

LAWRENCE COUNTY EMERGENCY

COMMUNICATIONS DISTRICT

(A Component Unit)

Financial Statements

June 30, 2012

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

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INTRODUCTORY SECTION

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Board of Directors

June 30, 2012

<u>Official</u>	<u>Office</u>
Barry Don Kelley	Chairman
Larry Glass	Vice Chairman
Joey Hardin	Secretary/Treasurer
W. L. Wright	Director
William Lindsey	Director
John Guthrie	Director
Jimmy Brown	Director
Jarvis Curtis	Director
Steve Davis	Director

FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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HENDERSONVILLE, TN 37075

(615) 822-4177

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lawrence County Emergency Communications District
Lawrenceburg, Tennessee

I have audited the accompanying financial statements of Lawrence County Emergency Communications District, a component unit of Lawrence County, Tennessee for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Lawrence County Emergency Communications District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lawrence County Emergency Communications District, a component unit of Lawrence County, as of June 30, 2012, and the results of its operations and the cash flows for the year ending June 30, 2012 in conformity with generally accepted accounting principles of the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2012, on the consideration of Lawrence County Emergency Communications District's internal control over financial reporting and the test 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 the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information which includes the Management's Discussion and Analysis 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 including the Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United State 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 we obtained during the 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.

The 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 and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The Introductory Section and the Supplementary Information have 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Introductory Section and the Supplementary Information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

John R Poole, CPA

September 30, 2012

Lawrence County Emergency Communications District

Management's Discussion and Analysis

As management of the Lawrence 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. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the District. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

Financial Highlights:

The assets of the Lawrence County Emergency Communications District exceeded its liabilities at the close of the most recent fiscal year by \$604,423. Of this amount, \$133,305 (unrestricted net assets) may be used to meet the District's ongoing obligations.

The District's total net assets decreased by \$42,264 during the current year primarily due to higher than expected personnel costs. Operating revenues decreased by \$12,491. Operating expenses were below the total operating budgeted expenses.

During the year, the District reduced its debt by \$42,009. All debts are paying as scheduled.

Overview of the Financial Statements:

The Statement of Net Assets presents information on all 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 Activities 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 basic financial statements can be found on pages 6-8 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 9-15 of this report.

Financial Analysis of the Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the Lawrence County Emergency Communications District, assets exceeded liabilities by \$604,423 at the close of the most recent fiscal year.

By far the largest portion of the District's assets reflects its investment in capital assets. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although 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.

Lawrence County Emergency Communications District's Net Assets

	<u>2011</u>	<u>2012</u>
Current and other assets	\$ 394,464	303,555
Capital assets, net	<u>681,263</u>	<u>710,219</u>
Total assets	<u>1,075,727</u>	<u>1,013,774</u>
Current liabilities	95,939	110,087
Other liabilities	94,000	104,000
Long-term debt	<u>239,101</u>	<u>195,264</u>
Total liabilities	<u>429,040</u>	<u>409,351</u>
Net assets:		
Invested in capital assets, net of related debt	402,123	471,118
Unrestricted	<u>244,564</u>	<u>133,305</u>
Total net assets	\$ <u>646,687</u>	<u>604,423</u>

At the end to the current fiscal year, the District is able to report positive balances in all categories of net assets.

Comparison of revenues and expenses

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Operating Revenues:			
Emergency Telephone Service Charge	\$271,100	\$323,518	(\$52,418)
State Emergency Communications Board Wireless	<u>316,568</u>	<u>276,641</u>	<u>39,927</u>
Total Operating Revenues	<u>587,668</u>	<u>600,159</u>	<u>(12,491)</u>
Operating Contributions:			
Other governments	569,832	569,832	0
State Emergency Communications	<u>54,957</u>	<u>26,000</u>	<u>28,957</u>
Total Capital Contributions	<u>624,789</u>	<u>595,832</u>	<u>28,957</u>
Operating Expenses:			
Salaries and wages	624,449	611,196	(13,253)
Employee benefits	300,481	342,719	42,238
Contract services	60,808	66,887	6,079
Supplies and materials	10,871	16,026	5,155
Depreciation	88,114	77,755	(10,359)
Amortization	328	328	0
Rental expense	21,432	19,500	(1,932)
Insurance	25,397	27,156	1,759
Repair and maintenance	18,278	9,123	(9,155)
Training and travel	20,461	9,654	(10,807)
Utilities	70,445	68,888	(1,557)
Miscellaneous	<u>1,621</u>	<u>1,381</u>	<u>(240)</u>
Total Operating Expenses	<u>1,242,685</u>	<u>1,250,613</u>	<u>7,928</u>
Operating income (loss)	<u>(30,228)</u>	<u>(54,622)</u>	<u>24,394</u>
Nonoperating Revenues (Expenses):			
Interest expense	(12,228)	(13,984)	1,756
Interest income	<u>192</u>	<u>270</u>	<u>(78)</u>
Total Nonoperating Revenues (Expenses)	<u>(12,036)</u>	<u>(13,714)</u>	<u>1,678</u>
Net income (loss)	<u><u>(42,264)</u></u>	<u><u>(68,336)</u></u>	<u><u>26,072</u></u>

