

**HAMILTON COUNTY "911" EMERGENCY
COMMUNICATIONS DISTRICT**

Chattanooga, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

Years Ended June 30, 2013 and 2012

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

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INTRODUCTORY INFORMATION

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
ROSTER OF MANAGEMENT AND BOARD MEMBERS
JUNE 30, 2013**

MANAGEMENT:

John S. Stuermer	Executive Director
Jeff Carney	Director of Operations
Seth Graham	Director of Technical Services
Jay Donnicks	Director of Administration

BOARD MEMBERS:

Don Allen	Chairman
Richard Brown	Vice Chairman
Eddie Phillips	Secretary
Daisy Madison	Treasurer
Lamar Flint	Board Member
Boyd Veal	Board Member
Jim Hammond	Board Member
Mark Mathews	Board Member
Ted Rogers	Board Member
Dan Collyer	Board Member
Bobby Dodd	Board Member

HAMILTON COUNTY “911” EMERGENCY COMMUNICATIONS DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hamilton County “911” Emergency Communications District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2013. This should be read in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses and changes in net position provide information about the activities of the District as a whole and present an overview of the District’s finances.

THE STATEMENTS OF NET POSITION AND THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

One of the most important questions asked about an entity’s finances is “How did we do this year?” The 2013 statement of net position and statement of revenues, expenses and changes in net position report information in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the District’s net position and the changes in net position. Net position is the difference between assets and liabilities and is one way to measure the District’s financial health, or its financial position. Over time, increases or decreases to the District’s net position are an indicator of whether its financial health is improving or deteriorating. Net position and changes in net position are analyzed on the following page.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

District’s revenues were over expenses for the fiscal year ended June 30, 2013, with a net position increase of approximately \$595,000 from the previous year. The District realized a reduction of revenue from FY12 to FY13 of approximately \$97,000 or 3.5% for emergency telephone service charges, which marked the seventh straight year of annually reduced revenue from emergency telephone service charges. Shared wireless charge revenue increased approximately \$28,500, or 3.6%.

Wireless operational funding increased approximately \$439,000, or 29% from FY12 to FY13. The increase was directly related to new portions of wireless revenue remitted to Districts by the TECB in FY13. The District received new operational revenues in the amount of \$530,300 to off-set the additional costs associated with mandated GIS mapping requirements for NG911 deployment as well as a one-time payment to off-set the impact of reduced wire line revenue, in the amounts of \$246,714 and \$283,586 respectively. Without the infusion of these new wireless revenue sources for FY13 the District would have realized a reduction of approximately \$91,000 in operational funding.

THE DISTRICT'S NET POSITION

The District completed the year with net position of \$16,729,052, which is approximately \$595,000 more than the prior year ending net assets of \$16,133,689. Unrestricted net assets of approximately \$12 million have been designated by the Board to fund future operations and capital improvements.

Net assets and changes in net assets for the years ended June 30, 2013, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2012</u>	<u>2011</u>
NET POSITION:			
Current and other assets	\$14,478,274	\$13,506,909	\$13,112,708
Capital assets	<u>4,184,169</u>	<u>4,424,471</u>	<u>4,501,026</u>
Total assets	18,662,443	17,931,180	17,613,734
Current liabilities	<u>(1,933,391)</u>	<u>(1,797,491)</u>	<u>(2,067,538)</u>
Net position	<u>\$16,729,052</u>	<u>\$16,133,689</u>	<u>\$15,546,196</u>
Summary of net position -			
Invested in capital assets	\$ 4,184,169	\$ 4,424,271	\$ 4,501,029
Unrestricted	<u>12,544,883</u>	<u>11,709,418</u>	<u>11,045,167</u>
	<u>\$16,729,052</u>	<u>\$16,133,689</u>	<u>\$15,546,196</u>
CHANGES IN NET POSITION:			
Operating revenues	\$11,658,322	\$11,147,296	\$10,778,158
Operating expenses	<u>11,114,929</u>	<u>10,600,333</u>	<u>11,623,993</u>
Operating income (loss)	543,393	546,963	(845,835)
Nonoperating revenues, net of expenses	<u>51,970</u>	<u>40,530</u>	<u>34,007</u>
Changes in net position	595,363	587,493	(811,828)
NET POSITION:			
Beginning	<u>16,133,689</u>	<u>15,546,196</u>	<u>16,358,024</u>
Ending	<u>\$16,729,052</u>	<u>\$16,133,689</u>	<u>\$15,546,196</u>

BUDGETARY HIGHLIGHTS

In order to fund unanticipated, changing needs and to prevent budget overruns, the budget for June 30, 2013, was amended between expense line items. The total expense budget remained at \$10,791,623 as originally budgeted, with actual expenses being \$10,593,828.

