

David Sturtevant,
Contract Audit Review Manager
Division of County Audit
Comptroller of the Treasury
State of Tennessee

Mr. Sturtevant,

In accordance with instruction 5 of the Contract to Audit, we are writing this letter to communicate that the accompanying report is the official Audit Report for Sullivan County Enhanced 9-1-1 Emergency Communications District for the year ended June 30, 2013.

Very truly yours,

BROWN, EDWARDS & COMPANY, L.L.P.

Richard L. Linnen, Partner

Bristol, Virginia
November 21, 2013

**SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

**SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT**

T A B L E O F C O N T E N T S

| | | |
|---|--|---------|
| <u>Introductory Section</u> | | Page |
| Schedule of Directors and Officers | | 4 |
| <u>Management’s Discussion and Analysis</u> | | |
| Management’s Discussion and Analysis | | 6 - 8 |
| <u>Financial Section</u> | | |
| Independent Auditor’s Report | | 10 - 11 |
| <u>Basic Financial Statements</u> | | |
| Statement of Net Position | | 12 |
| Statement of Revenues, Expenses and Changes in Net Position | | 13 |
| Statement of Cash Flows | | 14 - 15 |
| Notes to Financial Statements | | 16 - 22 |
| <u>Required Supplementary Information</u> | | |
| Schedule of Funding Progress | | 24 |
| <u>Supplementary Schedules</u> | | |
| Statement of Revenues and Expenses – Detail | | 26 |
| Statement of Revenues and Expenses – Detail Budget to Actual Comparison – Budgetary Basis | | 27 - 28 |
| Schedule of Insurance Coverage (Unaudited) | | 29 |
| Schedule of Surcharge Rates | | 29 |
| <u>Compliance Section</u> | | |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 31 - 32 |

INTRODUCTORY SECTION

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF DIRECTORS AND OFFICERS
June 30, 2013

Board of Directors:

Jessie Lipoma, Chairwoman
Don Adams, Vice-Chairman
Jerry Fleenor, Secretary
Peggy Rutherford, Treasurer
Wayne Anderson
Terry Jones
Jim Bean
James Brotherton
Jerry Malone

Officers:

Ike D. Lowry, Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District"), we offer readers of our financial statements this narrative and overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. It should be read in connection with the District's financial statements and related notes included in this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,380,190 (net position). Of this amount, \$624,798 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- The District's net position increased by \$53,075, which was attributable to the net income of the District for the year.
- The District has accounts payable, deferred revenue and accrued expenses of \$109,825 at June 30, 2013.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. Since the District is engaged in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. The report also contains other supporting schedules in addition to the basic financial statements themselves.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

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

The basic enterprise fund financial statements can be found on pages 12 through 15 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supporting schedules including the District's budget to actual comparisons of revenues and expenses on the basis of accounting on which the District presents its budget. The other supplementary schedules can be found on pages 26 through 29 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$1,380,190 at the close of the most recent fiscal year.

The District uses its capital assets to provide emergency communications services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any associated debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

| | <u>Net Position</u> | |
|------------------------------|---------------------|--------------------------|
| | <u>2013</u> | <u>2012, as restated</u> |
| Current assets | \$ 734,623 | \$ 850,824 |
| Capital assets | <u>755,392</u> | <u>551,767</u> |
| Total assets | <u>\$ 1,490,015</u> | <u>\$ 1,402,591</u> |
| Current liabilities | <u>\$ 109,825</u> | <u>\$ 76,866</u> |
| Total liabilities | <u>\$ 109,825</u> | <u>\$ 76,866</u> |
| Net position: | | |
| Investment in capital assets | \$ 755,392 | \$ 551,767 |
| Unrestricted | <u>624,798</u> | <u>775,348</u> |
| Total net position | <u>\$ 1,380,190</u> | <u>\$ 1,327,115</u> |

(Continued)

