

HAMBLLEN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

AUDIT REPORT

June 30, 2013 and 2012

**Hamblen County Emergency Communications District
June 30, 2013**

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INTRODUCTORY SECTION

Hamblen County Emergency Communications District
Roster of Officials
June 30, 2013

Board of Directors:

Roger Overholt, Chairman

Brad Smith, Vice-Chairman

Kay Senter, Secretary

Bill Brittain, (Ex-Officio)

Robert Laney

Chris Bell

Tim Goins

Bill Honeycutt

Danny Houseright

Esco Jarnagin, Sheriff

Kevin Jarnigan

Executive Director:

Eric Carpenter



Hamblen County Emergency Communications District
S. Eric Carpenter, Director
530 North Jackson Street
Morristown, Tennessee 37814
(423) 585-2700
ecarpenter@hamblen911.org

MANAGEMENTS'S DISCUSSION AND ANALYSIS

As management of the Hamblen County Emergency Communications District, we offer readers of the District's financial statements this narrative overview and analysis of the District's performance during the fiscal year ending June 30, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statement.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities. The statement of the net assets includes all the District's assets and liabilities and provides information about where the District has invested its resources (assets) and the obligation to the District's creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through surcharges and fees.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District better off or worse off as result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets reports information about the net assets of the District and the changes in them. One can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. A summary of the district's net assets and changes in them is presented on page 5.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As can be seen from page 5, (Summarized financial information), the District's net assets have increased approximately \$442,563 during the year ended June 30, 2013. Revenues (Emergency Telephone Surcharge) decreased by 8.23%. Total expenses increased approximately 9.8%. While the administrative staff and employees continue to remain diligence of being cost conscious, the increase in expenditures was due to 2013's mapping project as well as a significant increase in the depreciation line item.

THE DISTRICT'S NET ASSETS

The District completed the year with net assets of \$2,455,503, which is approximately \$442,563 more than the prior year's ending net assets of \$2,012,940.

BUDGETARY HIGHLIGHTS

The District adopts an annual operating budget, which includes proposed expenses and the means for paying these expenses. As conditions change during the year the budget may be amended to prevent budget overruns.

Income from residential phone lines increased during the year by \$112 from budgeted income. However, state shared wireless income increased projection by \$4,894. Shared wireless charges are still difficult to estimate due to varied reporting times by independent dial tone providers. Interest income deposits were \$2,495 below expectation as interest rate trend continued to be stagnant.

Total expenditures were \$24,307 less than budgeted with budget categories remaining in line.

CAPITAL ASSETS

The District's investment in capital assets amounts to \$1,740,250 with accumulated depreciation of \$954,550. Capital assets include the building, communications equipment, a vehicle, as well as office furniture and equipment.

ECONOMIC FACTORS AND FUTURE NEEDS

The main economic factor facing the Hamblen County Emergency Communications District is the continued fluctuation in revenue generated from landline, wireless, and VoIP telephones. Many residences continue to cancel residential landline service in favor of cellular and VoIP phones. Only a portion of cell phone revenue is being returned to each 911 District under the current system being used by the State for distributing shared wireless fees. The uncertainty of landline usage and income from shared wireless fees and VoIP service providers continues to be a problem in estimating revenue for budget preparation. The State Emergency Communications Board (State ECB) continues contributing to each ECD's operating costs. The amount each District receives is based on the seven (7) population groups. This is a set amount to each group based on the average audited cost ratios of each of the population groups. Hamblen County is covered in the population group ranging from 50,000 to 74,999 according to U. S. Census Bureau population estimates. The manner in which Charter Fiberlink, a VoIP provider, has chosen to view their operation has resulted in a decrease in revenue this fiscal year; not only for this District, but many across Tennessee. If unmitigated, a future loss of \$70,000 - \$75,000 is anticipated in the coming fiscal year. In light of this, the State ECB is reviewing several options for a complete restructuring of E-911 surcharges and ECD funding models which will be presented to the TN General Assembly in January 2014.

Hamblen County ECD continues to stand ready for NG911 implementation with IP based telephone and radio systems.

We have undergone several changes with the internal program codes of our CAD system in preparation for the long awaited upgrade to v.14 from our CAD vendor, Global Software.

