SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT

Dunlap, Tennessee

FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Year Ended June 30, 2012

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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Sequatchie County 911
Emergency Communications District
Michael Twitty, Director
426 Cedar Street
Dunlap, Tennessee 37327

September 18, 2012

Please accept this statement on behalf of the Sequatchie County ECD as part of the audit for the fiscal year ending June 30, 2012 (FY 2012).

During FY 2012, the ECD Board frugally stewarded its limited fiscal resources and sought to minimize its negative net asset condition. By aggressive budget actions, the Board has adopted a proposed budget for the current fiscal year, FY 2013, that should produce a positive net asset condition, despite challenges. The downside is that essential staff has been reduced and the District is less capable of meeting the totality of emergency communications services desired for public safety.

The ECD desires to prepare for the statewide implementation of "next generation" 911 (NG-911), which is expected to be available at the end of FY 2013. Equipment necessary for NG-911 is funded by the Tennessee Emergency Communications Board (TECB). However, the depreciation impact on the ECD budget is not offset by new revenue; thus, the ECD has not been able to advance into NG-911.

The ECD is preparing for a period of overall decline in 911 revenues, as the decline of landline fees continues unabated, while growth of 911 fees from wireless/cellular devices no longer is sufficiently robust to offset the trend. This trendline has been confirmed by the TECB. No legislation is on the horizon that would improve revenues.

The ECD is "battening-down the hatches" for a fiscally stormy period that could extend for several years. Local governments will be required to fund discretionary expenditures in the future, as the ECD must carefully retain existing reserves to offset equipment replacement costs and other mandatory expenditures.

Respectfully submitted on behalf of the 911 Board,

Michael Twitty

Michael Twitty, 911 Director
SEQUATCHIE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF MANAGEMENT AND BOARD MEMBERS
JUNE 30, 2012

MANAGEMENT:

Michael Twitty	Executive director

BOARD MEMBERS:

Dan Ewton	Chairman
Clint Huth	Vice chairman
Mary Ruth Dunleavy	Secretary
Wayne Reynolds	Treasurer
Keith Land	Director
Winford Smith	Director
Randall Lockhart	Director
Michael Hudson	Director
Joyce Dotson	Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

My discussion and analysis of Sequatchie County 911 Emergency Communication District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. This should be read in conjunction with the District's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of the following financial statements: the balance sheet, the statement of revenues, expenses and change in net assets, and the statement of cash flows. These statements provide information about the activities of the District as a whole and present an overview of the District's finances.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

One of the main areas of interest for an entity is determining how successful they were at meeting their financial objectives for the year. The District accounts for its financial activities where determination of income (increase in net assets) or loss (decrease in net assets) is necessary or useful to sound financial administration. The statements are prepared on the accrual basis of accounting which recognizes revenues when earned and expenses when incurred. The balance sheet shows the assets that the District owns and the liabilities (debts) that the District owes.

The information contained in the statement of revenues, expenses, and changes in net assets is used as a "report card" to determine if the District has been successful at meeting its financial objectives. Net assets and changes in net assets are summarized as follows:

	2012	2011
NET ASSETS:		
Current and other assets	$ 62,074	$ 18,054
Capital assets	134,304	186,085
Total assets	196,378	204,139
Current liabilities	(74,046)	(122,624)
Long-term liabilities	(10,132)	(35,618)
Net assets	$ 112,200	$ 45,897
Summary of net assets -		
Invested in capital assets	$ 98,686	$ 125,925
Unrestricted net assets (deficit)	13,514	(80,028)
	$ 112,200	$ 45,897

	2012	2011
CHANGES IN NET ASSETS:		
Operating revenues	$ 270,196	$ 270,017
Operating expenses	363,033	477,086
Operating loss	(92,837)	(207,069)
Nonoperating revenues, net of expenses	159,140	142,003
Changes in net assets	66,303	(65,066)
NET ASSETS:		
Beginning	45,897	110,963
Ending	$ 112,200	$ 45,897

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

For the year ended June 30, 2012, the cost of its required operating activities exceeded the revenues generated, and net assets increased by approximately $66,000. Operating revenues remained unchanged and operating expenses decreased when compared to the prior year, with expenses decreasing by approximately $114,000. Telephone service charges, shared wireless charges and state operational funding remained relatively stable. Changes in categories of expenses were approximately as follows: Salaries and benefits decreased by $95,000, contracted services increased by $9,000, supplies and materials decreased by $5,000, depreciation and amortization decreased by $17,000, and other operating expenses decreased by $6,000, $4,000 of which was a decrease in training and travel.

