

Loudon County Emergency Communications District

**Financial Statements with Supplementary Information
Year Ended June 30, 2013**

with
Independent Auditors' Report

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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HG&A ASSOCIATES, P.C.

Certified Public Accountants

Independent Auditors' Report

Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and for the 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 opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinion.

Richard A. Goldstine • J. Wesley Edmondson • Tim Royster • Jenny C. Raines • Michelle Herrell

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the schedule of pension funding progress on page 21 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 the 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic 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 November 18, 2013 on our consideration of the District's internal control over financial reporting and 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.

HG & A Associates, P.C.

Knoxville, Tennessee
November 18, 2013

Loudon County Emergency Communications District

500 John Parris Drive, Loudon, Tennessee 37774
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MANAGEMENT'S DISCUSSION and ANALYSIS

Our discussion and analysis of the Loudon County Emergency Communications District's (the "District") financial performance provides an overview of the District's activities for the year ended June 30, 2013. Please read it in conjunction with the District's financial statements, as listed in the table of contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The balance sheet and the statement of revenues, expenses and changes in net position provide information about the District as a whole and present a long-term view of the District's finances.

THE BALANCE SHEET AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net position report information about the District and about its activities that help 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 two statements report the District's net position and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

CONDENSED BALANCE SHEET

The analysis below focuses on the assets and changes in net position of the District.

	<u>2013</u>	<u>2012</u>
Current assets	\$ 794,185	527,984
Restricted assets	37,072	27,986
Capital assets	<u>1,814,817</u>	<u>1,918,899</u>
Total Assets	\$ <u>2,646,074</u>	<u>2,474,869</u>
Current liabilities	\$ 86,606	75,057
Noncurrent liabilities	<u>1,104,627</u>	<u>1,148,594</u>
Total Liabilities	<u>1,191,233</u>	<u>1,223,651</u>
Net position:		
Invested in capital assets	666,220	728,094
Restricted	37,072	27,986
Unrestricted	<u>751,549</u>	<u>495,138</u>
Total Net Position	<u>1,454,841</u>	<u>1,251,218</u>
Total Liabilities and Net Position	\$ <u>2,646,074</u>	<u>2,474,869</u>

Total net position of the District increased approximately 16.3% during the current year, as opposed to last year's 3.8% increase. Unrestricted net position, the part of net position used to finance day-to-day operations, increased by approximately 51.8% from the prior year. The increase in total net position and unrestricted net position was due primarily to an increase in additional grant and reimbursement revenues from the Tennessee Emergency Communications Board (TECB).

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

	<u>2013</u>	<u>2012</u>
Revenues:		
Emergency telephone charges	\$ 208,656	239,027
Tennessee ECB shared wireless charges	119,344	113,022
Tennessee ECB operational funding	<u>183,214</u>	<u>183,173</u>
Total operating revenues	511,214	535,222
Total operating expenses	<u>1,091,076</u>	<u>1,060,241</u>
Operating loss	(579,862)	(525,019)
Non-operating revenues	831,817	579,788
Non-operating expenses	<u>(48,332)</u>	<u>(50,034)</u>
Change in net position	203,623	4,735
Net position – beginning of year	<u>1,251,218</u>	<u>1,246,483</u>
Net position – end of year	\$ <u>1,454,841</u>	<u>1,251,218</u>

The operations of the District (a component unit of Loudon County, Tennessee) are primarily funded as follows:

Emergency telephone surcharges	15.5%
State of Tennessee shared wireless fee	8.9%
State of Tennessee Communications Board – operational funding	13.6%
State of Tennessee Communications Board – grants and reimbursements	20.3%
Contributions from primary government	40.2%
Contributions from other governments	.9%
Interest and miscellaneous income	<u>.6%</u>
Total funding	<u>100.0%</u>

Operational costs for the E911 Center were \$1,091,076 for the fiscal year ended June 30, 2013, an increase of only \$30,835 from the prior year. This change was primarily as a result of the following: (1) increase in salaries and wages of \$25,253, (2) increase in contracted services of \$14,490, and (3) an increase in training costs of \$8,721.

CAPITAL ASSETS

At the fiscal year ended June 30, 2013, the District had \$2,691,215 in capital assets, an increase of \$52,365 over last year's balance of \$2,638,580. This change is as result of the initial acquisition of new generation communications equipment that will be put into service along with additional new generation communications equipment to be purchased in fiscal 2014. Additional information concerning the capital assets of the District can be found on page 16 of this report.

