

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2013

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
TABLE OF CONTENTS
June 30, 2013

FINANCIAL SECTION

Roster of Board Members and Management Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-6
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8-9
Statement of Cash Flows	10-11
Notes to the Financial Statements	12-17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress	18
Budgetary Comparison Schedule	19

SUPPLEMENTARY INFORMATION

Schedule of State Financial Assistance	20
--	----

INTERNAL CONTROL AND COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Schedule of Findings and Recommendations	23

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2013**

BOARD MEMBERS:

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

MANAGEMENT OFFICIALS

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

DAVID M. ELLIS
Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District), as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

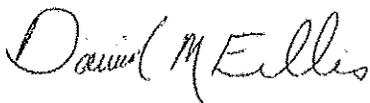
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and budgetary comparison information on pages 4-6, 18 and 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hawkins County Emergency Communications District's (a component unit of Hawkins County, Tennessee) (the District) basic financial statements. The Schedule of State Financial Assistance on page 20 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Budgetary Comparison Schedule and Schedule of State Financial Assistance are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 28, 2013, on my consideration of Hawkins County Emergency Communications District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawkins County Emergency Communications District's internal control over financial reporting and compliance.



David M. Ellis, CPA

October 28, 2013

Management's Discussion and Analysis

As management of the Hawkins County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. Please note the District presents prior comparative financial information when available.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$484,563 (net position). Of this amount, \$177,795 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District reported ending net position of \$484,563, an increase of \$293,698 in comparison with the prior year.

Overview of the Annual Financial Statements

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

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

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

Financial Analysis of the District's Funds

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

Hawkins County Emergency Communications District Statement of Net Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 340,748	\$ 97,769
Capital assets	<u>1,014,972</u>	<u>918,007</u>
Total Assets	<u>\$ 1,355,720</u>	<u>\$ 1,015,776</u>

Current liabilities	\$ 217,372	\$ 127,639
Long-term liabilities	<u>653,785</u>	<u>697,272</u>
Total Liabilities	<u>871,157</u>	<u>824,911</u>
Net Position:		
Invested in capital assets	306,768	178,150
Unrestricted	<u>177,795</u>	<u>12,715</u>
Total Liabilities and Net Position	<u>\$ 1,355,720</u>	<u>\$ 1,015,776</u>

The increase in capital assets was the result of upgrade in communications equipment (next generation 911 Zetron).

The balance of unrestricted net position, \$177,795, may be used to meet the District's ongoing obligations to citizens and creditors.

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

The District's net position increased by \$293,698 during the current fiscal year.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The following is a summary of financial activities for the District during the fiscal year ended June 30, 2013:

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

	<u>2013</u>	<u>2012</u>
Revenues:		
Operating Revenues:		
Charges for services	\$ 640,770	\$ 657,992
Non-Operating Revenues:		
Government appropriations	216,071	59,513
Other	221,975	183,547
Interest income	<u>8</u>	<u>0</u>
Total Revenues	1,078,824	901,052
Total Expenses	<u>785,126</u>	<u>852,965</u>
Change in Net position	293,698	48,087
Beginning Net Position	<u>190,865</u>	<u>142,778</u>
Ending Net Position	<u>\$ 484,563</u>	<u>\$ 190,865</u>

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

Budgetary Highlights

There were budget amendments to the original budget.

Capital Asset Administration

The District’s investment in capital assets for its activities as of June 30, 2013, amounts to \$1,014,972 (net of accumulated depreciation). This investment in capital assets includes asset categories listed below.

Hawkins County Emergency Communications District’s Capital Assets

	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 11,510	\$ 11,510
Vehicles	15,500	15,500
Office Equipment	22,021	17,440
Land	126,314	126,314
Building	553,601	553,601
Communications system	<u>968,646</u>	<u>812,769</u>
Total capital assets	<u>\$ 1,697,592</u>	<u>\$ 1,537,134</u>

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

Debt

At the fiscal year end June 30, 2013, the District had outstanding notes payable of \$708,204. Principal repayments in the amount of \$31,652 were made during the current fiscal year. Principal amounts due in the coming fiscal year amount to \$54,419.

Economic Factors and Next Year’s Budget and Rates

Appropriations from Hawkins County increased during the fiscal year 2013. These factors were considered in preparing the District’s budget for the year.

