

Knoxville-Knox County



Emergency Communications District



**FINANCIAL STATEMENTS
JUNE 30, 2012 and JUNE 30, 2011**

*Prepared By:
Knox County Finance Department*

**KNOXVILLE – KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2012 and June 30, 2011

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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**INTRODUCTORY
SECTION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

BOARD OF DIRECTORS

June 30, 2012

Mr. Nathan Rothchild, Chair

Mayor Tim Burchett, Vice Chair

Chief Stan Sharp, Secretary and Treasurer

Mayor Madeline Rogero

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

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Knoxville – Knox County Emergency Communications District
Knoxville, Tennessee

We have audited the accompanying statement of net assets of the Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox County, Tennessee as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended June 30, 2011, were audited by other auditors whose report dated November 22, 2011, expressed an unqualified opinion on those statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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 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.



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The Supplementary Information Section is presented for purposes of additional analysis and is 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information Section is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012



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

J. Robert Coker, Executive Director

Phone: 865-215-1100

Fax: 865-215-1134

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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, 2012 and June 30, 2011. 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 2012

- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$17,295,921 (*net assets*). Of this amount, \$12,899,062 is unrestricted. The unrestricted net assets amount is a total of two amounts: \$3,071,643 may be used to meet the District's ongoing obligations to citizens and creditors, while the remaining amount of \$9,827,419 is designated for the equipment reserve.
- ❖ The District's total net assets increased by \$2,393,324. 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 \$1,754,386 out of the State of Tennessee's Operational Funding Program.
- ❖ The Districts total capital assets before depreciation increased by \$132,923. This increase is due to purchases of new equipment for the District's operations.
- ❖ The District's total debt decreased by \$3,419,250. This decrease reflects the \$3,419,250 final payment to the County to eliminate the Districts' indebtedness to the County for long-term funds previously advanced to the District. These items are discussed in Note 7 of the Notes to the Financial Statements.

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 Note 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 16-27 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 28-30 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, 2012, the District's assets exceeded its liabilities by \$17,295,921 (*net assets*). At June 30, 2011, the District's net assets totaled \$14,902,597. 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 25% 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 \$12,899,062 is a total of two amounts: \$3,071,643 may be used to meet the District's ongoing obligations to citizens and creditors and \$9,827,419 is designated for the District's equipment reserve.

As the following table shows, the District reported an increase in net assets of \$2,393,324 for the current fiscal year ended June 30, 2012. 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 \$1,754,386 out of the State of Tennessee's Operational Funding Program. The decrease of \$54,131 invested in capital assets, net of related debt, is primarily due to a combination of two items: 1) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$187,054; 2) an increase in invested in capital assets, net primarily due to the purchase of a new equipment totaling \$132,923.

During the fiscal year ended June 30, 2011, the District reported an increase in net assets of \$2,139,890. 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 \$1,389,919 out of the State of Tennessee's Operational Funding Program. The increase of \$261,828 invested in capital assets, net of related debt, 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 \$660,000; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the prior fiscal year totaling \$430,448; 3) an increase in invested in capital assets, net due to the purchase of a new vehicle totaling \$32,276.

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

	FYE June 30, 2012	FYE June 30, 2011	FYE June 30, 2010
Current and Other Assets	\$ 13,366,854	\$ 14,519,528	\$ 12,660,739
Capital Assets	4,396,859	4,450,990	4,849,162
Total Assets	<u>17,763,713</u>	<u>18,970,518</u>	<u>17,509,901</u>
Non Current Liabilities Outstanding	26,193	3,278,795	3,443,074
Current Liabilities	441,599	789,126	1,304,120
Total Liabilities	<u>467,792</u>	<u>4,067,921</u>	<u>4,747,194</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,396,859	4,450,990	4,189,162
Unrestricted:			
Designated equipment reserve	9,827,419	7,881,283	5,314,684
Undesignated	3,071,643	2,570,324	3,258,861
Total Net Assets	<u>\$ 17,295,921</u>	<u>\$ 14,902,597</u>	<u>\$ 12,762,707</u>