Capital Assets

The Lawrence County Emergency Communications District's investment in capital assets from its activities at June 30, 2012, amounts to \$710,219 (net of accumulated depreciation). This investment in capital assets is in communications equipment.

	<u>2011</u>	<u>2012</u>
Furniture and equipment	\$ 35,480	35,480
Building	400,000	400,000
Leasehold improvements	274,014	274,014
Communications equipment	<u>508,168</u>	<u>625,238</u>
Less accumulated depreciation	<u>(536,399)</u>	<u>(624,513)</u>
Net Capital Assets	\$ <u>681,263</u>	<u>710,219</u>

Additional information on the Lawrence County Emergency Communications District's capital assets can be found in the notes to the financial statements section of this report.

Lawrence County Emergency Communications District's Debt

The District has one loan (\$239,101) on its building, which it is paying as scheduled.

Economic Environment and Next Year's Budget and Rates

Economists predict that the economy at a national level is slowing to modest growth. Additionally, the local economy has seen a slowing in the last twelve months. This low level of growth is expecting to continue over the next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Johnny Cheatwood
Lawrence County Emergency Communications District

FINANCIAL STATEMENTS

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Statement of Net Assets

June 30, 2012

<u>Assets</u>	<u>Account Number</u>	
Current Assets:		
Cash and cash equivalents	1001	\$190,937
Accounts receivable	1004	74,427
Prepaid insurance	1009	36,550
Total Current Assets		<u>301,914</u>
Capital Assets:		
Communication equipment	1308	625,238
Furniture and equipment	1304	35,480
Building improvements	1302	400,000
Leasehold improvements	1312	274,014
Less accumulated depreciation - comm. equip.	1309	(362,344)
Less accumulated depreciation - furniture and equipment	1305	(32,031)
Less accumulated depreciation - building	1303	(106,666)
Less accumulated depreciation - leasehold	1313	(123,472)
Total Capital Assets, Net		<u>710,219</u>
Other Assets- bond issue costs	1401	<u>1,641</u>
Total Assets		<u>\$1,013,774</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	2001	18,354
Accrued liabilities	2020	47,896
Current portion of long-term debt	2202	43,837
Total Current Liabilities		<u>110,087</u>
<u>Other Liabilities</u>		
Post retirement benefits	2205	104,000
Long-term debt	2202	195,264
		<u>299,264</u>
Total liabilities		<u>\$409,351</u>
Net Assets:		
Invested in capital assets, net of related debt	2301	471,118
Unrestricted	2320	133,305
Total Net assets		<u>604,423</u>

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

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

**Statement of Revenues, Expenses
and Changes in Net Assets**

For the Year Ended June 30, 2012

	<u>Account Number</u>	
Operating Revenues:		
Emergency Telephone Service Charge	3001	\$271,100
Operating Grants -TECB - Operational Funding	3004	161,323
State Emergency Communications Board Wireless Charge	3002	<u>155,245</u>
Total Operating Revenues		<u>587,668</u>
 Operating Expenses:		
Salaries and wages	4000	624,449
Employee benefits	4100	300,481
Contract services	4200	60,808
Supplies and materials	4300	10,871
Depreciation	4500	88,114
Amortization	4600	328
Rental expense	4227	21,432
Insurance	4409	25,397
Repair and maintenance	4232	18,278
Training and travel	4418	20,461
Utilities	4307	70,445
Miscellaneous	4499	<u>1,621</u>
Total Operating Expenses		<u>1,242,685</u>
Operating income (loss)		<u>(655,017)</u>
 Nonoperating Revenues (Expenses):		
Interest expense	5010	(12,228)
Interest income	5002	192
Contributions -Other governments	3101	569,832
Contributions -State Emergency Communications	3103	<u>54,957</u>
Total Nonoperating Revenues (Expenses)		<u>612,753</u>
Net change in assets		(42,264)
Net assets, June 30, 2011		<u>646,687</u>
Net assets, June 30, 2012		<u><u>\$604,423</u></u>