THE DISTRICT'S NET ASSETS

At June 30, 2012, net assets consisted of net assets invested in capital assets, net of related debt, totaling $98,686, and unrestricted net assets of $13,514.

BUDGETARY HIGHLIGHTS

Actual revenues of $442,797 were approximately $11,000 more than the amount budgeted. Actual expenses of $376,494 were $47,000 less than the budget of $424,194. Approximate results of actual expenses compared to the final budget were as follows: salaries and benefits were over budget by $16,000; contracted services were under budget by $19,000; supplies and materials were over budget by $3,000; other charges were under budget by $6,000; interest expense was under budget by $39,000; depreciation and amortization were under budget by $2,000.

CAPITAL ASSETS

At June 30, 2012, the District had $134,304 invested in capital assets, including building and improvements, telecommunications and office equipment, and furniture and fixtures. The District has capital assets totaling $474,119, with $339,815 having been expensed through the provision for depreciation and amortization. The $134,304 represents a decrease of approximately $52,000 from the prior year which consists mainly of $43,000 relative to depreciation. Detailed information about the District's capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

The District purchased its operating premises in 2004, from Sequatchie County, under a capital lease obligation with 10 interest-free, annual payments of $10,200, payable through January, 2014. The unpaid obligation at June 30, 2012 was $20,400, a decrease of $10,200 from the prior year. During 2011 the District purchased communications equipment totaling $43,016 under a capital lease with 36 monthly payments including interest, payable through July, 2013. The unpaid obligation at June 30, 2012, was $15,218, a decrease of $14,343 from the prior year. Additional information is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS

The District is making long-range plans for financial viability. In 2011 significant losses were incurred, and revenue received from land-line telephones is not expected to increase. However, as a result of a population increase with the 2010 census, increased revenues are anticipated from the State Emergency Communications Board. Additionally, as a result of recurring losses, management has been forced to decrease staff and anticipates a decrease of approximately 20% in salaries and related costs. As a result of the decrease in staff and other cost reductions the District experienced an increase in net assets of $66,303 and increase of approximately $131,000 over the prior year.

Michael H. Twitty
Executive Director

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Sequatchie County 911 Emergency Communications District:

We have audited the accompanying financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie County, Tennessee, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Sequatchie County 911 Emergency Communications District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements referred to above present fairly, in all material respects, the financial position of Sequatchie County 911 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 September 18, 2012, on our consideration of Sequatchie County 911 Emergency Communications 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.

651 East Fourth Street | jhmcpa.com | 37403 | 423 756 0052 t
Suite 200 | Chattanooga, Tennessee | 423 267 5945 f

Accounting principles generally accepted in the United States of America require that 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. 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 other assurance on the information because the limited procedures do not provide us with sufficient information to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sequatchie County 911 Emergency Communications District's financial statements as a whole. The introductory section and schedule of budget to actual are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of budget to actual 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section 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.

Johnson, Nickey & Meuchson, P.C.

September 18, 2012

FINANCIAL STATEMENTS

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
BALANCE SHEET
JUNE 30, 2012

ASSETS

CURRENT ASSETS:	
Cash	$ 41,155
Accounts receivable, telephone service charges	9,227
Prepaid expenses	11,692
Total current assets	62,074
CAPITAL ASSETS:	
Land	49,700
Buildings and improvements	120,599
Office equipment	5,116
Communications equipment	298,704
	474,119
Less accumulated depreciation	339,815
Capital assets, net	134,304
Total assets	$ 196,378

(The accompanying notes are an integral part of these statements.)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Line of credit	$ 40,000
Current maturities of capital lease obligation	25,486
Accrued payroll and payroll withholdings	4,858
Accrued employee leave	3,702
Total current liabilities	74,046
CAPITAL LEASE OBLIGATION, less current maturities shown above	10,132
NET ASSETS:	
Invested in capital assets, net of related debt	98,686
Unrestricted	13,514
Total net assets	112,200
Total liabilities and net assets	$ 196,378

(The accompanying notes are an integral part of these statements.)