The line item for contingency is planned during budget preparation to cover unplanned or unusual expenses, and to fund unanticipated increases in other line items, so that the overall budget does not require an increase. Budget revisions decreased the contingency of \$50,000 to \$0.

The actual charges to appropriations (expenses) were approximately \$194 thousand below the budgeted amount. Salaries and other personnel costs were under the amount budgeted by approximately \$137,500. Other budget variances of approximately \$57,000 are not considered individually significant and, therefore, are not addressed here.

Budgeted revenues, in total, were less than actual revenues by approximately \$205,000, with total operating revenues being over budget by approximately \$185,500 and interest income being over budget by approximately \$19,000.

CAPITAL ASSETS

At June 30, 2013, the District had \$12,853,142 invested in capital assets such as telecommunications equipment, office equipment, and building improvements. This amount represents a net increase of \$281,000 in requisitions.

More detailed information about the District’s capital assets is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS

The implementation of countywide Unified Communications expanded the District’s operational needs beyond those available in the current facility. The District has plans for a new dispatch center to accommodate the increased operational needs and the anticipated future growth in the County.

The District plans to replace the 9-1-1 telephony system within the next year at an approximate cost of \$2 million and the CAD (computer aided dispatch) system within the next three (3) years at an approximate cost of \$11 million to meet requirements for Next Generation 911 (NG911).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances, comply with finance related laws and regulations and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like additional information, contact the District's Executive Director at 3404 Amnicola Highway, Chattanooga, TN 37406.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Hamilton County "911" Emergency Communications District:

Report on the Financial Statements

We have audited the accompanying financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of June 30, 2013 and 2012, which comprise the statements of net position, the related statements of revenue, expenses and change in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 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 opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of Hamilton County "911" Emergency Communications District as of June 30, 2013 and 2012, and the changes in its net position and its 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 management's discussion and analysis on pages 4 through 7 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hamilton County "911" Emergency Communications District's financial statements. The accompanying information listed in the table of contents as other supplementary information is presented for additional analysis and is not a required part of the financial statements. The schedules of operating expenses and schedule of budget to actual 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. 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 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 Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of Hamilton 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Johnson, Niskey & Meucham, P.C.

November 4, 2013

FINANCIAL STATEMENTS

HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS:		
Cash	\$ 1,599,027	\$ 1,013,964
Certificates of deposit and money market accounts	11,931,604	11,886,420
Interest receivable	5,630	-
Accounts receivable - telephone service charges	308,412	277,023
Accounts receivable - other	366,864	20,781
Accounts receivable for accumulated leave	266,737	308,721
Capital assets, net of accumulated depreciation and amortization	4,184,169	4,424,271
Total assets	18,662,443	17,931,180
 LIABILITIES:		
Accounts payable	117,390	45,118
Payable to primary government	1,232,333	1,156,756
Accumulated leave	583,668	595,617
Total liabilities	1,933,391	1,797,491
 NET POSITION:		
Invested in capital assets	4,184,169	4,424,271
Unrestricted	12,544,883	11,709,418
Total net position	\$ 16,729,052	\$ 16,133,689

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
OPERATING REVENUES:		
Emergency telephone service charges	\$ 2,674,692	\$ 2,771,393
State Emergency Communications Board -		
Shared wireless charge	815,531	787,115
Operational funding	1,966,238	1,527,068
Funding from local governments	6,201,698	6,053,462
Other income	163	8,258
Total operating revenues	11,658,322	11,147,296
OPERATING EXPENSES:		
Salaries and benefits	8,718,594	8,265,791
Contracted services	965,543	839,660
Supplies and materials	676,542	625,625
Other	233,149	157,683
Depreciation and amortization	521,101	511,574
Countywide 800 MHz project	-	200,000
Total operating expenses	11,114,929	10,600,333
OPERATING INCOME	543,393	546,963
NONOPERATING REVENUES:		
Interest income	51,970	40,530
CHANGE IN NET POSITION	595,363	587,493
NET POSITION:		
Beginning	16,133,689	15,546,196
Ending	\$ 16,729,052	\$ 16,133,689