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

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Statement of Cash Flows

For the Year Ending June 30, 2012

Cash Flows from Operating Activities:	
Cash received from operations	\$577,471
Cash paid to employees	(924,930)
Cash paid to suppliers	(220,842)
Net Cash Provided by Operating Activities	<u>(568,301)</u>
Cash Flows from Capital and Related Financing Activities:	
Payments of debt- principal	(42,009)
Payments of interest	(12,228)
Acquisition of capital assets	(117,070)
Net Cash Provided by Capital and Related Financing Activities	<u>(171,307)</u>
Cash Flows from Noncapital financing:	
Operating contributions	<u>624,789</u>
Net Cash From Noncapital financing	<u>624,789</u>
Cash Flows from Investing Activities:	
Interest received	<u>192</u>
Net Cash From Investing Activities	<u>192</u>
Net Increase in Cash	(114,627)
Cash and Cash Equivalents, June 30, 2011	<u>305,564</u>
Cash and Cash Equivalents, June 30, 2012	<u><u>\$190,937</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	(\$655,017)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	88,442
Change in assets (increase) decrease:	
Accounts receivable	(10,197)
Prepaid assets	(13,849)
Change in liabilities increase (decrease):	
Account payable and accrued liabilities	<u>22,320</u>
Net Cash Provided by Operating Activities	<u><u>(\$568,301)</u></u>

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

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lawrence County Emergency Communications District (the District) was created as a public corporation in perpetuity as authorized by TCA Section 7-86-101. The District was organized subsequent to a public referendum held on March 8, 1988, as approved by the voters of Lawrence County, Tennessee. The District is a component unit of Lawrence County, Tennessee. The District encompasses the same boundaries as Lawrence County, Tennessee. The powers of the District are vested in and exercised by a majority of the members of the Board of Directors, who are appointed by the Lawrence County Mayor. The Board consists of nine members. The Lawrence County Commission has the ability to adjust the District's service charges. The District must obtain County Commission approval before the issuance of most debt. The District is considered a political subdivision and is exempt from Federal and State income taxes.

Basis of Accounting

The accompanying financial statements of the District have been prepared on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred. Expenditures are recognized in the accounting period in which the liability is incurred and is measurable.

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Cash and Cash Equivalents

The District considers all highly liquid debt instruments purchased with maturities of 60 days or less to be cash equivalents.

Supply Inventory

Supply inventory is valued at the lower of cost (first-in, first-out) or market. Inventory items are considered expenditures when used (consumption method).

Capital Assets

Capital assets of the District is recorded at cost. Depreciation is computed over the estimated life of the assets using the straight-line method. The estimated life for property, plant and equipment in service is from 3 to 15 years. The District does capitalize interest incurred on construction projects.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Annual budget

The District's annual budget is required by state law. The budget is adopted on a basis consistent with generally accepted accounting principles and is prepared on the accrual basis. All budget appropriations lapse at year end.

The Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts establishes the legal budget level of control to be at the line-item level.

Note 2 - CASH AND CERTIFICATES OF DEPOSIT

The District is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During the year, the District invested funds that were not immediately needed in deposit accounts. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The District has deposit policies to minimize custodial credit risks. The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the District and must total a minimum of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The District's deposits with financial institutions are fully insured or collateralized by securities held in the District's name.

Note 3 - CAPITAL ASSETS

A summary of changes in capital assets in service is as follows:

	Balance <u>6-30-11</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6-30-12</u>
Communications equipment	508,168	117,070	-	625,238
Buildings	400,000	-	-	400,000
Leasehold improvements	274,014	-	-	274,014
Equipment and furniture	<u>35,480</u>	<u>-</u>	<u>-</u>	<u>35,480</u>
	1,217,662	117,070	-	1,334,732
Less accumulated depreciation				
	Balance <u>6-30-11</u>			Balance <u>6-30-12</u>
Communications equipment	306,615			362,344
Buildings	93,333			106,666
Leasehold improvements	106,745			123,472
Equipment and furniture	<u>29,706</u>			<u>32,031</u>
Less accumulated depreciation	<u>(536,399)</u>			<u>(624,513)</u>
Utility plant - net	<u>\$681,263</u>			<u>710,219</u>

Depreciation expense consists of communication equipment \$55,729, Furniture and equipment \$2,325, Building \$13,333, Leasehold \$16,727. All assets are being depreciated.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 4 - LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	Balance			Balance
	<u>6-30-11</u>	<u>Additions</u>	<u>Retirements</u>	<u>6-30-12</u>
Series 2005	\$ 281,110	-	42,009	239,101

Future maturities of note principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	43,837	10,400
2014	45,744	8,493
2015	47,734	6,503
2016	49,810	4,427
2017	<u>51,976</u>	<u>2,261</u>
Total	<u>\$ 239,101</u>	<u>32,084</u>

The Building of the District is pledged as collateral on the bonded indebtedness until the existing principal and interest are paid in full.