The next table shows the key elements from ongoing operations that contributed to the increase in net assets of \$2,393,324 during the current fiscal year. This increase compares to the fiscal year 2011 increase of \$2,139,890. 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, increased by \$254,834 or approximately 4.3% during fiscal year 2012, operating expenses increased by \$84,771 or 1.3%, a result primarily of increased personnel costs. Also, Nonoperating Revenues decreased by \$9,552 or .004%, the result of decreased grant funding, and Miscellaneous Revenue, while Nonoperating Expenses decreased by \$92,923 or 70.8%, due to the reduction of interest payments on the long term advance from Knox County.

For fiscal year 2012 Nonoperating Revenues decreased by \$9,552, that decrease is the combination of: decrease of the Tennessee Emergency Communications Board – Grants and Reimbursements totaling \$57,150, increase of radio maintenance totaling \$70,000, decrease of \$12,488 in miscellaneous revenue which is comprised chiefly of charges for tower and facility rental, and interest earnings decreased by \$9,914 primarily as a result of lower interest rates during FY 2012.

Total expenses for FY 2012 increased by \$84,771, with the increase being comprised of an increase of \$215,483 in personnel costs: salaries and wages and employee benefits, increased costs of contracted services totaling \$25,161, a decrease in supplies and materials totaling \$22,445, an increase in other charges totaling \$109,966, 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 \$243,394. The fiscal year 2012 decrease in interest expense was \$92,923. This decrease is the result of the final payment on the Advance from Knox County. During FY 2011, total expenses decreased by \$224,547, with the decrease being comprised of increased costs of personnel (salaries and wages and employee benefits), a decrease in contracted services, an increase in supplies and materials, a decrease 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, 2012</u>	FYE <u>June 30, 2011</u>	FYE <u>June 30, 2010</u>
Revenues:			
Operating Revenues:			
Emergency Telephone Service Charges	\$ 3,252,072	\$ 3,530,553	\$ 3,897,051
TECB-Wireless Fees	1,171,768	997,110	965,618
TECB-Operational Funding Program	1,754,386	1,389,919	1,094,269
Other Operating Revenues - Tape Sales	17,985	23,795	23,770
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	22,896	80,046	132,762
Radio Maintenance (Non Public Safety Agencies)	192,136	122,136	160,249
Miscellaneous Income	16,128	28,616	61,811
Interest Income	15,750	25,664	38,237
Total Revenues	<u>8,814,089</u>	<u>8,568,807</u>	<u>8,744,735</u>
Expenses:			
Operating Expenses:			
Salaries and Wages	3,612,857	3,476,614	3,237,695
Employee Benefits	1,070,568	991,328	948,289
Contracted Services	1,159,330	1,134,169	1,218,440
Supplies and Materials	169,280	191,725	163,598
Other Charges	183,380	73,414	136,173
Depreciation and Amortization	187,054	430,448	804,092
Nonoperating Expenses:			
Interest	38,296	131,219	145,177
Total Expenses	<u>6,420,765</u>	<u>6,428,917</u>	<u>6,653,464</u>
Change in Net Assets	2,393,324	2,139,890	2,091,271
Net Assets July 1	<u>14,902,597</u>	<u>12,762,707</u>	<u>10,671,436</u>
Net Assets June 30	<u>\$ 17,295,921</u>	<u>\$ 14,902,597</u>	<u>\$ 12,762,707</u>