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from telephone companies	\$ 2,643,303	\$ 2,805,259
Receipts from State for shared wireless revenues and operational funding	2,781,769	2,314,183
Receipts from other local governments	5,897,599	6,122,745
Receipts from others	163	8,258
Payments to suppliers and others	(1,802,962)	(1,724,610)
Payments for employees	(8,654,966)	(8,434,199)
Payments to City and County	-	(200,000)
Net cash provided by operating activities	864,906	891,636
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(280,999)	(434,816)
Net cash used by capital and related financing activities	(280,999)	(434,816)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	46,340	40,530
Net cash provided by investing activities	46,340	40,530
NET INCREASE IN CASH AND CASH EQUIVALENTS	630,247	497,350
CASH AND CASH EQUIVALENTS:		
Beginning	12,900,384	12,403,034
Ending	\$ 13,530,631	\$ 12,900,384
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash	\$ 1,599,027	\$ 1,013,964
Certificates and money market accounts	11,931,604	11,886,420
	\$ 13,530,631	\$ 12,900,384

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

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 543,393	\$ 546,963
Adjustments to reconcile income from operations to net cash provided by operating activities -		
Depreciation and amortization	521,101	511,574
Net (increase) decrease in operating assets:		
Accounts receivable	(335,488)	103,148
Net increase (decrease) in operating liabilities:		
Accounts payable and payable to primary government	147,849	(283,010)
Accumulated leave and related benefits	<u>(11,949)</u>	<u>12,961</u>
Net cash provided by operating activities	<u>\$ 864,906</u>	<u>\$ 891,636</u>

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization -

Public chapter No. 867 of the 1984 Tennessee Public Acts ("The Emergency Communications District Law") was enacted to establish local emergency telephone service, to provide for the funding of such services and such district, and to provide for the funding of a telephone service charge. On November 6, 1984, the voters of Hamilton County, Tennessee approved the establishment of such a district.

Financial reporting entity -

The District is a component unit of Hamilton County, Tennessee. Members of the Board of Directors of Hamilton County "911" Emergency Communications District are appointed by the County Mayor of Hamilton County, Tennessee, with the approval of the County Board of Commissioners. The Board of Commissioners must also approve bonds and notes which pledge District revenue.

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 telephone service charges, expense reimbursements, and grants for operations. Revenue from other sources is considered nonoperating.

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 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.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

Accounts receivable -

Accounts receivable for telephone service charges and other is reported at the outstanding principal amount. Uncollectible accounts, if any, are accounted for by the direct write-off method, which would produce no material differences from the allowance method.

Capital assets -

The District capitalizes significant purchases of capital assets which are recorded at cost. Depreciation is provided over the estimated useful lives of individual assets by the straight-line method.

Capital assets include the "911" database and other software. Amortization is recorded over periods of 5 to 10 years, based upon the estimated service period.

Depreciation and amortization expense was \$458,545 and \$62,556, respectively, for the year ended June 30, 2013; and \$440,714 and \$70,860, respectively, for the year ended June 30, 2012.

The amount budgeted for acquisitions for the years ended June 30, 2013 and 2012, was \$2,162,000 and \$223,000, respectively. Actual acquisitions for the same years were \$280,999 and \$434,816, respectively.

Cash and cash equivalents -

For purposes of these financial statements, the District considers money market accounts with banks and the State of Tennessee Local Government Pool, as well as certificates of deposit, to be cash equivalents.

Deferred outflows/inflows of resources -

During the current year, the District adopted the provisions of GASB Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Under this statement, GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

Deferred outflows of resources - a consumption of net assets by the District that is applicable to a future reporting period.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 AND 2012**

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

Deferred outflows/inflows of resources (continued)-

Deferred inflows of resources - an acquisition of net assets by the District that is applicable to a future reporting period.

As of June 30, 2013, the District did not have any deferred outflows of resources or any deferred inflows of resources. This statement had no significant impact on the District.

(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) CASH AND INVESTMENTS:

The District reports its cash and cash equivalents under GASB Statement Number 40, which is designed to improve financial reporting of deposit and investment risks.