Note 5 - 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 purchases commercial financial bonded insurance for its officials. For all other risks, the District purchases commercial insurance. There have been no claims during the last four years.

Note 6 - PENSION PLAN

Plan Description:

Certain 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 5 (Five) years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became 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 5 (Five) years of service and members joining prior to July 1, 1979 were vested after 4 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 the 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.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 6 - PENSION PLAN, Continued

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy:

The 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 8.79% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for the District are 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 \$50,366 to TCRS was equal to the required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using 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% per year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a ten-year period. The 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 7 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/2012	\$ 50,366	100.00%	\$ 0.00
6/30/2011	\$ 42,505	100.00%	\$ 0.00
6/30/2010	\$ 47,445	100.00%	\$ 0.00

Funded Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 88.48% funded. The actuarial accrued liability for benefits was \$0.96 million, and the actuarial value of assets was \$0.85 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.11 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.53 million, and the ratio of the UAAL to the covered payroll was 20.99% 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.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 7 - LIABILITY FOR COMPENSATED ABSENCES

The District at its inception adopted a sick leave policy in which employees were allowed to accrue twelve sick days per year without limit for compensated absences. Accumulated sick leave had no value except for the purpose granted, and in the event of retirement or separation, all unused sick leave was forfeited. Since the employees accumulating rights to receive compensation for future absences were contingent upon the absences being caused by future illness and such amounts could not be reasonably estimated, a liability for unused sick leave was not recorded in the financial statements, in previous years. During 2001, the District adopted the State of Tennessee's sick leave without a cap on the amount of time the employee can earn. The employee can also receive credit on their retirement for the unused sick leave which they earned. A liability was accrued at year-end for the expected sick leave to be used in the following year.

Employees shall begin accruing vacation time as of the date of their employment. However, an employee is not eligible to use or receive compensation for vacation time until the employee has completed six months of continuous service. Part-time employees do not qualify for vacation leave. Vacation time may be accumulated and carried forward to the next year in an amount not to exceed one-half the employees annual leave. Vacation time is accrued at a rate of eight hours per month for the first five years of services, ten hours per month for five to ten years of service, and twelve hours per month for years of service exceeding ten years. An employee who has fulfilled the six month requirement shall be paid for all accrued vacation leave upon termination or retirement.

Note 8 - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the District receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities: the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 9 - BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgets are adopted and approved by Board vote on an annual basis. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The Board approves, total budget appropriations. The Manager is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the Board.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 10 - POST - RETIREMENT BENEFITS

The District participates in the state administered Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by TCA 8-27-701. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), Point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claim liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue.

Annual OPEB Cost and Net OPEB Obligation

ARC	\$ 10,000
Interest on the NPO	3,150
Adjustment to the ARC	<u>-3,150</u>
Annual OPEB Cost	10,000
Contribution	<u>0</u>
Increase/decrease in NPO	10,000
Net OPEB obligation – beginning of year	94,000
Net OPEB obligation – end of the year	<u>104,000</u>

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/2010	\$ 10,000	0%	\$ 84,000
6/30/2011	\$ 10,000	0%	\$ 94,000
6/30/2012	\$ 10,000	0%	\$ 104,000

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements

June 30, 2012

Note 10 - POST - RETIREMENT BENEFITS

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2009, actuarial valuation the annual healthcare cost trend for the Medicare Supplement was 1 percent for fiscal year 2012. The trend will rise to 10% in fiscal year 2012 and then will be reduced by decrements to an ultimate rate of 5% by fiscal year 2021. These rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period.

REQUIRED SUPPLEMENTARY INFORMATION

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Required Supplementary Information

June 30, 2012

(1) Pension

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	<u>July 1, 2007</u>	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Actuarial Valuation Assets:	\$ 461	\$598	\$847
Actuarial Accrued Liability:	\$ 531	\$655	\$958
Unfunded AAL:	\$ 70	\$ 57	\$110
Funded Ratio:	86.82%	91.23%	88.48%
Covered Payroll:	\$ 473	\$525	\$526
UAAL as Percentage of Payroll:	14.80%	10.95%	20.99%

(2) Post Retirement Benefits

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	<u>July 1, 2011</u>
Actuarial Valuation Assets:	\$ 0
Actuarial Accrued Liability:	\$ 94
Unfunded AAL:	\$ 94
Funded Ratio:	0%
Covered Payroll:	\$ 508
UAAL as Percentage of Payroll:	0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SUPPLEMENTAL INFORMATION