DEBT

At the fiscal year end the District's outstanding debt consists of revenue bonds held by the USDA office of Rural Development. The \$1,500,000 of proceeds from the issuance of Emergency Communications District Revenue Bonds, Series 2007 in May 2009 were used to retire the draws on the interim financing construction loan used to partially pay for the costs of the District's new facility and furnished equipment completed in 2009. The total amount outstanding on the revenue bonds at June 30, 2013 totaled \$1,148,597 due to the retirement of \$42,208 this year. Additional information can be found on pages 17 of this report.

BUDGETS

There were amendments to the originally adopted budget approved by the Board for the fiscal year ending June 30, 2013 increasing the budgeted revenues and expenses by \$288,258 and \$7,747, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The District's future budget plans will take into account the following actions: (1) continued support for covering the employment costs for dispatch services through its contract with Loudon County government, (2) expected continued operational funding through the State of Tennessee's Emergency Communications Board to assist the District's overall operations, (3) the approval by the Tennessee Emergency Communications Board to increase land-line phone surcharge fees effective January 2013 and (4) continuing to seek support from local communities within the County that receive dispatch services and currently are not contributing for that coverage.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of the Loudon County Emergency Communications District, 500 John Parris Drive, Loudon, Tennessee 37774.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Net Position

June 30, 2013

<u>Assets</u>	
Current assets:	
Cash	\$ 665,830
Certificates of deposit	58,736
Accounts receivable:	
Surcharges and wireless commissions	34,584
Prepaid expenses	35,035
Total current assets	<u>794,185</u>
Restricted assets:	
USDA debt reserve funds	<u>37,072</u>
Capital assets:	
Building and improvements	1,664,200
Furniture and fixtures	71,242
Office equipment	45,635
Communication equipment	853,349
Vehicles	56,789
	<u>2,691,215</u>
Less: allowance for depreciation	<u>876,398</u>
Total capital assets	<u>1,814,817</u>
	<u>\$ 2,646,074</u>
<u>Liabilities and Net Position</u>	
Current liabilities:	
Bonds payable - current	\$ 43,970
Accounts payable	7,488
Accrued payroll and related taxes	23,162
Accrued compensated absences	11,322
Accrued interest payable	664
Total current liabilities	<u>86,606</u>
Bonds payable - long-term	<u>1,104,627</u>
Total liabilities	<u>1,191,233</u>
Net position:	
Invested in capital assets	666,220
Restricted	37,072
Unrestricted	751,549
Total net position	<u>1,454,841</u>
	<u>\$ 2,646,074</u>

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating revenue:	
Emergency telephone surcharges	\$ 208,656
TECB - shared wireless charges	119,344
TECB - operational funding	183,214
Total operating revenue	<u>511,214</u>
Operating expenses:	
Salaries and wages	569,558
Employee benefits	152,109
Contracted services	84,192
Supplies and materials	78,677
Depreciation	156,717
Other charges	49,823
Total operating expense	<u>1,091,076</u>
Operating loss	<u>(579,862)</u>
Nonoperating revenue (expenses):	
Interest income	786
Contributions from primary government	540,000
Contributions from other governments	11,916
TECB - grants and reimbursements	272,243
Miscellaneous income	6,872
Interest expense	(48,332)
Total nonoperating revenue (expenses)	<u>783,485</u>
Change in net position	203,623
Total net position - beginning of year	<u>1,251,218</u>
Total net position - end of year	<u><u>\$ 1,454,841</u></u>

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 517,139
Cash payments for goods and services	(204,577)
Cash payments for employees and related benefits	<u>(715,591)</u>
Net cash used in operating activities	<u>(403,029)</u>
Cash flows from noncapital financing activities:	
Contributions from primary government	540,000
Contributions from other governments	11,916
Grants and reimbursements from TECB	<u>272,243</u>
Net cash provided by noncapital financing activities	<u>824,159</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(52,635)
Payments on bonds payable	(42,208)
Interest paid on bonds payable	<u>(48,332)</u>
Net cash used in capital and related financing activities	<u>(143,175)</u>
Cash flows from investing activities:	
Interest received	786
Increase in certificate of deposit	<u>(108)</u>
Net cash provided by investing activities	<u>678</u>
Net increase in cash	278,633
Cash - beginning of the year	<u>424,269</u>
Cash - end of the year	<u>\$ 702,902</u>
Cash	\$ 665,830
Restricted assets	<u>37,072</u>
	<u>\$ 702,902</u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Statement of Cash Flows (continued)
For the Year Ended June 30, 2013