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. There were no amendments to the budget for total revenue for the District, and amendments increased the total expense budget for the District in the amount of \$231,517. The Schedule of Revenues and Expenses – Budget to Actual (Budget Basis), which is found in the supplementary information section of this report on pages 28, and 29, 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 \$583,539 over budget, while Nonoperating Revenues were a combined \$53,910 over budget. Operating expenses were \$1,536,607 under budget, and of the reserved and reappropriated amounts that were budgeted for Capital Outlay and the repayment of debt \$237,736 was spent. The net result of these budgetary variations was that the net increase in net assets increased by \$2,447,455 compared with the budgeted net increase of \$263,937 in the final amended budget.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets as of June 30, 2012, amounts to \$4,396,859 (net of accumulated depreciation and related debt). Capital assets include land, buildings, communications and office equipment, vehicle, software, and leasehold improvements. The District's investment in capital assets, net decreased for the current fiscal year by 1%, or \$54,131, due chiefly to a combination of two items: 1) a decrease in invested in capital assets, net due to depreciation expense charged during the current fiscal year of \$187,054; 2) an increase in invested in capital assets, net due to the purchase of a new equipment totaling \$132,923. As of June 30, 2011, the District's net assets invested in capital assets amounted to \$4,450,990 (net of accumulated depreciation). For the fiscal year ending June 30, 2011, the District's investment in capital assets, net increased 6%, or \$261,828. The fiscal year 2011 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 \$660,000; 2) a decrease in invested in capital assets, net due to depreciation and amortization expense charged during the 2011 fiscal year totaling \$430,448; 3) an increase in invested in capital assets, net due to the purchase of a new vehicle totaling \$32,276. For a detailed schedule of the District's capital assets, see Note 6: Capital Assets on pages 23 and 24 in the Notes to the Financial Statements.

Long-term Debt. Compensated absences payable decreased by a net of \$3,521 in FY 2012, and increased by a net of \$27,208 in FY 2011. At June 30, 2011 the District had paid the final capital lease obligations totaling \$660,000 on the CAD/CTI capital lease. For a detailed schedule of the District's long term debt, see Note 7: Long Term Liabilities on pages 25 and 26 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, 2012 and June 30, 2011**

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,125,006	\$ 13,899,563
Accounts Receivable	1,241,848	617,542
Due from Primary Government	-	2,423
Total Current Assets	13,366,854	14,519,528
 Noncurrent Assets:		
Capital Assets:		
Land	56,089	56,089
Buildings	5,099,736	5,099,736
Communications and Office Equipment	12,499,067	12,366,144
Vehicles	32,276	32,276
Computer Software	29,345	29,345
Leasehold Improvements	207,735	207,735
Subtotal	17,924,248	17,791,325
Less: Accumulated Depreciation	(13,527,389)	(13,340,335)
Total Capital Assets (Net of Accumulated Depreciation)	4,396,859	4,450,990
Total Assets	\$ 17,763,713	\$ 18,970,518

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET ASSETS - (Continued)
June 30, 2012 and June 30, 2011**

	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 25,833	\$ 75,269
Accrued Payroll Payable	160,355	287,133
Compensated Absences Payable	235,740	238,909
Due to Primary Government	19,671	20,815
Advances from Primary Government - Current	-	167,000
Total Current Liabilities	441,599	789,126
Noncurrent Liabilities:		
Compensated Absences Payable - Long Term	26,193	26,545
Advances from Primary Government - Long Term	-	3,252,250
Total Noncurrent Liabilities	26,193	3,278,795
Total Liabilities	467,792	4,067,921
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,396,859	4,450,990
Unrestricted	12,899,062	10,451,607
Total Net Assets	\$ 17,295,921	\$ 14,902,597