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

REVENUES:	
Emergency telephone service charges	$ 112,068
Tennessee Emergency Communications Board -	
Shared wireless charge	32,344
Operational funding	124,133
Other	1,651
	270,196
EXPENSES:	
Salaries and benefits	252,157
Contracted services	41,608
Supplies and materials	16,052
Other expenses	9,901
Depreciation and amortization	43,315
	363,033
OPERATING LOSS	(92,837)
NONOPERATING REVENUES (EXPENSES):	
State grants and reimbursements	42,503
County and City funding	130,000
Interest income	98
Loss on disposal of property	(8,467)
Interest expense	(4,994)
CHANGE IN NET ASSETS	66,303
NET ASSETS:	
Beginning	45,897
Ending	$ 112,200

(The accompanying notes are an integral part of these statements.)

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts for emergency communication services	$ 144,651
Receipts for operational funding	124,133
Other	1,651
Payments to/for employees	(257,634)
Payments for goods and services	(85,191)
Net cash used by operating activities	(72,390)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payment of interest	(4,994)
Payment of capital lease obligations	(24,543)
Net cash used by capital and related financing activities	(29,537)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Receipts from State grants and reimbursements	42,503
County and City funding	130,000
Payments on line of credit	(35,000)
Net cash provided by noncapital financing activities	137,503
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	98
Net cash provided by investing activities	98
NET INCREASE IN CASH	35,674
CASH:	
Beginning	5,481
Ending	$ 41,155

(The accompanying notes are an integral part of these statements.)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	$ (92,837)
Adjustments to reconcile operating loss to net cash used by operating activities -	
Depreciation and amortization	43,315
(Increase) decrease in operating assets:	
Accounts receivable	239
Prepaid expenses	(8,585)
Increase (decrease) in operating liabilities:	
Accounts payable	(9,045)
Accrued payroll and withholdings	(5,477)
Net cash used by operating activities	$ (72,390)

(The accompanying notes are an integral part of these statements.)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization -

Sequatchie County 911 Emergency Communications District is a governmental entity organized pursuant to Chapter 867 of the 1984 Tennessee Public Acts ("The Emergency Communications District Law"), which was enacted to establish local emergency telephone service and to provide for the funding of such services.

Financial Reporting Entity –

The District is a component unit of Sequatchie County, Tennessee. The Sequatchie County Board of Commissioners appoints the District's Board of Directors, may appropriate funds for the operation and maintenance of the District, and must approve long-term debt issued by the District.

Basis of Accounting –

The District is a governmental unit, subject to accounting directives issued by the Governmental Accounting Standards Board (GASB), and anticipates recovering the cost of its services in a manner similar to a private business enterprise. Therefore, the District uses the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. Operating revenues are those that result from the activities of the District, including City and County funding, telephone service charges, revenue from contracted services, and state allocations and operational funding. Revenue from other sources is considered nonoperating.

In addition to GASB pronouncements, the District is subject to all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District does not follow FASB pronouncements issued subsequent to November 30, 1989.

Estimates –

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and

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

Estimates (continued) -

assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Accounts Receivable –

Accounts receivable for telephone service charges and other is reported at the outstanding principal amount. All recorded amounts are considered to be collectible; therefore no allowance for uncollectibles is recorded.

Capital Assets –

The District capitalizes significant purchases of capital assets, including software, which are recorded at cost. Depreciation is provided over the estimated useful lives of the individual assets by the straight-line method. Depreciation expense for the year ended June 30, 2012, was $43,315.