At June 30, 2013, the District reports cash equivalents as follows -

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>
Deposits with State of Tennessee		
Local Government Investment Pool	0.00	\$ 2,692,404
Money market accounts	0.00	6,158,349
Certificates of deposit	<u>0.23</u>	<u>3,080,851</u>
 Total	 <u>0.18</u>	 <u>\$11,931,604</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 AND 2012**

(3) 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 and savings and money market accounts with local banks and the State of Tennessee local government pooled investment fund.

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. The State of Tennessee Local Government Investment Pool is a 2a7-like pool, which is not rated.

At June 30, 2013, certificates of deposit and bank money market funds consist of the following -

<u>Financial Institution</u>	<u>Type of Instrument</u>	<u>Interest</u>	<u>Maturity Date</u>	<u>Amount</u>
First Tennessee Bank	Certificate	0.70%	Sept. 29, 2013	\$1,066,352
First Tennessee Bank	Certificate	0.45%	May 24, 2014	1,000,000
First Tennessee Bank	Certificate	0.45%	June 13, 2014	1,014,499
First Tennessee Bank	Money market	Variable	NA	6,158,349
				<u>\$9,239,200</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(4) BOARD DESIGNATED RESERVES:

Certificates of deposit and money market accounts are funds that have been set aside by the Board for the following, specific uses -

An operational reserve has been established to provide funds for capital expansion and for operational expenses, in the event that the District needs reserved funds to enable it to meet its continuing operational needs. At June 30, 2013, the reserve consists of investments with the State of Tennessee Local Government Investment Pool, money market funds, and certificates of deposit in the amount of \$1,453,879, \$6,158,349, and \$3,086,482 respectively.

A risk management reserve has been established to provide for a liability plan with limited coverage for torts and other liabilities, and error and omissions of board members, employees and authorized volunteers. The reserve is intended to fund risk management claims and, at June 30, 2013, consists of investments with the State of Tennessee Local Government Investment Pool in the amount of \$1,238,525.

(5) CHANGES IN CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2013, are as follows -

	<u>Beginning</u>	<u>Additions</u>	<u>Reclasses & Retirements</u>	<u>Ending</u>
Capital assets:				
Leasehold improvements	\$ 5,076,704	\$ 79,015	\$ -	\$ 5,155,719
Furniture and fixtures	220,201	-	-	220,201
Office equipment	117,667	16,500	-	134,167
Communications equipment and software	7,097,260	85,442	-	7,182,702
Vehicles	60,311	-	-	60,311
Projects in process	-	100,042	-	100,042
	<u>12,572,143</u>	<u>280,999</u>	<u>-</u>	<u>12,853,142</u>
Less accumulated depreciation and amortization:				
Leasehold improvements	2,004,762	192,269	-	2,197,031
Furniture and fixtures	178,091	11,235	-	189,326
Office equipment	92,036	11,062	-	103,098
Communications equipment and software	5,842,613	297,190	-	6,139,803
Vehicles	30,370	9,345	-	39,715
	<u>8,147,872</u>	<u>521,101</u>	<u>-</u>	<u>8,668,973</u>
	<u>\$ 4,424,271</u>	<u>\$ (240,102)</u>	<u>\$ -</u>	<u>\$ 4,184,169</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(6) LEASED PREMISES:

The District's operating premises, which include administrative offices and the primary communications center, are located on real property owned by the City of Chattanooga, Tennessee. A lease agreement between the two entities provides that no rent shall be charged the District as consideration, provided that all costs of construction and maintenance of the communications center are paid by the District. The termination of the communications agreement, referred to in Note 8, shall not be deemed a failure of consideration. The term of the lease, which originated April 5, 1994, is for a period of forty years. The District shall have the option to renew for two consecutive terms of forty years each upon the same terms and conditions as set forth in the lease agreement, subject to approval of the City's governing body. According to the terms of the agreement, the District shall not enter into a communication agreement with any other governmental entity for a term which extends beyond the term of this lease.

Additionally, the District is provided, and has renovated for its use as a backup communications center, a portion of a building owned by Hamilton County. The use is for an indeterminate period of time, and the District is responsible for all maintenance on the portion that it uses.

(7) COMPENSATED ABSENCES:

The District's employees are paid compensated leave benefits based upon a prescribed formula, and the benefits are accrued as employees earn the right to them.