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, 2012 and June 30, 2011**

	2012	2011
Operating Revenues:		
Emergency Telephone Service Charges	\$ 3,252,072	\$ 3,530,553
TECB - Wireless Fees	1,171,768	997,110
TECB - Operational Funding Program	1,754,386	1,389,919
Other Operating Revenues - Tape Sales	17,985	23,795
Total Operating Revenues	6,196,211	5,941,377
Operating Expenses:		
Salaries and Wages	3,612,857	3,476,614
Employee Benefits	1,070,568	991,328
Contracted Services	1,159,330	1,134,169
Supplies and Materials	169,280	191,725
Other Charges	183,380	73,414
Depreciation and Amortization	187,054	430,448
Total Operating Expenses	6,382,469	6,297,698
Operating Loss	(186,258)	(356,321)
Nonoperating Revenues (Expenses):		
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	22,896	80,046
Radio Maintenance (Non Public Safety Agencies)	138,264	109,032
Radio Maintenance - County Depts.	53,872	13,104
Miscellaneous Income	16,128	28,616
Interest Income	15,750	25,664
Interest Expense	(38,296)	(131,219)
Total Nonoperating Revenues (Expenses)	2,579,582	2,496,211
Change in Net Assets	2,393,324	2,139,890
Total Net Assets, July 1	14,902,597	12,762,707
Total Net Assets, June 30	\$ 17,295,921	\$ 14,902,597

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, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Cash Received from Surcharges and Other Revenues	\$ 5,939,169	\$ 6,276,511
Cash Payments to Suppliers for Goods and Services	(1,560,147)	(1,326,147)
Cash Payments for Payroll, Taxes and Related Benefits	(4,813,724)	(4,391,937)
Net Cash Provided (Used) by Operating Activities	<u>(434,702)</u>	<u>558,427</u>
Cash Flows from Noncapital Financing Activities		
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	<u>22,896</u>	<u>80,046</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,234,864</u>	<u>2,292,014</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Equipment	(132,923)	(32,276)
Principal Paid on Capital Leases Payable	-	(660,000)
Interest Paid on Capital Leases Payable	(38,296)	(131,219)
Payment to Primary Government for Debt Service	<u>(3,419,250)</u>	<u>(161,000)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,590,469)</u>	<u>(984,495)</u>
Cash Flows from Investing Activities		
Interest Received	<u>15,750</u>	<u>25,664</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,774,557)	1,891,610
Cash and Cash Equivalents - Beginning of Year	<u>13,899,563</u>	<u>12,007,953</u>
Cash and Cash Equivalents - End of Year	<u>\$ 12,125,006</u>	<u>\$ 13,899,563</u>

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS - (Continued)
For the Years Ended June 30, 2012 and June 30, 2011**

**Reconciliation of Operating Loss to
Net Cash Provided (Used) by Operating Activities**

	<u>2012</u>	<u>2011</u>
Operating Loss	\$ (186,258)	\$ (356,321)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	187,054	430,448
Rental Income	159,000	159,000
Radio Maintenance (Non Public Safety Agencies)	192,136	122,136
Miscellaneous Income	16,128	28,616
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(624,306)	25,382
(Increase) Decrease in Due from Primary Government	2,423	1,977
(Increase) Decrease in Prepaid Items	-	5,462
Increase (Decrease) in Accounts Payable	(49,436)	46,377
Increase (Decrease) in Accrued Payroll Payable	(126,778)	48,797
Increase (Decrease) in Compensated Absences Payable	(3,521)	27,208
Increase (Decrease) in Due to Primary Government	(1,144)	19,345
Net Cash Provided (Used) by Operating Activities	<u>\$ (434,702)</u>	<u>\$ 558,427</u>

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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 7-86-126 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.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: invested in capital assets, restricted net assets, and unrestricted net assets. Invested in capital assets includes all capital assets, net of accumulated depreciation.

The restricted net assets category includes net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. The District had no restricted assets at June 30, 2012, and at June 30, 2011. The unrestricted net assets category includes all other assets that do not meet the definition of “restricted” or “invested in capital assets”.

The District’s Board established an equipment reserve and this reserve are designated to purchase equipment for the District. The amount in the reserve for the years ended June 30, 2012 and 2011 totaled \$9,827,419 and \$7,881,283, respectively. These reserve amounts are included as a component of unrestricted net assets on the Statements of Net Assets.