Requests for Information

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET POSITION
June 30, 2013**

ASSETS		
Cash and equivalents	\$ 264,183	
Accounts receivable	73,228	
Prepaid expenses	3,337	
Capital Assets not being depreciated		
Land	126,314	
Capital Assets net of accumulated depreciation		
Building and improvements	497,117	
Communications equipment	382,200	
Office equipment	7,203	
Furniture and fixtures	<u>2,138</u>	
Total Assets		\$ 1,355,720
 LIABILITIES AND NET POSITION 		
Accounts payable	\$ 13,248	
Payroll deductions payable	20,889	
Compensated absences payable	14,392	
Noncurrent liabilities		
Due within one year	54,419	
Due in more than one year	<u>653,785</u>	
Total Liabilities		756,733
 DEFERRED INFLOWS OF RESOURCES 		
Grants received in advance	<u>114,424</u>	
Total deferred inflow of resources		<u>114,424</u>
Net Position		
Net investment in capital assets		306,768
Unrestricted Net Position		<u>177,795</u>
Total Net Position		<u><u>\$ 484,563</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the year ended June 30, 2013**

Operating Revenues

Emergency telephone service charge	\$ 319,181
Tennessee Emergency Comm. Board - Shared wireless charge	132,673
Tennessee Emergency Comm. Board- Operational funding	<u>188,916</u>

Total Operating Revenues \$ 640,770

Operating Expenses

Salaries and wages	412,551
Employee benefits	87,411
Addressing/mapping	25,380
Advertising	68
Audit services	6,800
Custodial supplies	1,078
Dues and subscriptions	3,787
Insurance	17,254
Internet charges	2,569
Legal services	7,500
Maintenance agreements	1,670
Maintenance and repairs - Buildings and facilities	12,048
Maintenance and repairs - Office equipment	2,472
Maintenance and repairs - Vehicle	1,367
NCIC/TBI/TIES fees	5,206
Office/general supplies	5,387
Postage	231
Small equipment	4,347
Training	1,813
Travel	332
Uniforms	476
Utilities - General telephone	56,395
Utilities - Water and sewer	441
Utilities - Electric	7,695
Depreciation	63,492
Other	<u>3,256</u>

Total Operating Expenses 731,026

Operating Loss \$ (90,256)

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the year ended June 30, 2013**

Non-Operating Revenues and (Expenses)	
Contributions from other governments and agencies	\$ 216,071
Contributions from primary government	175,000
Insurance proceeds	26,467
Interest income	8
Miscellaneous income	20,508
Interest expense	<u>(54,100)</u>
 Total Non-Operating Revenues	 <u>\$ 383,954</u>
 Change in Net Position	 293,698
 Net Position June 30, 2012	 <u>190,865</u>
 Net Position June 30, 2013	 <u><u>\$ 484,563</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013**

Cash Flows from Operating Activities

Cash received from surcharges and other revenues	\$ 677,945
Cash payments for payroll, taxes and related benefits	(569,547)
Cash payments to suppliers for goods and services	<u>(134,512)</u>
Net Cash Used by Operating Activities	(26,114)

Cash Flows from Non-Capital Financing Activities

Contributions from primary government	175,000
Deferred TECB Grants/reimbursements	114,424
Grants/reimbursements TECB	<u>216,071</u>
Net Cash Provided by Non-Capital Financing Activities	<u>505,495</u>

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(160,458)
Proceeds from insurance recovery for impaired assets	26,467
Principal paid on notes payable	(31,652)
Interest paid on notes payable	<u>(54,100)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(219,743)</u>

Cash Flows from Investing Activities

Interest income received	<u>8</u>
Net Cash Provided from Investing Activities	<u>8</u>

Net Increase in Cash and Equivalents	259,646
Cash and Equivalents, Beginning of Year	<u>4,537</u>
Cash and Equivalents, End of Year	<u><u>\$ 264,183</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013**

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

Operating Income (Loss)	\$ (90,256)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities	
Depreciation	63,492
Miscellaneous income	20,509
(Increase)/Decrease in receivables	16,667
Increase/(Decrease) in accounts payable	(37,515)
Increase/(Decrease) in accrued liabilities	<u>989</u>
Net Cash Used by Operating Activities	<u><u>\$ (26,114)</u></u>

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of Hawkins County Emergency Communications District have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are reported using the economic resources measurement focus on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. When an expense is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

The District uses the full accrual basis of accounting. Under this accounting basis, revenues are recognized when earned and expenses are recorded when incurred, if measurable.

Reporting Entity

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

Property, Plant and Equipment

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

Compensated Absences

The District allows employees to accumulate unlimited sick leave at the rate of eight hours per month or twelve days per year. Unused vacation days (180 hours maximum) are redeemable for cash or may be accumulated. Unused sick days will not be paid upon early termination. However, sick days may be accumulated and taken as early time off prior to an employee's normal retirement. Since the employee's accumulating rights to receive compensation are contingent upon the absences being caused by future illnesses and since such amounts cannot be reasonably estimated, a liability for unused sick days is not recorded in the financial statements.