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ <u>(579,862)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	156,717
Other nonoperating income (expenses), net	6,872
Changes in operating assets and liabilities:	
Decrease in accounts receivable	5,925
Increase in prepaid expenses	(2,471)
Increase in accounts payable	3,714
Increase in accrued payroll and related taxes	4,495
Increase in accrued compensated absences payable	<u>1,581</u>
Total adjustments	<u>176,833</u>
Net cash used in operating activities	\$ <u><u>(403,029)</u></u>

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

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies

(a) Description of Organization

The Loudon County Emergency Communications District (the "District"), commonly referred to as E-911, was established to provide services under the Emergency Communications District Law, Tennessee Code Annotated, Chapter 86. The District was created by a resolution of the Loudon County Commissioners on September 12, 1989, and subsequently approved by public referendum. Under its enabling legislation, the District is a municipality with powers of perpetual success but without any power to levy or collect taxes. Charges for services authorized shall not be considered as taxes. The powers of the District are vested in and exercised by a majority of the members of the board of directors of the District who are appointed by the District's primary government.

The District is considered a component unit of Loudon County, Tennessee and the financial statements are presented in both the District's separate financial report and within the Loudon County, Tennessee report. The District is considered a component unit of Loudon County, Tennessee because the District is unable to issue debt without going through Loudon County, Tennessee.

(b) Basis of Accounting

The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues are those revenue that are generated from the primary operations of the District. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported in nonoperating expenses.

The District reports its financial activities under the applicable provisions of GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes standards for external reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position groups:

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

Invested in capital assets – This component of net position of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any payables that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets”.

(c) Cash and Cash Equivalents

The District considers all unrestricted deposits and highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Receivables

Accounts receivable, which are deemed uncollectible based on a periodic review of the accounts, are charged to revenue. At June 30, 2013, no allowance for uncollectible accounts was considered necessary. The accounts receivable balance of \$34,584 primarily represents amounts due from AT&T for the surcharge on Loudon County telephone services for the month of June 2013 and wireless commissions due from the State of Tennessee for May and June, 2013.

(e) Capital Assets

Capital assets, which include a building, communications equipment, office furnishings and equipment and vehicles, are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are stated at historical cost, less accumulated depreciation computed on the straight-line method over their estimated useful lives as follows: buildings – forty years; office equipment and furnishings - three to seven years; communications equipment and vehicles – five to ten years. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost, less any salvage value, is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to earnings as incurred.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

(f) Estimates

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

(g) Compensated Absences

The District has adopted the policy of Loudon County, Tennessee, which permits its employees to accumulate, in varying amounts, earned but unused vacation and sick pay benefits. Annual vacation time accrues based upon years of service for full-time employees (40 hours per week) and on a pro rata basis for employees that are part-time. Vacation may be carried over up to a maximum of 30 days. Each January 1st, all unused vacation above the 30 day maximum is converted to sick leave. Sick leave accrues in a similar method to vacation time; however, paid sick leave is a benefit and privilege and not a right or compensation and thus will not be paid out at termination of employment.

\$11,322 has been recorded as accrued vacation pay for this reporting period.

(h) Tax Status

Because the District was incorporated as a political subdivision under the Tennessee Emergency Communications District Law, it is exempt from federal income taxes.

(i) Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

(j) Deferred Outflows/Inflows of Resources

During the year ended June 30, 2013, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies (continued)

(j) Deferred Outflows/Inflows of Resources (continued)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District does not have any items that qualify for reporting in this category as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District does not have any items that qualify for reporting in this category as of June 30, 2013.

2. Budgetary Control

The District's Board formally approves the annual budget prepared by the E-911 Director based upon anticipated revenues and estimated operating expenses. The budget is adopted on a basis consistent with generally accepted accounting principles except that the budgeted cost of capital assets purchased is included as an expenditure. The District is required by Section 7-86-120, Tennessee Code Annotated, to adopt and operate under an annual budget. In addition, the Accounting and Financial Reporting Manual for Tennessee Emergency Communication Districts established the legal level of control, which is defined to be the line item. Budgeted amounts lapse at the end of the fiscal year and no unexpended balances are carried to the subsequent year. Budgeted expenses may be amended, as needed to meet changing needs.