(2) BUDGETARY CONTROL:

The District's Board approves an annual budget based upon anticipated revenues and estimated operating expenses. In accordance with the level of control established by the Tennessee Comptroller of the Treasury, operating expenses may not exceed the amount budgeted in each line item. Budgeted expenses may be amended, as needed, to meet changing needs.

(3) COMPENSATED ABSENCES:

The District's employees earn vacation based upon a prescribed formula. The benefits are accrued as employees earn the right to the paid time off, and the liability is included in these financial statements.

The employees also earn sick leave based upon a prescribed formula. Sick leave is not payable upon retirement or termination, and no liability is recorded for this benefit.

(4) CHANGES IN CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2012, are as follows -

	Beginning	Additions	Reclasses & Retirements	Ending
Non-depreciable Assets:				
Land	$ -	$ -	$ 49,700	$ 49,700
Depreciable Assets:				
Buildings and improvements	177,105	-	(56,506)	120,599
Furniture and fixtures	11,317	-	(11,317)	-
Office equipment	23,481	-	(18,365)	5,116
Communications equipment	337,826	-	(39,122)	298,704
	549,729	-	(75,610)	474,119
Accumulated depreciation:				
Buildings and improvements	62,442	8,137	(4,322)	66,257
Furniture and fixtures	9,458	-	(9,458)	-
Office equipment	21,630	171	(16,685)	5,116
Communications equipment	270,113	35,007	(36,678)	268,442
	363,643	43,315	(67,143)	339,815
Net capital assets	$ 186,086	$ (43,315)	$ (8,467)	$ 134,304

(5) CASH AND INVESTMENTS:

The District reports its cash and investments in accordance with GASB Statement Number 40, “Deposit and Investment Risk Disclosures”, which is designed to improve financial reporting of deposit and investment risks.

At June 30, 2012, the District’s cash and investments consist of the following –

	Weighted Average Maturity (Years)	Cost Basis
Cash in demand deposit accounts	0.00	$ 41,155

(5) CASH AND INVESTMENTS (Continued):

Interest Rate Risk – As a means of limiting its exposure to losses resulting from rising interest rates, the District's usual policy is to invest in certificates of three years or less. The exposure to interest rate changes is presented using the weighted average maturity method. Its policy is to limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. The District's investments experienced no significant fluctuations in fair value during the year.

Custodial Credit Risk – The District's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the District may participate. The District limits its investments to certificates of deposit with local banks.

Credit Risk – The District's policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws.

(6) LINE OF CREDIT:

The District maintains a $75,000 unsecured line of credit for operating purposes with Mountain Valley Bank. The line of credit has a variable interest rate. Changes in the line of credit are as follows -

Beginning	Additions	Retirements	Ending
$ 75,000	$ -	$ 35,000	$ 40,000

(7) CAPITAL LEASE OBLIGATIONS:

Capital lease obligations are as follows -

Capital lease with Sequatchie County (the primary government) for $102,000, secured by equipment, payable at $10,200, annually, with no interest, through January, 2014	$ 20,400
Capital lease with Bank of America, for $43,016, secured by equipment, payable in monthly installments of $1,318, including interest at 6.39%, through July, 2013	15,218
	35,618
Less current maturities	25,486
	$ 10,132

Current maturities are as follows -

For the year ending June 30,	2013	$ 25,486
	2014	10,132
		$ 35,618

Changes in the capital lease obligation are as follows –

Beginning	Additions	Payments	Ending
$ 60,161	$ -	$ 24,543	$ 35,618

(8) OPERATING LEASES:

The District leases office equipment from MSA, Inc., for $97 per month, under an operating lease of 60 months through August, 2015. Lease expense totaled $1,332 for the 2012 year.

(9) RETIREMENT PLAN:

Plan description –

Employees of Sequatchie County 911 Emergency Communications 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 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 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 Sequatchie County 911 Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding policy –

Sequatchie County 911 Emergency Communications District requires employees to contribute 5.0 percent of earnable compensation.