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. 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.

8. Revenue Recognition

Emergency telephone service charge revenues are recognized in the period in which the monthly fees are billed by the service supplier to the subscribers. Any subscriber accounts subsequently determined to be uncollectible are charged against revenues at that time. In the District's opinion, such reporting does not materially affect the financial statements.

Wireless fees are collected and remitted to the District through the State of Tennessee Emergency Communications Board (TECB). Shared wireless revenues are recognized by the District in the period the surcharge is assessed by the service provider. The TECB has approved additional funding from wireless revenues that will be provided annually to the local emergency communications districts for operational needs.

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

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. The budget is prepared on the modified accrual basis of accounting. 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.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 2: BUDGETARY INFORMATION (Continued)

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. There were no encumbrances committed at June 30, 2012 and encumbrances at June 30, 2011 were \$66,517, respectively. Those encumbrances were related primarily to capital expenditures for the ongoing equipment projects. See Note 6.

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 net assets which enables the Board to determine the funds available for appropriation.

NOTE 3: DEPOSITS AND INVESTMENTS

At June 30, 2012, and June 30, 2011, 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.

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.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 4: DEFERRED COMPENSATION PLAN (Continued)

Employees choosing to participate with over five years of service receive an equal employer match starting at two percent and staggering up to a maximum additional six percent for those with 15 years or more service. Two other 457 plans, Security Benefits and Nationwide, also allow for similar employee contributions and employer match.

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.

NOTE 5: EMPLOYEE RETIREMENT PLAN

The District has a defined contribution plan called the Knox County E911 Plan (DC Plan part of the Knox County Employee Retirement and Asset Accumulation Program) that covers substantially all full time employees of the District. The plan is administered by USI Consulting Group. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Participation begins on the first day of employment and all eligible employees not participating in another County, or state retirement plan are required to participate. Employees vest in the employer contributions at 20% per year after one year of service and are 100% vested after five years.

Prior to July 1, 1999, plan members were required to contribute a minimum of four percent and could contribute up to a maximum of fifteen percent of compensation. The District matched member contributions up to 6% of compensation. Effective July 1, 1999, the District amended plan provisions to require all participants to contribute a minimum of 6% of compensation.

In July 1, 2007, the Asset Accumulation Program incorporated both a 401(a) Plan and a 457(b) Plan in the Defined Contribution Plan for District participants. The Knox County Voluntary 457 plan incorporates voluntary pre-tax contributions by the participant with an employer match based on length of service with the District. Nationwide, the District's 457 Vendor, prepares their own separate financial report for the 457 plan.

As of June 30, 2012, there were 72 active plan members. During the year, the District made total employer contributions of \$170,726 to the DC Plan and 457 Plan. During 2011, the District contributed a total amount of \$160,737 to the DC Plan and 457 Plan.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, 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	132,923	-	12,499,067
Vehicles	32,276	-	-	32,276
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	17,735,236	132,923	-	17,868,159
Less Accumulated Depreciation for:				
Buildings	(853,792)	(115,251)	-	(969,043)
Communications and Office Equipment	(12,285,957)	(51,499)	-	(12,337,456)
Vehicles	(6,565)	(6,455)	-	(13,020)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	(164,675)	(13,849)	-	(178,524)
Total Accumulated Depreciation	(13,340,335)	(187,054)	-	(13,527,388)
Total Capital Assets Being Depreciated, Net	4,394,901	(54,131)	-	4,340,770
Total Capital Assets, Net	\$ 4,450,990	\$ (54,131)	\$ -	\$ 4,396,859

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 6: CAPITAL ASSETS (Continued)