As a result of County-wide unification, in January, 2009, the District assumed the liability for unused, compensated absences for Hamilton County and City of Chattanooga employees who became employees of the District. At June 30, 2009, the validity of this liability to the City and County was in negotiation, and not subject to a reasonable estimate. Therefore, although the liability to the employees was recorded by the District, no receivable from the City and County was recorded.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(7) COMPENSATED ABSENCES (Continued):

The receivable from the City is payable annually at \$27,143, through June, 2019, with a current balance of \$162,855. The receivable from the County is payable annually at \$14,840, through June, 2020, with a current balance of \$103,882.

(8) RADIO COMMUNICATION AGREEMENTS:

In order to provide better service to the City of Chattanooga, Tennessee and Hamilton County, Tennessee, the District has radio communication agreements with the City and the County. The purpose of the agreements is to partially reimburse the City and County for their acquisition and installation of a District wide 800 MHz radio system.

The 1998 agreement requires the District to pay a total of \$3,000,000 to Hamilton County, with an initial payment of \$200,000 in the year ended June 30, 1999, and \$200,000 per year for the years ended June 30, 2000 through 2012. The agreement with the County ended in August, 2011.

(9) TRANSACTIONS WITH OTHER GOVERNMENTS:

The District incurs costs relative to personnel, utilities, and other, some of which are reimbursed by the City of Chattanooga, and credited to the appropriate expense accounts. As of and for the years ended June 30, 2013 and 2012, these transactions and balances were as follows -

	2013	2012
Reimbursements:		
City of Chattanooga	\$ 230,697	\$ 218,699
Accounts receivable:		
City of Chattanooga	\$ 317,430	\$ 1,475

As a result of unified call taking and dispatching for Hamilton County, and the Cities of Chattanooga, East Ridge, Red Bank, Collegedale, and Signal Mountain, these local governments contribute funds to the District to offset the personnel costs of those who were formerly employed by the individual governmental entities.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(9) TRANSACTIONS WITH OTHER GOVERNMENTS (Continued):

As of and for the years ended June 30, 2013 and 2012, the funding and amounts receivable from these entities were as follows -

	2013	2012
Funding:		
Hamilton County	\$1,741,942	\$1,707,144
City of Chattanooga	3,809,159	3,762,722
City of East Ridge	352,461	336,048
City of Red Bank	156,024	135,024
City of Collegedale	63,107	51,072
City of Signal Mountain	79,005	61,452
	\$6,201,698	\$6,053,462

(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 has assets designated for certain aspects of risk management. The designation was established to provide for a liability plan with limited coverage to board members, employees, and authorized volunteers. Liabilities relative to risk management are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no claims for these limited areas of risk management since the inception of the Board designation.

The District has insurance coverage, subject to specified limits, for risks of other losses, including workers' compensation, general liability, personal property, and errors and omissions.

There have been no settlements in excess of insurance coverage during the three most recent fiscal years.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(11) RETIREMENT PLAN:

Plan description -

Employees of Hamilton 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 Hamilton 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>.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(11) RETIREMENT PLAN (Continued):

Funding policy -

Hamilton County "911" Emergency Communications District has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Hamilton County "911" Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 7.72% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton 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, 2013, Hamilton County "911" Emergency Communications District's annual pension cost of \$405,474 to TCRS was equal to Hamilton County "911" Emergency Communications 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% 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. Hamilton 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, 2011 was 1 year. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(11) RETIREMENT PLAN (Continued):

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2013	\$ 405,474	100.00%	\$0.00
6/30/2012	\$ 547,092	100.00%	\$0.00
6/30/2011	\$ 543,384	100.00%	\$0.00

Funded status and funding progress -

As of July 1, 2011, the most recent actuarial valuation date, the plan was 99.50% funded. The actuarial accrued liability for benefits was \$2.91 million, and the actuarial value of assets was \$2.89 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.01 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.93 million, and the ratio of the UAAL to the covered payroll was 0.29%.

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

**Required Information: Schedule of Funding Progress -
(Dollar amounts in thousands)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liab(AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/2011	\$2,894	\$2,909	\$14	99.50%	\$4,930	0.29%
7/1/2009	\$694	\$ 710	\$17	97.67%	\$1,880	0.88%
7/1/2007	\$315	\$ 333	\$18	94.59%	\$ 183	9.84%

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(12) LITIGATION:

The District is currently involved in certain legal actions which are being vigorously defended. It is the opinion of management and legal counsel that these proceedings will not have a material effect on the financial position of the District.