3. Deposits

Custodial credit risk for the District's deposits 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, the carrying amount of deposits was \$761,638 and the bank balances were \$765,462. As required by state statutes, the District's policy is to require financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2013, none of the District's bank balances was exposed to credit risk.

4. Revenue

The District's primary sources of revenues are from surcharges imposed on Loudon County telephone services (net of administrative fees paid to the telephone companies) and from surcharges imposed on cell phone services, which are collected and disbursed by the Tennessee Emergency Communications Board.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

5. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2013 from those in effect in 2012 and 2011. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

6. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

<u>Cost</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2013</u>
Capital assets, being depreciated:				
Building and improvements	\$ 1,664,200	-	-	1,664,200
Vehicles	56,789	-	-	56,789
Furniture and fixtures	71,242	-	-	71,242
Office equipment	45,635	-	-	45,635
Communication equipment	800,714	52,635	-	853,349
	<u>2,638,580</u>	<u>52,635</u>	<u>-</u>	<u>2,691,215</u>
Less accumulated depreciation for:				
Building and improvements	(145,643)	(41,605)	-	(187,248)
Vehicles	(39,994)	(3,678)	-	(43,672)
Furniture and fixtures	(36,221)	(10,178)	-	(46,399)
Office equipment	(43,023)	(932)	-	(43,955)
Communication equipment	(454,800)	(100,324)	-	(555,124)
	<u>(719,681)</u>	<u>(156,717)</u>	<u>-</u>	<u>(876,398)</u>
Total assets being depreciated, net	<u>\$ 1,918,899</u>	<u>(104,082)</u>	<u>-</u>	<u>1,814,817</u>

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

7. Bonds Payable

Emergency Communications District Revenue Bond, Series 2007, for \$1,500,000 was issued May 26, 2009 for the purpose of paying the majority of the costs to construct and equip a new facility to house the District's operations. The bonds are payable in two hundred and forty (240) monthly principal and interest payments in the amount of \$7,545, at an interest rate of 4.125%. The remaining number of monthly payments was reduced due to an additional \$200,000 paid on the bonds during fiscal year 2011. These bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operations of the District and by a statutory lien on the District's system. Interest expense totaled \$48,332 in 2013 and the balance outstanding on the bonds at June 30, 2013 is \$1,148,597.

Change in debt during the year ended June 30, 2013 is as follows

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Long-term debt:					
Revenue bonds:					
Series 2007	\$ 1,190,805	-	42,208	1,148,597	43,970

Aggregate maturities of bonds payable are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 43,970	46,570	90,540
2015	45,818	44,722	90,540
2016	47,745	42,795	90,540
2017	49,752	40,788	90,540
2018	51,843	38,697	90,540
2019 - 2023	293,799	158,901	452,700
2024 - 2028	360,970	91,730	452,700
2029 - 2031	254,700	16,920	271,620
	\$ <u>1,148,597</u>	<u>481,123</u>	<u>1,629,720</u>

8. Dispatch Service Agreement

Beginning January 1, 2010 the District entered into an agreement with Loudon County, Tennessee to take over the employment of the personnel managing and operating the communications system and to provide the necessary 911, emergency and non-emergency dispatch services for Loudon County, Tennessee from the District's location. In exchange for this coverage Loudon County, Tennessee will provide funding up to the amount of \$540,000 with annual renewals subject to withdrawal or termination provisions for either party as detailed in the agreement. There has not been any change to the agreement during this fiscal year.

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2013

9. Agreement for Office Space

The District entered into an agreement with Loudon County, Tennessee in which it received a contribution, in October 2006, to be used for the construction of the E-911 Center. In return, the District has made available to Loudon County offices and emergency operations space for the Emergency Management Agency (EMA), a subsidiary of Loudon County, Tennessee for up to thirty years, with an extension possible upon mutual agreement of both parties.

10. Operating Leases

Operating leases in place during the year are as follows;

- During fiscal year 2005, the District sold its Mobile 911 Center to Loudon County, Tennessee and then entered into a lease agreement with Loudon County, Tennessee, to lease the facility for one dollar per year.
- On October 5, 2006, the District entered into a lease agreement with Loudon Utilities Board for a ground lease on the site of its operating center. The term of the lease is for thirty years from the date of the agreement and may be extended upon mutual consent of both parties. The lease payment to Loudon Utilities Board is for one dollar per year.