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	5,009,736	-	-	5,099,736
Communications and Office Equipment	12,366,144	-	-	12,366,144
Vehicles	-	32,276	-	32,276
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	<u>17,702,960</u>	<u>32,276</u>	<u>-</u>	<u>17,735,236</u>
Less Accumulated Depreciation for:				
Buildings	(738,747)	(115,045)	-	(853,792)
Communications and Office Equipment	(11,990,968)	(294,989)	-	(12,285,957)
Vehicles	-	(6,565)	-	(6,565)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	<u>(150,826)</u>	<u>(13,849)</u>	<u>-</u>	<u>(164,675)</u>
Total Accumulated Depreciation	<u>(12,909,887)</u>	<u>(430,448)</u>	<u>-</u>	<u>(13,340,335)</u>
Total Capital Assets Being Depreciated, Net	<u>4,849,073</u>	<u>(398,172)</u>	<u>-</u>	<u>4,394,901</u>
Total Capital Assets, Net	<u>\$ 4,849,162</u>	<u>\$ (398,172)</u>	<u>\$ -</u>	<u>\$ 4,450,990</u>

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Advances from Primary Government	\$ 3,419,250	\$ -	\$(3,419,250)	\$ -	\$ -
Compensated absences	265,454	309,489	(313,010)	261,933	235,740
Total long-term liabilities	<u>\$ 3,684,704</u>	<u>\$ 309,489</u>	<u>\$(3,732,260)</u>	<u>\$ 261,933</u>	<u>\$ 235,740</u>

The Advances from Primary Government represented 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; \$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 were no official terms of repayment between the District and the County. In the current fiscal year, the District repaid the County for all principal, interest and closing costs incurred on its behalf. 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, 2012 and June 30, 2011

NOTE 7: LONG-TERM LIABILITIES (Continued)

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>

NOTE 8: CONTRIBUTED SERVICES

Knox County provides various administrative and internal service functions to the District. During the current fiscal year, \$64,207 was the total amount paid by the District for those services. In FY2011, the County did not charge the District for those services.

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 25.1 percent and 25.8 percent of total revenues for the fiscal years 2012 and 2011, respectively. The City of Knoxville and Knox County are not legally responsible for funding operational deficits of the District.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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

For the Year Ended June 30, 2012

	Original Budget	Amendments	Amended Budget	Actual	Variance Under (Over)	YTD % of Budget
Operating Revenues						
Emergency Telephone Service Charges	\$ 3,098,550	\$ -	\$ 3,098,550	\$ 3,252,072	\$ 153,522	105%
TECB - Wireless Fees	1,000,000	-	1,000,000	1,171,768	171,768	117%
TECB - Operational Funding Program	1,514,122	-	1,514,122	1,754,386	240,264	116%
Other Operating Revenue - Tape Sales	-	-	-	17,985	17,985	0%
Total Operating Revenues	5,612,672	-	5,612,672	6,196,211	583,539	110%
Operating Expenses						
<u>Salaries and Wages</u>						
Director	118,934	-	118,934	118,934	-	100%
Administrative Personnel	586,016	-	586,016	578,316	7,700	99%
Dispatchers	1,184,459	(19,550)	1,164,909	1,101,933	62,976	95%
Call Processors	1,441,157	(7,200)	1,433,957	1,353,810	80,147	94%
Part-time Personnel	130,000	14,000	144,000	99,652	44,348	69%
Other Salaries and Wages	602,268	12,750	615,018	360,212	254,806	59%
Total Salaries and Wages	4,062,834	-	4,062,834	3,612,857	449,977	89%
<u>Employee Benefits</u>						
Social Security	310,991	(1,000)	309,991	256,016	53,975	83%
Retirement	191,160	-	191,160	170,726	20,434	89%
Health Insurance	675,610	1,350	676,960	639,230	37,730	94%
Life Insurance	10,650	(4,100)	6,550	4,596	1,954	70%
Total Employee Benefits	1,188,411	(3,750)	1,184,661	1,070,568	114,093	90%
<u>Contracted Services</u>						
Medical Services	6,414	(116)	6,298	3,536	2,762	56%
Licensing and Related Costs	24,750	250	25,000	24,000	1,000	96%
Other Professional Services	19,750	-	19,750	18,569	1,181	94%
Equipment - Rent/Repair/Maintenance	557,863	2,916	560,779	508,512	52,267	91%
Vehicle - Rent/Repair/Maintenance	3,000	500	3,500	2,687	813	77%
Communications and IT Related	506,400	17,600	524,000	479,579	44,421	92%
Other Services Related to Daily Operations	7,500	5,210	12,710	2,057	10,653	16%
Services - Maintenance of Building and Grounds	5,802	-	5,802	625	5,177	11%
Contract with Other Agencies	200,135	(26,460)	173,675	92,383	81,292	53%
Space Rentals	300	-	300	60	240	20%
Employee, Travel, Educational Training	43,670	(250)	43,420	27,322	16,098	63%
Total Contracted Services	1,375,584	(350)	1,375,234	1,159,330	215,904	84%