Cash and Cash Equivalents

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

Use of Estimates

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

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

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

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Property, plant and equipment and estimated useful lives used for depreciation purposes consisted of the following at June 30, 2013:

	<u>2012</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>2013</u>	<u>ESTIMATED USEFUL LIFE</u>
Capital assets, not being depreciated:					
Land	\$ 126,314	\$ 0	\$ 0	\$ 126,314	
Capital assets, being depreciated:					
Building	\$ 553,601	\$ 0	\$ 0	\$ 553,601	40 years
Furniture & Fixtures	11,510	0	0	11,510	5 years
Vehicles	15,500	0	0	15,500	5 years
Office Equipment	17,440	4,581	7,674	14,347	5 years
Communications System	<u>812,769</u>	<u>155,876</u>	<u>0</u>	<u>968,645</u>	5-10 years
Total depreciable assets:	1,410,820	168,132	7,674	1,563,603	
Less Accumulated Depreciation:					
Building	\$ 42,644	\$ 13,840	\$ 0	\$ 56,484	
Furniture & Fixtures	6,253	3,119	0	9,372	
Vehicles	13,950	1,550	0	15,500	
Office Equipment	12,546	2,272	7,674	7,144	
Communications System	<u>543,734</u>	<u>44,984</u>	<u>0</u>	<u>588,445</u>	
Total Accumulated Depreciation:	<u>619,127</u>	<u>62,640</u>	<u>0</u>	<u>674,945</u>	
Net Capital Assets	<u>\$ 918,007</u>	<u>\$ 62,640</u>	<u>\$ 0</u>	<u>\$ 1,014,972</u>	

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - ECONOMIC DEPENDENCY

Tennessee state law mandates collection of a surcharge by telephone companies from their customers to fund established E-911 agencies. Hawkins County Emergency Communications District received approximately 39% of its total revenue from surcharges collected by Embarq, CenturyLink and AT&T. Another \$321,589 or 39%, comes from the State Emergency Communications Board from cellular telephone charges and grants. These revenues are insufficient to pay the costs of District operations. For the agency to function, it also depends on appropriations from the county, which this year amounted to \$175,000, or 22%, of total (operating and non-operating) revenues.

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - EMPLOYEE'S RETIREMENT PLAN

Plan Description

Employees of the District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hawkins County Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Hawkins County Emergency Communication District requires employees to contribute 5.0 percent of earnable compensation. The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 4.19% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

Annual Pension Cost

For the year ending June 30, 2013, the District's annual pension cost of \$14,160 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hawkins County Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 1 year. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 21,946	100.00%	\$0.00
June 30, 2012	\$ 26,599	100.00%	\$0.00
June 30, 2011	\$ 22,068	100.00%	\$0.00

Funded Status and Funding Progress

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

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

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

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 7 - EQUIPMENT RENTAL

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

NOTE 8 - LONG-TERM LIABILITIES

On June 24, 2013, the District borrowed funds in the amount of \$320,000 from First Tennessee Bank to finance communications equipment. Note principal and interest payments are due in monthly installments of \$4,383. This note bears a 4.056% interest rate payable monthly for seven years through 2020. The District made principal payments of \$0 and interest payments of \$0 during the year. Balance at year-end is \$320,000, with \$40,357 being classified as current.

On June 24, 2013, the District borrowed funds in the amount of \$380,000 from First Tennessee Bank to re-finance existing building loan. Note principal and interest payments are due in monthly installments of \$2,417.58. This note bears a 4.563% interest rate payable monthly for twenty years through 2033. The District made principal payments of \$0 and interest payments of \$0 during the year. Balance at year-end is \$380,000 with \$11,919 being classified as current.

Changes in outstanding long-term debt for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Building Note	\$ 590,589	\$ 0	\$ 590,589	\$ 0	\$ 0
Equipment Note	147,654	0	147,654	0	0
Building Note RF	0	380,000	0	380,000	11,919
Equipment Note RF	0	320,000	0	320,000	40,358
Capital Lease-Note 9	<u>8,570</u>	<u>0</u>	<u>365</u>	<u>8,204</u>	<u>2,142</u>
Total	<u>\$746,813</u>	<u>\$ 700,000</u>	<u>\$ 738,243</u>	<u>\$ 708,204</u>	<u>\$ 54,519</u>

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

	Principal	Interest
2014	\$ 54,419	\$ 29,327
2015	56,642	27,104
2016	58,959	24,786
2017	61,011	22,369
2018	61,753	19,849
2019 - 2023	182,973	67,228
2024 - 2028	103,147	41,908
2029 - 2033	<u>129,300</u>	<u>15,531</u>
Total	<u>\$ 708,204</u>	<u>\$ 248,102</u>