11. Employee Retirement Plan

Plan Description

Employees of the District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

11. Employee Retirement Plan (continued)

Plan Description (continued)

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

Funding Policy

The District requires employees to contribute 5.0% of earnable compensation.

The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 4.42% of covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, the District's annual pension cost of \$21,591 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increases in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market of total investments over a ten-year period. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was zero years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates July 1, 2012.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2013

11. Employee 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>
6/30/13	\$ 21,591	100.00%	\$ -
6/30/12	\$ 68,204	100.00%	\$ -
6/30/11	\$ -	100.00%	\$ -

Funding Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 0.00% funded. The actuarial accrued liability was \$0.00, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.00. The covered payroll (annual payroll of active employees covered by the plan) is \$0.00, and the ratio of the UAAL to the covered payroll was 0.00%.

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

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (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>
July 1, 2011	\$0	\$0	\$0	0.00%	\$0	0.00%

(only year available)

12. Subsequent Events

The District has evaluated events and transactions subsequent to the balance sheet date through November 18, 2013, which is the date the financial statements were available to be issued.

Required Supplementary Information

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Required Supplementary Information
June 30, 2013

Schedule of Pension Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2011	\$ 0	0	0	0.00%	\$ 0	0.00%
2009	0	0	0	0.00%	0	0.00%
2007	0	0	0	0.00%	0	0.00%

Supplementary Information

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget
For the Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Emergency telephone surcharges	\$ 208,656	208,656	-
TECB - shared wireless charge	117,692	119,344	1,652
TECB - operational funding	183,214	183,214	-
	<u>509,562</u>	<u>511,214</u>	<u>1,652</u>
Operating expenses:			
Salaries and wages:			
Director	60,000	58,400	1,600
Mapper	39,000	38,328	672
Dispatchers	405,000	401,095	3,905
Overtime	600	553	47
Part-time dispatchers	66,000	60,214	5,786
Part-time bookkeeping	11,200	10,968	232
	<u>581,800</u>	<u>569,558</u>	<u>12,242</u>
Employee benefits:			
Social security	37,000	35,464	1,536
Medicare	9,200	8,578	622
Life insurance	450	197	253
Medical/vision insurance	82,000	79,318	2,682
Dental insurance	8,000	6,886	1,114
Retirement benefits	24,000	21,666	2,334
	<u>160,650</u>	<u>152,109</u>	<u>8,541</u>
Contracted services:			
Audit services	7,000	7,000	-
Accounting services (payroll preparation)	6,000	5,423	577
Fees paid to service providers	30	19	11
Legal services	8,000	5,907	2,093
Contracted maintenance services	40,000	36,274	3,726
NCIC/TBI/TIES	8,000	6,240	1,760
Maintenance and repairs:			
Communications equipment	12,000	9,457	2,543
Building and facilities	8,500	8,110	390
Office equipment	1,500	912	588
Vehicle	2,000	1,638	362
Vehicle fuel	4,000	3,212	788
	<u>97,030</u>	<u>84,192</u>	<u>12,838</u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
Supplies and materials:			
Office	\$ 4,000	2,621	1,379
Postage	500	349	151
Small equipment purchases	65,000	62,226	2,774
Uniforms and shirts	3,200	3,039	161
Utilities:			
Electric, gas, water	18,000	17,996	4
General telephone	45,000	42,790	2,210
Cell phones and pagers	3,000	2,291	709
	<u>138,700</u>	<u>131,312</u>	<u>7,388</u>
Other charges:			
Board meetings	400	336	64
Dues and memberships	1,500	1,120	380
Employee testing and exams	1,500	970	530
Insurance:			
Workers compensation	2,310	2,302	8
Liability	3,823	3,823	-
Building and contents	7,190	7,190	-
Equipment	230	230	-
Vehicles	1,570	1,570	-
Legal notices	175	154	21
Employee service awards	6,300	6,212	88
Training	16,500	15,908	592
Travel	14,000	8,795	5,205
Internet	1,500	1,191	309
Other	200	22	178
	<u>57,198</u>	<u>49,823</u>	<u>7,375</u>
Depreciation	<u>160,000</u>	<u>156,717</u>	<u>3,283</u>
Total operating expenses	<u>1,195,378</u>	<u>1,143,711</u>	<u>51,667</u>
Excess of operating revenues over (under) operating expenses	<u>(685,816)</u>	<u>(632,497)</u>	<u>53,319</u>

