39,705</u>	<u>\$ 739,856</u>	<u>\$ 42,584</u>

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

2013	\$ 42,584
2014	45,622
2015	168,227
2016	40,623
2017	43,387
2018-2022	260,622
2023-2024	<u>138,791</u>
	<u>\$ 739,856</u>

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 9 - CAPITAL LEASES

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

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 3, 2012, the date the financial statements were available to be issued.

NOTE 11-PRIOR PERIOD ADJUSTMENTS

As noted on the Statement of Revenues, Expenses, and Changes in Net Assets, a prior period adjustment of \$54,706 is reflected. This includes an adjustment to recognize prior period accounts receivable not previously recorded for the stated amount.

REQUIRED SUPPLEMENTARY INFORMATION

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FUNDING PROGRESS
June 30, 2012**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$476	\$480	\$4	99.17%	\$315	1.27%
July 01, 2009	\$321	\$325	\$4	98.77%	\$325	1.23%
July 01, 2007	\$241	\$246	\$5	97.97%	\$265	1.89%

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

SUPPLEMENTARY INFORMATION

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2012

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Operating Revenue				
Telephone surcharges	\$ 233,090	\$ 233,090	\$ 343,462	\$ (110,372)
Operational funding	190,758	190,758	188,885	1,873
Shared wireless charge	156,921	156,921	125,645	31,276
Total Operating Revenue	580,769	580,769	657,992	(77,223)
Operating Expenses				
Salaries	355,386	355,386	436,608	(81,222)
Employee Benefits	149,352	149,352	114,726	34,626
Addressing/Mapping Expense	-	-	18,160	(18,160)
Advertising	-	-	1,156	(1,156)
Audit Services	9,500	9,500	6,500	3,000
Bank Service Charges	-	-	114	(114)
Internet Charges	-	-	2,658	(2,658)
Legal Services	6,000	6,000	6,000	-
Maintenance Agreements	-	-	8,663	(8,663)
Lease/Rental - Communications Equipment	48,950	48,950	-	48,950
Maintenance and Repairs - Communications Equipment	15,660	15,660	-	15,660
Maintenance and Repairs - Buildings and Facilities	425	425	7,149	(6,724)
Maintenance and Repairs - Office Equipment	-	-	6,946	(6,946)
Maintenance and Repairs - Vehicle	2,300	2,300	2,665	(365)
NCIC/TBI/TIES	8,500	8,500	10,805	(2,305)
Office Supplies	2,000	2,000	4,401	(2,401)
Custodial Supplies	2,200	2,200	1,292	908
Postage	125	125	108	17
Small Equipment	2,500	2,500	2,364	136
Uniforms and Shirts	500	500	278	222
Utilities - Electric, Water and Sewer	9,005	9,005	8,084	921
Utilities - General Telephone and Pagers	10,899	10,899	63,895	(52,996)
Dues & Subscriptions	1,123	1,123	1,798	(675)
Training	1,545	1,545	4,141	(2,596)
Travel Expenses	2,575	2,575	915	1,660
Insurance	16,930	16,930	16,273	657
Other Charges	-	-	6,216	(6,216)
Depreciation	52,036	52,036	62,641	(10,605)
Total Operating Expenses	697,511	697,511	794,556	(97,045)
Non-Operating Revenue/(Expenses)				
County Appropriations	140,000	140,000	175,000	35,000
TECB Grants and Reimbursements	22,220	22,220	59,513	37,293
Miscellaneous Income	-	-	8,547	8,547
Interest Expense	(89,183)	(89,183)	(50,985)	38,198
Penalties Expense	-	-	(7,424)	(7,424)
Total Non-Operating Revenue	73,037	73,037	184,651	111,614
Increase (Decrease) in Net Assets	\$ (43,705)	\$ (43,705)	\$ 48,087	\$ 91,792
Net Assets-Beginning of Period, as previously reported	191,142	191,142	88,072	
Prior Period Adjustments	-	-	54,706	
Net Assets-Beginning of Period, as Restated	-	-	142,778	
Net Assets - End of Period	\$ 147,437	\$ 147,437	\$ 190,865	

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

For the year ended June 30, 2012

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

DAVID M. ELLIS

Certified Public Accountant

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*Member, Tennessee Society of
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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**

The Board of Directors of
Hawkins County Emergency Communications District
Rogersville, Tennessee

I have audited the financial statements of Hawkins County Emergency Communications District, as of and for the year ended June 30, 2012, and have issued my report thereon dated December 3, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the district's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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. I consider the deficiency described in the accompanying schedule of findings and recommendations 11-02 to be a significant deficiency.

Compliance and Other Matters

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

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

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



David M. Ellis, CPA
December 3, 2012

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2012**

Prior Year Findings:

11-01 Non-Compliance:

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

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

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

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

Management's Comments: Management concurs and will establish procedures to ensure proper submission of required payroll tax related deposits and returns. At June 30, 2012, all payroll related tax deposits for current and prior period were current.

11-02 Actual Expenses over Budgeted Amounts:

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

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

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

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

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

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

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

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2012**

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

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

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

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

11-04 Credit Card Receipts

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

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

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

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

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

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2012**

11-05 Deposit Procedures

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

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

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

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

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

Managements Comments: Management concurs.

11-06 Prior Year Significant Deficiency

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

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

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

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

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

Update: - Finding 11-02 continues to apply.
Finding 11-01, 11-03, 11-04, 11-05 and 11-06 no longer apply.