continued...

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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

For the Year Ended June 30, 2012

	Original Budget	Amendments	Amended Budget	Actual	Variance Under (Over)	YTD % of Budget
Operating Expenses (continued)						
<u>Supplies and Materials</u>						
Food	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ 2,000	0%
Utilities and Fuel	230,720	(6,500)	224,220	145,186	79,034	65%
Office Supplies and Minor Equipment	69,077	(47,782)	21,295	17,118	4,177	80%
Educational Materials	14,600	(5,000)	9,600	182	9,418	2%
Other Materials for Daily Operations	32,275	(1,025)	31,250	6,794	24,456	22%
Total Supplies and Materials	348,672	(60,307)	288,365	169,280	119,085	59%
<u>Other Charges</u>						
Insurance Related Charges	7,000	-	7,000	5,702	1,298	81%
Worker's Compensation Charges	30,000	-	30,000	27,139	2,861	90%
Liability Charges	12,000	-	12,000	10,326	1,674	86%
Space Costs	30,831	-	30,831	6,789	24,042	22%
Other	3,500	64,407	67,907	66,907	1,000	99%
Capital Outlay	338,426	231,517	569,943	199,440	370,503	35%
Total Other Charges	421,757	295,924	717,681	316,303	637,548	44%
Total Operating Expenses	7,397,258	231,517	7,628,775	6,328,338	1,536,607	83%
Operating Income (Loss)	(1,784,586)	(231,517)	(2,016,103)	(132,127)	2,120,146	7%
Nonoperating Revenues (Expenses)						
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	-	-	-	22,896	22,896	0%
Radio Maintenance (Non Public Safety Agencies)	-	-	-	192,136	192,136	0%
Miscellaneous Income	168,000	-	168,000	16,128	(151,872)	10%
Interest Income	25,000	-	25,000	15,750	(9,250)	63%
Debt Principal	(167,000)	-	(167,000)	-	167,000	0%
Interest Expense	(116,928)	-	(116,928)	(38,296)	78,632	0%
Total Nonoperating Revenues (Expenses)	2,280,040	-	2,280,040	2,579,582	299,542	113%
Net Increase (Decrease) in Net Assets (Budget Basis)	\$ 495,454	\$ (231,517)	\$ 263,937	\$ 2,447,455	\$ 2,183,518	927%

**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**

For the Year Ended June 30, 2012

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

Net Increase (Decrease) in Net Assets (Budget Basis) (page 29)	\$ 2,447,455
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 \$(187,054) exceeds capital outlays \$(132,923) in the current year.	<u>(54,131)</u>
Change in net assets (page 13)	<u><u>\$ 2,393,324</u></u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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*

Board of Directors of
Knoxville – Knox County Emergency Communications District
Knoxville, Tennessee

We have audited the financial statements of the Knoxville – Knox County Emergency Communications District (the District), a component unit of Knox County, Tennessee as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. 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* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 previously.

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 various governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012