Digital Data Technologies, Inc., the District's mapping vendor, completed a county-wide, field verified re-mapping to address street centerline discrepancies and address points for preparation in joining the State GIS network for NG911. The District, in cooperation with Hamblen County Government, the City of Morristown, and Morristown Utility Systems, has jointly budgeted to hire a GIS coordinator to serve as a 'gatekeeper' and manager of our permissions-based mapping software; streamlining the efficiency and flow of information between entities.

Another important part of our District is our continued relationship with the Morristown Fire Department and their need to meet I.S.O. and NFPA standards. This continues on a daily basis as we strive to provide everything possible to assist the MFD in maintaining their excellent rating.

Respectfully submitted,



S. Eric Carpenter, Director

**SUMMARIZED FINANCIAL INFORMATION
NET ASSETS**

	2013	2012	2011
Current Assets	1,702,928	1,384,176	1,553,913
Capital Assets	<u>785,700</u>	<u>672,413</u>	<u>368,091</u>
Total Assets	2,488,628	2,056,589	1,922,004
Current Liabilities	15,967	19,203	17,283
Long Term Debt, Liabilities	<u>17,158</u>	<u>24,446</u>	<u>21,511</u>
Total Liabilities	33,125	43,649	38,794
Net Assets	2,455,503	2,012,940	1,883,210
Unrestricted Net Assets	1,669,803	1,340,528	1,515,119

CHANGES IN NET ASSETS

Revenues (Em.Tel. Surchg.)	791,217	856,406	800,055
Operating Expenses	<u>1,215,827</u>	<u>1,097,041</u>	<u>1,052,546</u>
Operating Income	(424,610)	(240,635)	(252,492)
Non-operating revenues (expenses)			
Interest Income	1,505	1,791	1,842
Contributions from primary Government	328,714	328,714	340,500
State ECB, Grants & Reimburse.	536,954	39,860	30,000
Interest Expense	- 0 -	- 0 -	- 0 -
Total	867,173	370,364	372,342
Net Income (loss)	442,563	129,730	119,850
Net assets, beginning of year	2,012,940	1,883,210	1,763,360
Net assets, end of year	2,455,503	2,012,940	1,883,210

FINANCIAL SECTION

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. Box 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hamblen County Emergency Communications District
Morristown, Tennessee 37814

We have audited the accompanying financial statements of Hamblen County Emergency Communications District, a component unit of Hamblen County, Tennessee, as of June 30, 2013 and 2012, and for the years then ended 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

Our responsibility is to express opinions 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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA
TERRY M. WINSTEAD, CPA

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hamblen County Emergency Communications District of Hamblen County, Tennessee, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years 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 on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements. The schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2013 on our consideration of Hamblen County 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* in considering Hamblen County Emergency Communications District's internal control over financial reporting and compliance.

Craige Thompson + Jones, P. C.

September 18, 2013

Hamblen County Emergency Communications District
Balance Sheet
June 30, 2013 and 2012

<u>Assets</u>	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 1,644,108	\$ 1,332,337
Accounts receivable	31,427	24,445
Due from Primary Government	27,393	27,393
Total current assets	<u>1,702,928</u>	<u>1,384,176</u>
Fixed assets:		
Building & improvements	359,695	351,321
Communications equipment	1,183,319	983,331
Office equipment	5,449	3,547
Furniture and fixtures	168,981	168,981
Vehicles	22,806	22,806
Sub-total	<u>1,740,250</u>	<u>1,529,987</u>
Less - allowance for depreciation	<u>(954,550)</u>	<u>(857,573)</u>
Fixed assets - net	<u>785,700</u>	<u>672,413</u>
Total assets	<u><u>\$ 2,488,628</u></u>	<u><u>\$ 2,056,589</u></u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 6,709	\$ 7,489
Accrued liabilities	1,333	1,455
Retirement contributions	2,206	2,111
Compensated absences payable	5,719	8,148
Total current liabilities	<u>15,967</u>	<u>19,203</u>
Long-term liabilities:		
Compensated absences payable	<u>17,158</u>	<u>24,446</u>
Net assets:		
Invested in capital assets	785,700	672,412
Unrestricted	1,669,803	1,340,528
Total net assets	<u>2,455,503</u>	<u>2,012,940</u>
Total liabilities and net assets	<u><u>\$ 2,488,628</u></u>	<u><u>\$ 2,056,589</u></u>