(9) RETIREMENT PLAN (Continued):

Funding policy (continued) -

Sequatchie County 911 Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 5.46% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sequatchie County 911 Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

Annual pension cost –

For the year ending June 30, 2012, Sequatchie County 911 Emergency Communications District's annual pension cost of $10,687 to TCRS was equal to its required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation,(c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Sequatchie County 911 Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$10,687	100.00%	$0.00
6/30/2011	$ 7,703	100.00%	$0.00
6/30/2010	$17,161	100.00%	$0.00

(9) RETIREMENT PLAN (Continued):

Funded status and funding progress -

As of July 1, 2011, the most recent actuarial valuation date, the plan was 68.72% funded. The actuarial accrued liability for benefits was $0.17 million, and the actuarial value of assets was $0.11 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.23 million, and the ratio of the UAAL to the covered payroll was 22.49%.

The schedule of funding progress, required information presented below, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liab(AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)–(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	$115	$167	$52	68.72%	$232	22.49%
7/1/2009	$57	$112	$55	50.79%	$203	27.12%
7/1/2007	$14	$ 32	$18	43.75%	$162	11.11%

(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; injuries to employees; and natural disasters.

The District is insured, subject to specified limits, for risks of these types of losses, including workers' compensation, general liability, personal property, and errors and omissions. Historically, settled claims have been less than insurance coverage.

(11) SUBSEQUENT EVENTS:

Management has evaluated subsequent events through September 18, 2012, the date which this financial statement was available for issue.

SUPPLEMENTARY INFORMATION

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Final Budget To Actual Variance
REVENUES:				
Emergency telephone service charges	$ 113,265	$ 113,265	$ 112,068	$ (1,197)
State Emergency Communications Board -				
Shared wireless charge	34,595	34,595	32,344	(2,251)
Operational funding	110,198	110,198	124,133	13,935
Grants and reimbursements	43,456	43,456	42,503	(953)
County and City funding	130,000	130,000	130,000	-
Other income	-	-	1,651	1,651
Interest income	100	100	98	(2)
Total revenues	431,614	431,614	442,797	11,183
EXPENSES:				
Salaries and Benefits -				
Salaries	207,529	224,204	224,201	3
Payroll taxes	17,232	17,632	17,603	29
Group insurance	600	600	-	600
Retirement	11,200	11,200	10,353	847
	236,561	253,636	252,157	1,479
Contracted Services -				
Addressing and mapping	16,080	-	-	-
Advertising	80	270	266	4
Audit services	4,250	4,500	4,500	-
Accounting services	1,200	2,350	2,332	18
Financial advisory services	2,000	10	-	10
Contracts with government agencies	10,200	-	-	-
911 service provider fees	1,433	1,633	1,568	65
Legal services	4,800	4,800	4,800	-
Maintenance agreements	4,600	14,600	14,538	62
Mapping/database consultants	5,400	-	-	-
NCIC/TBI/TIES	5,500	5,500	3,920	1,580
Pest control	650	650	450	200
Office equipment rental	1,500	1,500	1,332	168
Maintenance and repairs -				
Communications equipment	-	3,510	3,507	3
Office equipment	-	170	170	-
Facilities	-	400	390	10
Vehicle	1,500	3,850	3,835	15
Fuel - vehicle	1,500	385	-	385
Other	184	184	-	184
	60,877	44,312	41,608	2,704

	Original Budget	Final Budget	Actual	Final Budget To Actual Variance
Supplies and Materials -				
Supplies and materials	$ -	$ 270	$ 256	$ 14
Office supplies	1,000	5,830	5,823	7
Custodial supplies	200	1,430	1,320	110
Data processing supplies	1,000	1,000	-	1,000
Postage	200	200	77	123
Small equipment purchases	1,500	-	-	-
Utilities	5,950	6,040	6,026	14
Telephone	3,000	3,000	2,550	450
	12,850	17,770	16,052	1,718
Other -				
Dues and memberships	600	490	488	2
Insurance and surety bonds	11,600	6,770	6,708	62
Internet charges	600	-	-	-
Legal notices	300	-	-	-
Licenses and fees	200	-	-	-
Training and travel	1,500	2,110	2,107	3
Miscellaneous	1,000	1,000	598	402
	15,800	10,370	9,901	469
Interest	52,500	52,500	13,461	39,039
Depreciation and amortization	45,606	45,606	43,315	2,291
Total expenses	424,194	424,194	376,494	47,700
NET INCOME	$ 7,420	$ 7,420	$ 66,303	$ 58,883