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Schedule of State Financial Assistance

For the Year Ended June 30, 2012

Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2011	Cash Receipts	Other Receipts	Cash Expenditures	Receivable (Deferred) Balance June 30, 2012
Training	State of Tennessee Commerce and Insurance	\$0	28,957	\$0	28,957	0
GIS Mapping Maintenance	State of Tennessee Commerce and Insurance	\$0	26,000	\$0	26,000	0
Totals		<u>\$0</u>	<u>\$54,957</u>	<u>\$0</u>	<u>\$54,957</u>	<u>\$0</u>

State Program:

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Revenues and Expenses
Budget and Actual

For the Year Ended June 30, 2012

		<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Operating Revenues:	<u>Number</u>			
Emergency Telephone Service Charge	3001	\$307,000	\$271,100	(\$35,900)
State Emergency Communications Board Wireless Charge	3002	<u>308,000</u>	<u>316,568</u>	<u>8,568</u>
Total Operating Revenues		<u>615,000</u>	<u>587,668</u>	<u>(27,332)</u>
Operating Contributions:				
Other governments	3101	570,000	569,832	(168)
State Emergency Communications	3103	<u>16,000</u>	<u>54,957</u>	<u>38,957</u>
Total Capital Contributions		<u>586,000</u>	<u>624,789</u>	<u>38,789</u>
Operating Expenses:				
Salaries and wages	4000	625,400	624,449	951
Employee benefits	4100	301,300	300,481	819
Contract services	4200	61,250	60,808	442
Supplies and materials	4300	11,250	10,871	379
Depreciation	4500	89,000	88,114	886
Amortization	4600	500	328	172
Rental expense	4227	21,500	21,432	68
Insurance	4409	26,050	25,397	653
Repair and maintenance	4232	18,300	18,278	22
Training and travel	4418	21,000	20,461	539
Utilities	4307	74,800	70,445	4,355
Miscellaneous	4499	<u>2,500</u>	<u>1,621</u>	<u>879</u>
Total Operating Expenses		<u>1,252,850</u>	<u>1,242,685</u>	<u>10,165</u>
Operating income (loss)		<u>(51,850)</u>	<u>(30,228)</u>	<u>21,622</u>
Nonoperating Revenues (Expenses):				
Interest expense	5010	(54,238)	(12,228)	42,010
Interest income	5002	<u>175</u>	<u>192</u>	<u>17</u>
Total Nonoperating Revenues (Expenses)		<u>(54,063)</u>	<u>(12,036)</u>	<u>42,027</u>
Net income (loss)		<u>(105,913)</u>	<u>(42,264)</u>	<u>63,649</u>

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Debt Service Requirements

June 30, 2012

<u>Year</u>	CAPITAL OUTLAY BUILDING		TOTALS	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 43,837	10,400	43,837	10,400
2014	45,744	8,493	45,744	8,493
2015	47,734	6,503	47,734	6,503
2016	49,810	4,427	49,810	4,427
2017	51,976	2,261	51,976	2,261
	<u>\$ 239,101</u>	<u>32,084</u>	<u>239,101</u>	<u>32,084</u>

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Monthly Rates in Effect

June 30, 2012

<u>Type of Customer</u>	<u>Rate</u>
Residential customers	\$ 1.50
Business customers	\$ 3.00

LAWRENCE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Schedule of Number and Classification of Customers

June 30, 2012

AT&T

Residential customers	8,741
Business customers	2,203

Loretto Telephone

Residential customers	4,711
Business customers	848

Other Telephone Companies

Residential customers	1,892
Business customers	143

**COMPLIANCE AND
INTERNAL CONTROL**

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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

Board of Directors
Lawrence County Emergency Communications District
Lawrenceburg, Tennessee

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

Internal Control Over Financial Reporting

In planning and performing the audit, I considered the Lawrence County Emergency Communications District's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lawrence County Emergency Communications District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the 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 discussed below, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness (2004-1 Lack of segregation of Duties).

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. I consider the deficiency described below (2004-1) to be a material weakness.

The material weakness is as follows:

Prior Year:

2004-1 Separation of Duties

Due to the limited number of personnel employed by the District, several functions, which ideally should be performed by different individuals, are regularly performed by one person. I recommend that the District strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lawrence 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lawrence County Emergency Communications District's response to the finding identified in the audit is described above. I did not audit the Management Response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, and State Comptrollers Office and is not intended to be and should not be used by anyone other than these specified parties.

John R Poole, CPA

September 30, 2012