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

Hamblen County Emergency Communications District
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2013 and 2012

	June 30,	
	2013	2012
Operating revenues:		
Emergency telephone service charge	\$ 390,207	\$ 519,485
State emergency communications board-shared wireless charge	151,596	146,702
Other income-Operational Funding Distribution	188,916	188,875
Miscellaneous income	60,498	1,344
Total operating revenue	<u>791,217</u>	<u>856,406</u>
Operating expenses:		
Salaries and wages	591,412	607,675
Employee benefits	220,313	216,901
Contracted services	241,929	149,002
Supplies and materials	46,023	41,750
Other charges	19,173	18,767
Depreciation	96,977	62,946
Total operating expenses	<u>1,215,827</u>	<u>1,097,041</u>
Net operating income (loss)	<u>(424,610)</u>	<u>(240,635)</u>
Non-operating revenues (expenses)		
Interest income	1,505	1,791
Contributions from primary government	328,714	328,714
State Emergency Communications Board - grants & reimbursements	536,954	39,860
Total non-operating revenues (expenses)	<u>867,173</u>	<u>370,364</u>
Increase in net assets	442,563	129,730
Net assets, beginning of year	<u>2,012,940</u>	<u>1,883,210</u>
Net assets, end of year	<u>\$ 2,455,503</u>	<u>\$ 2,012,940</u>

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

Hamblen County Emergency Communications District
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2013 and 2012

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Received from customers	\$ 537,769	\$ 670,281
Payments to suppliers	(307,978)	(208,851)
Payments to employees	(824,342)	(820,387)
Other receipts (payments)	249,414	190,219
	<u>(345,137)</u>	<u>(168,738)</u>
Cash flows from capital and related financing activities:		
Additions to fixed assets	<u>(210,265)</u>	<u>(367,267)</u>
	<u>(210,265)</u>	<u>(367,267)</u>
Cash flows from noncapital financing activities:		
Contributions from primary government	328,714	328,714
Grant from State Emergency Communications Board	536,954	39,860
	<u>865,668</u>	<u>368,574</u>
Cash from investing activities:		
Interest on investments	<u>1,505</u>	<u>1,791</u>
	<u>1,505</u>	<u>1,791</u>
Net increase (decrease) in cash and cash equivalents	311,771	(165,640)
Cash and cash equivalents at beginning of year	<u>1,332,337</u>	<u>1,497,977</u>
Cash and cash equivalents at end of year	<u>\$ 1,644,108</u>	<u>\$ 1,332,337</u>

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

Hamblen County Emergency Communications District
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2013 and 2012

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Net operating income (loss)	\$ (424,610)	\$ (240,635)
Depreciation	96,977	62,946
Changes in operating assets and liabilities:		
(Increase) or decrease in accounts receivable	(6,975)	4,093
Increase or (decrease) in accounts payable	(906)	668
Increase or (decrease) in retirement contributions	94	277
Increase or (decrease) in estimated compensated absences	(9,717)	3,913
Net cash provided (used) by operating activities	<u>\$ (345,137)</u>	<u>\$ (168,738)</u>

NOTE 1 - NATURE OF THE ORGANIZATION

The District was established by the County for the purpose of enhancing "911" and selective routing services under T.C.A. 7-86-101 through 7-86-117 "Emergency Communications District Law." The District is a component unit of Hamblen County, Tennessee. It is managed by an eleven member Board of Directors appointed by the Hamblen County Commission for terms of four years. The District is fiscally dependent upon the County as it must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of accounting – accrual.
Revenue is recognized when earned and expenses are recorded when incurred.
- B. Fund type - proprietary.
- C. For purposes of the statement of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.
- D. Fixed assets and depreciation:
 - 1) Fixed assets are recorded at cost. Buildings are depreciated over 31.5 years, furniture and equipment over 7 years, and communications equipment over 5 years.
 - 2) Fixed assets consist of:

June 30, 2013	<u>Beginning</u>		<u>Ending</u>	<u>Accumulated</u>	<u>Net</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>	<u>Depreciation</u>	<u>Fixed Assets</u>
Fixed Assets					
Building	\$ 351,320	\$ 8,375	\$ 359,695	\$ 116,466	\$ 243,229
Communications equipment	983,331	199,988	1,183,319	646,519	536,800
Furniture and fixtures	168,981	-	168,981	166,353	2,628
Office equipment	3,547	1,902	5,449	2,406	3,043
Automobile	22,806	-	22,806	22,806	-
Total	<u>\$ 1,529,985</u>	<u>\$ 210,265</u>	<u>\$ 1,740,250</u>	<u>\$ 954,550</u>	<u>\$ 785,700</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fixed assets and depreciation (continued):

3) Fixed assets consist of:

June 30, 2012	Beginning		Ending		Accumulated		Net	
	Balance	Additions	Balance	Depreciation	Fixed Assets			
Fixed Assets								
Building	\$ 351,320	\$ -	\$ 351,320	\$ 107,480	\$ 243,840			
Communications equipment	620,633	362,698	983,331	562,928	420,403			
Furniture and fixtures	166,566	2,415	168,981	165,268	3,713			
Office equipment	1,393	2,154	3,547	1,752	1,795			
Automobile	22,806	-	22,806	20,145	2,661			
Total	<u>\$ 1,162,718</u>	<u>\$ 367,267</u>	<u>\$ 1,529,985</u>	<u>\$ 857,573</u>	<u>\$ 672,412</u>			

4) The straight-line method of depreciation is used, totaling \$96,977 for 2013 and \$62,946 for 2012. Accumulated depreciation was \$954,550 as of June 30, 2013, and \$857,573 as of June 30, 2012.

E. The District has chosen not to follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989. The district follows Governmental Accounting Standards Board guidance after November 30, 1989.

F. 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 may differ from those estimates. The useful lives of the fixed assets of the District are such estimates.

G. Measurement focus is a term used to describe “which” transactions are recorded within the financial statements. The proprietary fund is accounted for using the “economic resources” measurement focus. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. Proprietary funds utilize the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTE 3 - DEPOSITS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013 and June 30, 2012, the District had no exposure to custodial credit risk as its deposits were either insured by the FDIC or collateralized with securities held by the State of Tennessee Bank Collateral Pool.

NOTE 4 – CONTRIBUTIONS FROM PRIMARY GOVERNMENT

When the District was formed, the City of Morristown and Hamblen County, Tennessee, each verbally agreed to fund the salaries and benefits of four dispatchers as the District has absorbed these employees. The District bills the two entities monthly for these expenses.

NOTE 5 - CONCENTRATION OF CREDIT RISK

Hamblen County Emergency Communications District was established for the purpose of enhancing "911" and selective routing services in Hamblen County. All fees are collected through either Bell South/AT&T who bills every telephone customer in Hamblen County or the State Department of Commerce and Insurance of Tennessee who remits ECB wireless revenue monthly.

NOTE 6 - COMPENSATED ABSENCES

A. Annual leave:

Annual leave cannot be accumulated over 28 days or 224 hours.

Upon termination, employees are reimbursed for their accumulated annual leave. As of June 30, 2013 and 2012, this liability is \$22,877 and \$32,594, respectively, of which \$5,719 and \$8,148 is estimated to be current.

B. Sick leave:

Sick leave is accumulated at the rate of one day per month without limit. Sick leave may be used to allow an employee early retirement on a day for day basis.

NOTE 7 - PENSION PLAN INFORMATION

Information for this footnote for the year ended June 30, 2013, was not available from the state Treasurer's Office in time for inclusion in this report; therefore, the information presented below is for the fiscal year ended June 30, 2012.

Plan Description

Employees of Hamblen County 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 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 on or 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 Hamblen 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

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

Hamblen County Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2012 7.27% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamblen County Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

NOTE 7 - PENSION PLAN INFORMATION (continued)

Annual Pension Cost

For the year ending June 30, 2012, Hamblen County Emergency Communications District's annual pension cost of \$39,238 to TCRS was equal to Hamblen County Emergency Communications District's required and actual contributions. The required contribution was determined as part of the July 1, 2009, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamblen County Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was 11 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.65 percent funded. The actuarial accrued liability for benefits was \$1.12 million, and the actuarial value of assets was \$1.07 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) \$0.56 million, and the ratio of the UAAL to the covered payroll was 8.76 percent.

TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 39,238	100.00%	\$0.00
June 30, 2011	\$ 42,508	100.00%	\$0.00
June 30, 2010	\$ 41,760	100.00%	\$0.00

Schedule of Funding Progress for Hamblen County Emergency Communications District, 88540
(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b)-(a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a)/(c)</u>
July 1, 2011	\$ 1,071	\$ 1,119	\$ 49	95.71%	\$ 556	8.63%
July 1, 2009	745	835	89	89.22%	536	16.79%
July 1, 2007	606	706	100	85.84%	422	23.70%

NOTE 8 - RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District is insured through Strate Insurance Group as an ancillary to Hamblen County's insurance. There were no actual or potential claims against the District according to the County Attorney; therefore, no provision has been made. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

NOTE 9 – BUDGETARY INFORMATION

The District must file a budget annually with Hamblen County. The budget is prepared on the accrual basis of accounting. The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* has established the legal level of control, which is the level at which management loses the ability to reapply budgeted resources from one use to another without special approval, at the line-item level.

SUPPLEMENTAL INFORMATION

Hamblen County Emergency Communications District
Budgetary Comparison
Year Ended June 30, 2013

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>Fav.</u> <u>(Unfav.)</u>
Operating revenues:			
Emergency telephone service charge	\$ 390,207	\$ 390,095	\$ 112
State emergency communications board-shared wireless charge	151,596	146,702	4,894
Other - Operational Funding Distribution	188,916	188,885	31
Miscellaneous income	60,498	60,480	18
Total operating revenues	<u>791,217</u>	<u>786,162</u>	<u>5,055</u>
Operating expenses:			
Director	52,671	52,763	92
Administrative personnel	35,527	35,532	5
Dispatchers	447,592	447,884	292
Overtime	4,935	5,000	65
Part-time personnel	30,882	31,007	125
Social Security	35,559	36,853	1,294
Medicare	8,316	8,619	303
Life insurance	2,243	2,294	51
Medical insurance	123,609	124,000	391
Dental insurance	10,642	10,652	10
Disability insurance	1,653	1,708	55
Retirement contributions	37,212	37,776	564
Compensated Absences	(9,717)	-	9,717
Other fringe benefits	388	428	40
Audit services	4,810	5,400	590
Administrative fees - services charges	885	950	65
Legal services	713	1,000	288
Mapping / Data	122,338	122,400	63
NCIC/TBI/TIES expenses	2,680	2,680	-
Other Consultants	24,000	24,000	-
Pest control	288	300	12
Lease/Rental - communications equipment	51,143	51,200	57
Maintenance and repairs - communications equipment	13,150	13,150	0
Maintenance and repairs - building and facilities	5,683	5,900	217
Maintenance and repairs - vehicles	1,390	1,500	110
Fuel - Vehicle	1,984	3,000	1,016
Other contracted services	12,868	12,875	7
Office supplies	4,128	4,500	372
Custodial supplies	1,865	2,000	135
Postage	225	400	175
Utilities - electric	12,310	14,000	1,690
Utilities - gas	1,044	1,600	556
Utilities - general telephone	21,825	22,000	175
Other supplies and materials	1,404	2,200	796
Board meeting expenses	564	800	236
Dues and memberships	754	900	146

Hamblen County Emergency Communications District
Budgetary Comparison
Year Ended June 30, 2013