(13) SUBSEQUENT EVENTS:

Management has evaluated subsequent events through November 4, 2013, the date which these financial statements were available for issue.

SUPPLEMENTARY INFORMATION

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
Salaries and Benefits -		
Salaries - director	\$ 95,737	\$ 93,272
Salaries - administrative	182,078	175,656
Salaries - technology	313,509	270,383
Salaries - telecommunications	5,659,619	5,284,009
Salaries - communications training officers	49,807	25,984
Compensated absences	40,609	11,601
Social security taxes	376,050	345,778
Medicare taxes	87,947	80,867
Group insurance	1,358,966	1,264,488
Retirement benefits	554,272	713,753
	8,718,594	8,265,791
 Contracted Services -		
Auditing services	8,500	8,500
Accounting services	-	3,520
Administrative fees - service charges	76,480	79,552
Contracts with government agencies	40,000	40,000
Data processing services	2,048	1,800
Janitorial services	47,115	46,350
Legal services	25,956	25,956
Maintenance agreements	566,793	478,075
Mapping/database consulting	62,312	59,129
Other consulting	23,820	12,216
Pest control	410	410
Office equipment rental	19,245	17,509
Communications equipment repairs	2,357	141
Building maintenance and repairs	75,919	40,803
Office equipment repair	-	197
Vehicle maintenance and repairs	730	2,195
Fuel - vehicles	2,351	2,666
Grounds maintenance	-	9,000
Interpretation services	8,814	9,891
Technology support	2,693	1,750
	965,543	839,660