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - CAPITAL LEASES

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

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 28, 2013, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FUNDING PROGRESS
June 30, 2013**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$476	\$480	\$4	99.21%	\$315	1.21%
July 01, 2009	\$321	\$325	\$4	98.72%	\$325	1.28%
July 01, 2007	\$241	\$246	\$5	97.97%	\$265	1.89%

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

HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2013

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE UNDER (OVER)</u>
Operating Revenue				
Telephone surcharges	\$ 379,006	\$ 379,006	\$ 319,181	\$ 59,825
Operational funding	188,855	188,855	188,916	(61)
Shared wireless charge	131,200	131,200	132,673	(1,473)
Total Operating Revenue	<u>699,061</u>	<u>699,061</u>	<u>640,770</u>	<u>58,291</u>
Operating Expenses				
Salaries	422,576	448,377	412,551	35,826
Employee benefits	144,933	88,656	87,411	1,245
Addressing/mapping	15,100	25,380	25,380	-
Advertising	200	68	68	-
Audit Services	12,000	9,060	6,800	2,260
Internet charges	1,930	2,569	2,569	-
Legal services	6,000	6,000	7,500	(1,500)
Maintenance agreements	880	1,670	1,670	-
Lease/rental - communications equipment	45,736	-	-	-
Maintenance and repairs - communications equipment	6,495	28,525	-	28,525
Maintenance and repairs - buildings and facilities	2,980	11,919	12,048	(129)
Maintenance and repairs - office equipment	3,322	2,864	2,472	392
Maintenance and repairs - vehicle	2,200	1,370	1,367	3
NCIC/TBI/TIES	3,800	5,250	5,206	44
Office supplies	2,000	7,101	5,387	1,714
Custodial supplies	700	1,078	1,078	-
Postage	135	250	231	19
Small equipment	2,500	4,347	4,347	-
Uniforms and shirts	500	476	476	-
Utilities - electric, water and sewer	8,405	8,250	8,136	114
Utilities - general telephone and pagers	16,100	56,416	56,395	21
Dues & subscriptions	1,500	3,787	3,787	-
Training	3,000	2,690	1,813	877
Travel	3,000	1,500	332	1,168
Insurance	16,771	17,267	17,254	13
Other charges	-	2,085	3,256	(1,171)
Depreciation	63,000	63,000	63,492	(492)
Total Operating Expenses	<u>785,763</u>	<u>799,955</u>	<u>731,026</u>	<u>68,929</u>
Non-Operating Revenue/(Expenses)				
County appropriations	175,000	175,000	175,000	-
TECB grants and reimbursements	52,000	52,000	216,071	164,071
Insurance proceeds	-	-	26,467	26,467
Interest income	-	-	8	8
Miscellaneous income	19,500	19,500	20,508	1,008
Interest expense	(89,183)	(54,000)	(54,100)	(100)
Total Non-Operating Revenue	<u>157,317</u>	<u>192,500</u>	<u>383,954</u>	<u>191,454</u>
Increase (Decrease) in Net Position	\$ 70,615	\$ 91,606	\$ 293,698	\$ 202,092
Net Position-Beginning of Period	190,865	190,865	190,865	
Net Position - End of Period	<u>\$ 261,480</u>	<u>\$ 282,471</u>	<u>\$ 484,563</u>	

SUPPLEMENTARY INFORMATION

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

For the year ended June 30, 2013

Grantor	Grant Number	Beginning (Accrued) Deferred	Receipts	Expenditures	Ending (Accrued) Deferred
Tennessee Emergency Communications Board Training Reimbursement Program	N/A	\$ -	\$ 12,000	\$ 12,000	\$ -
Tennessee Emergency Communications Board NG911 Controller and/or Adjunct Equipment	N/A		228,848	\$ 114,424	\$ 114,424
		\$ -	\$ 240,848	\$ 126,424	\$ 114,424

DAVID M. ELLIS
Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

**INDEPENDENT AUDITOR'S 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
Hawkins County Emergency Communications District
Rogersville, Tennessee

I have audited, in accordance with the 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, the financial statements of Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District)'s basic financial statements, and have issued my report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District)'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District)'s internal control. Accordingly, I do not express an opinion on the effectiveness of Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District)'s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawkins County Emergency Communications District (a component unit of Hawkins County, Tennessee) (the District)'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items 11-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David M. Ellis, CPA

October 28, 2013

**HAWKINS COUNTY
EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013**

Prior Year Findings:

11-02 Actual Expenses over Budgeted Amounts:

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

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

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

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

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

Update: - Finding 11-02 continues to apply.