	<u>Actual</u>	<u>Budget</u>	<u>Variance Fav. (Unfav.)</u>
Employee testing & exams	250	1,000	750
Insurance - workers compensation	2,820	2,900	80
Insurance - liability	3,559	3,559	-
Insurance - building & contents	1,252	1,252	-
Insurance - vehicles	1,030	1,030	-
Premium on surety bonds	1,156	1,584	428
Training expenses	4,318	6,000	1,682
Travel expenses	3,470	3,475	5
General Telephone E.O.C	3,222	3,500	278
Depreciation	96,977	97,000	23
Education	693	720	28
Holiday	16,322	16,954	632
Christmas	2,160	2,288	128
Longevity	3,480	3,480	-
Perfect Attendance	7,559	8,120	561
Total operating expenses	<u>1,215,826</u>	<u>1,240,133</u>	<u>24,307</u>
Net operating income	<u>(424,609)</u>	<u>(453,971)</u>	<u>29,362</u>
Non-operating revenues (expenses):			
Interest income	1,505	4,000	(2,495)
Contributions from other governments & agencies	328,714	328,714	(0)
State Emergency Communications Board - Grants and Reimbursements	<u>536,954</u>	<u>123,327</u>	<u>413,627</u>
Total non-operating revenues (expenses)	<u>867,172</u>	<u>456,041</u>	<u>411,131</u>
Increase in net assets	<u>\$ 442,563</u>	<u>\$ 2,070</u>	<u>\$ 440,492</u>

Hamblen County Emergency Communications District
Schedule of Detailed Expenses
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries and wages:		
Director	\$ 52,671	\$ 44,609
Administrative personnel	25,810	39,920
Dispatchers	447,592	446,475
Part-time personnel	30,883	38,602
Total salaries and wages	<u>\$ 556,957</u>	<u>\$ 569,606</u>
Employee benefits:		
Social security	\$ 35,559	\$ 35,709
Medicare	8,316	8,351
Life insurance	2,243	2,087
Medical insurance	123,609	116,682
Dental insurance	10,642	11,081
Disability insurance	1,653	1,616
Other Fringe Benefits	388	2,345
Retirement contributions	37,212	40,953
Total employee benefits	<u>\$ 219,621</u>	<u>\$ 218,825</u>
Contracted services:		
Audit services	\$ 4,810	\$ 5,220
Administrative fees - service charges	885	891
Legal services	713	1,023
Mapping / Data	122,338	4,225
NCIC/TBI/TIES expenses	2,680	2,680
Other Consultants	24,000	1,050
Pest control	288	288
Lease/rental - communications equipment	51,143	89,725
Maintenance and repairs - communications equipment	13,150	28,317
Maintenance and repairs - buildings and facilities	5,683	3,828
Maintenance and repairs - vehicles	1,390	1,046
Fuel Vehicle	1,984	2,630
Other contracted services	12,868	8,080
Total contracted services	<u>\$ 241,929</u>	<u>\$ 149,002</u>

Hamblen County Emergency Communications District
Schedule of Detailed Expenses
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Supplies and materials:		
Office supplies	\$ 4,128	\$ 2,767
Custodial supplies	1,865	1,118
Postage	225	294
Utilities - electric	12,310	12,283
Utilities - gas	1,044	850
Utilities - general telephone	25,047	21,233
Utilities - cell phones & pagers	-	1,068
Other supplies and materials	1,404	2,139
Total supplies and materials	<u>\$ 46,023</u>	<u>\$ 41,752</u>
Other charges:		
Board meeting expenses	\$ 564	\$ 376
Dues and memberships	754	754
Employee testing and exams	250	537
Insurance - workers compensation	2,820	2,542
Insurance - liability	3,559	3,550
Insurance - buildings and contents	1,252	1,535
Insurance - vehicles	1,030	886
Premiums on surety bonds	1,156	1,684
Training expenses	4,318	4,060
Travel expenses	3,470	2,842
Total other charges	<u>\$ 19,173</u>	<u>\$ 18,767</u>
Depreciation expense	<u>\$ 96,977</u>	<u>\$ 62,946</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

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

Board of Directors
Hamblen County Emergency Communications District
Morristown, Tennessee

We 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 Hamblen County Emergency Communications District, a component unit of Hamblen County, Tennessee, as of and for the year ended June 30, 2013, which collectively comprise the Hamblen County Emergency Communications District's basic financial statements and have issued our report thereon dated September 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hamblen County Emergency Communications 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hamblen County Emergency Communications District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hamblen County Emergency Communications 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.

Our 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA
TERRY M. WINSTEAD, CPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamblen County 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

Craige Thompson + Jones, P. C.

September 18, 2013