	<u>2013</u>	<u>2012</u>
Supplies and Materials -		
Office supplies	\$ 6,908	\$ 8,399
Custodial supplies	9,639	8,708
Communications supplies	1,451	1,655
Postage	953	1,057
Small equipment purchases	26,969	12,575
Uniforms	16,880	25,037
Utilities - electric	81,722	81,172
Utilities - gas	7,222	7,691
Utilities - water	4,939	4,590
Telephone - communications	488,678	447,996
Telephone - administration	15,463	13,523
Telephone - cell phones and pagers	15,718	13,222
	<u>676,542</u>	<u>625,625</u>
Other -		
Board meeting expenses	1,235	683
Dues and memberships	15,161	4,569
Employee testing and exams	16,186	10,107
Insurance - workers compensation	50,651	43,468
Insurance - liability	42,368	44,246
Insurance - buildings and contents	2,369	-
Insurance - equipment	4,079	5,937
Insurance - vehicles	1,971	-
Premiums on surety bonds	5,518	2,921
Legal notices	3,982	5,155
Licenses and taxes	7,367	3,011
Public education	4,023	1,631
Service awards and incentives	7,199	6,288
Training	17,850	8,207
Seminars and workshops	7,869	1,750
Travel	34,967	9,759
Internet charges	4,483	3,978
Miscellaneous	5,871	5,973
	<u>233,149</u>	<u>157,683</u>
800 MHz project	<u>-</u>	<u>200,000</u>
Depreciation and amortization	<u>521,101</u>	<u>511,574</u>
	<u>\$ 11,114,929</u>	<u>\$ 10,600,333</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
REVENUES:				
Emergency telephone service charges	\$ 2,900,000	\$ 2,900,000	\$ 2,674,692	\$ (225,308)
Communications Board - Shared wireless charge	800,000	800,000	815,531	15,531
Operational funding	1,570,919	1,570,919	1,966,238	395,319
Funding from local governments	6,201,698	6,201,698	6,201,698	-
Interest income	32,700	32,700	51,970	19,270
Other income	75	75	163	88
Total revenues	<u>11,505,392</u>	<u>11,505,392</u>	<u>11,710,292</u>	<u>204,900</u>
EXPENSES:				
Salaries and Benefits -				
Salaries - director	97,420	97,420	95,737	1,683
Salaries - administrative	182,600	182,600	182,078	522
Salaries - technology	324,700	324,700	313,509	11,191
Salaries - telecommunications	5,755,139	5,755,139	5,659,619	95,520
Salaries - communications training officers	46,500	50,000	49,807	193
Compensated absences	20,000	41,000	40,609	391
Social security taxes	397,194	397,194	376,050	21,144
Medicare taxes	92,892	92,892	87,947	4,945
Group insurance	1,349,961	1,359,461	1,358,966	495
Retirement benefits	553,285	555,785	554,272	1,513
	<u>8,819,691</u>	<u>8,856,191</u>	<u>8,718,594</u>	<u>137,597</u>
Contracted Services -				
Auditing services	8,500	8,500	8,500	-
Accounting services	2,000	-	-	-
Administrative service charges	91,000	77,000	76,480	520
Contracts with govt agencies	40,000	40,000	40,000	-
Data processing services	2,000	2,100	2,048	52
Janitorial services	50,000	50,000	47,115	2,885
Legal services	25,956	25,956	25,956	-
Legal services - other	10,000	-	-	-
Maintenance agreements	628,550	572,250	566,793	5,457
Mapping/database consulting	60,000	62,500	62,312	188
Other consulting	11,000	24,000	23,820	180
Pest control	500	500	410	90
Communications equipment rental	500	500	-	500
Office equipment rental	19,400	19,400	19,245	155
Communications equipment repairs	2,500	2,500	2,357	143
Building maintenance and repairs	45,000	76,500	75,919	581
Office equipment repair	2,500	2,500	-	2,500
Vehicle maintenance and repairs	1,750	1,750	730	1,020
Fuel - vehicles	3,800	3,800	2,351	1,449
Grounds maintenance	10,000	-	-	-
Interpretation services	12,000	12,000	8,814	3,186
Technology support	3,000	3,000	2,693	307
	<u>1,029,956</u>	<u>984,756</u>	<u>965,543</u>	<u>19,213</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
Supplies and Materials -				
Office supplies	\$ 9,350	\$ 9,350	\$ 6,908	\$ 2,442
Custodial supplies	8,700	9,700	9,639	61
Communications supplies	2,000	2,000	1,451	549
Postage	1,000	1,000	953	47
Small equipment purchases	18,250	29,000	26,969	2,031
Uniforms	27,800	17,800	16,880	920
Utilities - electric	100,000	86,800	81,722	5,078
Utilities - gas	10,000	10,000	7,222	2,778
Utilities - water	6,900	6,900	4,939	1,961
Telephone - communications	446,000	490,000	488,678	1,322
Telephone - administration	13,000	15,600	15,463	137
Telephone - cell phones and pagers	16,535	16,535	15,718	817
	<u>659,535</u>	<u>694,685</u>	<u>676,542</u>	<u>18,143</u>
Other -				
Board meeting expenses	900	1,400	1,235	165
Dues and memberships	11,700	15,300	15,161	139
Employee testing and exams	9,860	17,510	16,186	1,324
Insurance - workers compensation	51,038	51,038	50,651	387
Insurance - liability	46,000	46,000	44,339	1,661
Insurance - buildings and contents	2,400	2,400	2,369	31
Insurance - equipment	3,700	4,200	4,079	121
Premiums on surety bonds	4,000	5,700	5,518	182
Legal notices	2,000	4,100	3,982	118
Licenses and taxes	11,465	11,465	7,367	4,098
Public education	10,000	4,200	4,023	177
Service awards and incentives	10,000	10,000	7,199	2,801
Training	22,000	22,000	17,850	4,150
Seminars and workshops	6,410	8,010	7,869	141
Travel	26,968	35,368	34,967	401
Internet charges	6,000	6,000	4,483	1,517
Miscellaneous	8,000	8,000	5,871	2,129
	<u>232,441</u>	<u>252,691</u>	<u>233,149</u>	<u>19,542</u>
Contingency	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>10,791,623</u>	<u>10,788,323</u>	<u>10,593,828</u>	<u>194,495</u>
	<u>\$ 713,769</u>	<u>\$ 717,069</u>	<u>\$ 1,116,464</u>	<u>\$ 399,395</u>
Total Actual Budgeted Expenses -			\$ 10,593,828	
Depreciation and amortization			<u>521,101</u>	
Total GAAP basis expenses			<u>\$ 11,114,929</u>	

INTERNAL CONTROL AND COMPLIANCE SECTION



**INDEPENDENT AUDITORS' 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

Hamilton County "911" Emergency Communications District:

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 Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Hamilton County "911" Emergency Communications District's basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton 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 audits, 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 District’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 District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Niskey & Meucham, P.C.

November 4, 2013

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013 AND 2012**

CURRENT YEAR FINDING:

None

PRIOR YEAR FINDINGS:

None