INTERNAL CONTROL AND COMPLIANCE SECTION

JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

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

To the Board of Directors of

Sequatchie County 911 Emergency Communications District:

We have audited the financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 18, 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 Sequatchie County 911 Emergency Communications District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sequatchie County 911 Emergency Communications 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 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 a 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 above. However, we identified certain deficiencies in internal control over

651 East Fourth Street | jhmcpa.com | 37403 | 423 756 0052 t
Suite 200 | Chattanooga, Tennessee | 423 267 5945 f

financial reporting, described in the accompanying schedule of findings and responses as 2010-1a, 2010-1b, 2010-2 and 2010-3 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sequatchie County 911 Emergency Communications District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 the Board of Directors, management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Nickey & Meacham, P.C.

September 18, 2012

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

CURRENT YEAR FINDINGS:

None

PRIOR YEAR FINDINGS NOT CORRECTED:

2010-1a Controls Over the Financial Reporting Process:

Condition:

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to prepare the financial statements and the related footnotes in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2012 year.

Criteria:

Standards relating to the internal control structure require an entity to employ someone with the qualifications and skills to prepare the financial statements and related footnotes.

Effect:

Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America.

Recommendation:

Management should consider employing someone with the qualifications and training to perform the above tasks.

Management's Response:

Management considers that the cost of correcting the controls over the preparation of the financial statements would exceed the benefits achieved, and has no plans to employ a professional with these skills and qualifications.

Auditor Response:

We consider that we have reported what we view as management's responsibility, as well as recommending a correction for the deficiency.

2010-1b Controls Over the Financial Reporting Process:

Condition:

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to record the end of year adjustments necessary for preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2012 year.

PRIOR YEAR FINDINGS NOT CORRECTED:

2010-1b Controls Over the Financial Reporting Process (Continued):

Criteria:

Standards relating to the internal control structure require an entity to provide a complete trial balance, with no significant adjustments required, from which to prepare financial statements.

Effect:

Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America.

Recommendation:

Management should consider employing someone with the qualifications and skills to perform the above tasks.

Management's Response:

Beginning in approximately August, 2011, management contracted with an outside accounting firm for recording its transactions and adjustments on a monthly basis.

2010-3 Controls Over the Recording of Expenses:

Condition:

For the 2010 year, there were numerous recording errors, for which audit adjustments were proposed and accepted by management. Although there was much improvement noted for the 2012 year, auditing procedures still found evidence of recording errors, for which adjustments were proposed.

Criteria:

Standards relating to the internal control structure require an entity to employ someone with the qualifications and skills to record transactions and journal entries which are correct in all material respects.

Effect:

Because of this significant deficiency, management and the Board of Directors are unable to rely upon the internally generated profit and loss statement.

Recommendation:

We again recommend that management consider employing someone with the skills to record these and other items correctly, as well as having a management level employee review and approve the recordings on, at least, a monthly basis. As addressed in management's response below, the District has now outsourced its bookkeeping function, which should result in fewer recording errors, but still requires management to oversee and review the recordings.

SEQUATCHIE COUNTY 911 EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

PRIOR YEAR FINDINGS NOT CORRECTED (Continued):

2010-3 Controls Over the Recording of Expenses (continued):

Management's Response:

Management has been unable to hire personnel with the training and skills to review and understand the financial information. Management's goal from the beginning has been to have real time information available to enable the Board to make informed financial decisions. Management has contracted with an accounting firm to assist in the recording of the District's financial information. Management expects this to be corrected for future years.

PRIOR YEAR FINDINGS CORRECTED:

2010-2 Controls Over the Budget Process:

Condition:

For the 2010 and 2011 years, several expense line items exceeded the amount budgeted, with no budget amendments to allow expenses to remain within budget. This finding was corrected in the 2012 year. There was a budget amendment to eliminate the expense line budget deficits.