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Nonoperating revenues (expenses):			
Interest income	\$ 787	786	(1)
Contributions from primary government	540,000	540,000	-
Contributions from other governments	11,917	11,916	
TECB - grants and reimbursements	272,244	272,243	(1)
Miscellaneous income	6,872	6,872	-
Interest expense	(51,000)	(48,332)	2,668
Total nonoperating revenues (expenses)	<u>780,820</u>	<u>783,485</u>	<u>2,666</u>
Excess of revenues over (under) expenses	\$ <u>95,004</u>	150,988	<u>55,985</u>
Adjustments required to reconcile with financial statement - "Statement of Revenues, Expenses and Changes in Net Position":			
Capital equipment purchases		<u>52,635</u>	
Change in net position		<u>\$ 203,623</u>	

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Insurance in Force

June 30, 2013

<u>Description</u>	<u>Coverage</u>
Property and Commercial Liability:	
Risks of Direct Physical Loss Subject to Normal Conditions and Exclusions:	
Building and Personal Property - 500 John Parris Way	Guaranteed replacement cost
Contractor's equipment - all risk/blanket coverage	\$ 500,000
Electronic data processing equipment - each occurrence	1,000,000
Extra expense - each occurrence	5,000,000
Valuable papers - each occurrence	1,000,000
Automobile Liability:	
Liability - combined single limit	1,000,000
Uninsured/underinsured motorists	1,000,000
Medical payments - any one person/any one claim	5,000/100,000
Physical damage	Actual cash value
Workers' Compensation Liability:	Statutory Limits
General Liability:	
Bodily injury and property damage - combined single limit	1,000,000
Crime:	
Employee fidelity - each loss	150,000
Loss inside/outside - each loss	150,000
Monthly orders and counterfeit papers - each loss	150,000
Depositors forgery - each loss	150,000
Public officials liability - each occurrence	1,000,000
Employee liability - each claim/per member	1,000,000
Cyber liability - \$5,000 deductible	1,000,000

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Roster of Officials

June 30, 2013

Board of Directors

Tim Guider - Chairman
James Webb - Vice Chairman
Travis Gray
Steve Harrelson
Bill Hart
Ronnie Lett
Richard Martin
Daryl H. Smith
Don White

Management

Jennifer Estes - Director

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Grantor Agency</u>	<u>Program Name</u>	<u>CFDA #</u>	<u>Balance June 30, 2012</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Repaid</u>	<u>Balance June 30, 2013</u>
<u>Federal Assistance:</u>							
<u>Loans</u>							
<i>U.S. Department of Agriculture</i>							
	Water and Waste Disposal Systems for Rural Communities	10.760	\$ <u>1,190,805</u>	<u>-</u>	<u>-</u>	<u>42,208</u>	<u>1,148,597</u>

Note A - Basis of Presentation

The schedule of expenditures of federal awards includes the federal awards activity of the District and is presented on the accrual basis of accounting.



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

The Board of Directors
Loudon County Emergency Communications District
Loudon, 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 the Loudon County Emergency Communications District (the "District"), a component unit of Loudon County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 18, 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 (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 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 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 the 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 a part of obtaining reasonable assurance about whether the District's financial statements are free from 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 an instance 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.

HG & A Associates, P.C.

Knoxville, Tennessee

November 18, 2013

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Status of Prior Year Finding
Year Ended June 30, 2013

12-1 Finding: Budget vs. Actual Expenses

Condition: Several line items of expense exceeded the approved budgeted amount.

Criteria: TCA 7-86-120 states that no emergency communications district may spend money except in accordance with an adopted budget.

Effect: The District was not in compliance with TCA 7-86-120.

Recommendation: The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* Section II page 6 states that the budgets for Emergency Communications Districts are to be set at the line-item level. In order to comply with the manual we recommend the District Executive Director present the necessary budget amendments to the District's Board of Directors for approval of increases in each line item as situations arise whereby required expenditures will exceed budgeted amounts.

Status:

In this audit presentation the finding has been corrected.