Financial Analysis (Continued)

| | <u>Changes in Net Position</u> | |
|-------------------------------------|--------------------------------|--------------------------|
| | <u>2013</u> | <u>2012, as restated</u> |
| Revenues | | |
| Surcharge revenue | \$ 644,593 | \$ 665,414 |
| Other revenue | <u>467,707</u> | <u>616,647</u> |
| Total revenues | <u>\$ 1,112,300</u> | <u>\$ 1,282,061</u> |
| Expenses | | |
| Salaries and wages | \$ 236,459 | \$ 229,294 |
| Employee benefits | 84,073 | 87,478 |
| Contracted services | 410,674 | 401,457 |
| Supplies and materials | 143,714 | 145,628 |
| Other charges | 100,986 | 101,113 |
| Depreciation | <u>83,319</u> | <u>84,973</u> |
| Total expenses | <u>\$ 1,059,225</u> | <u>\$ 1,049,943</u> |
| Increase (decrease) in net position | \$ 53,075 | \$ 232,118 |
| Net position – July 1 | <u>1,327,115</u> | <u>1,094,997</u> |
| Net position – June 30 | <u>\$ 1,380,190</u> | <u>\$ 1,327,115</u> |

The District's net position increased by \$53,075 during the current fiscal year. Surcharge revenue decreased by \$20,821, or by 3.1% due to a decrease in land line usage and wireless revenue. Other revenue decreased by \$148,940, primarily due to grant monies received for purchase of Next Gen911 equipment in 2012 being a nonrecurring grant. Expenses increased by \$9,282 due to a salary raise given to district employees.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Sullivan County Enhanced 9-1-1 Emergency Communications District, 1570 Highway 394, Blountville, Tennessee 37617.

FINANCIAL SECTION

Financial Section contains the
Basic Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sullivan County Enhanced 9-1-1
Emergency Communications District
Blountville, Tennessee

We have audited the accompanying financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District"), a component unit of Sullivan 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 fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Manual for Governmental Units and Recipients of Grant Funds* published by the Tennessee Office of the Comptroller of the Treasury. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County Enhanced 9-1-1 Emergency Communications District as of June 30, 2013, and the 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.

Your Success is Our Focus

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 6-8 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying information listed as supplementary schedules in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying information listed as supplementary schedules in the Table of Contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the portion marked "unaudited" on which we provide no opinion or assurance, 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 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 October 30, 2013, on our consideration of Sullivan County Enhanced 9-1-1 Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sullivan County Enhanced 9-1-1 Emergency Communications District's internal control over financial reporting and compliance.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 30, 2013

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF NET POSITION
June 30, 2013

| ASSETS | |
|------------------------------------|---------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents (Note 2) | \$ 653,045 |
| Accounts receivable - surcharge | 68,047 |
| Prepaid expenses | <u>13,531</u> |
| Total current assets | <u>734,623</u> |
| CAPITAL ASSETS, net (Note 3) | <u>755,392</u> |
| Total assets | <u>1,490,015</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | 29,947 |
| Deferred revenue | 200 |
| Accrued expenses (Note 4) | <u>79,678</u> |
| Total liabilities | <u>109,825</u> |
| NET POSITION | |
| Net investment in capital assets | 755,392 |
| Unrestricted | <u>624,798</u> |
| Total net position | <u>\$ 1,380,190</u> |

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2013

| | |
|---|----------------------------|
| OPERATING REVENUES | |
| Emergency telephone service charge | \$ 436,239 |
| State Emergency Communications Board - shared wireless charge | 208,354 |
| State Emergency Communications Board - operational funding | <u>265,860</u> |
| Total operating revenues | <u>910,453</u> |
| OPERATING EXPENSES | |
| Salaries and wages | 236,459 |
| Employee benefits | 84,073 |
| Contracted services | 410,674 |
| Supplies and materials | 143,714 |
| Other charges | 100,986 |
| Depreciation | <u>83,319</u> |
| Total operating expenses | <u>1,059,225</u> |
| Operating loss | <u>(148,772)</u> |
| NONOPERATING REVENUE | |
| State Emergency Communications Board grants | 184,102 |
| Interest income | 1,645 |
| Rent | <u>16,100</u> |
| Total nonoperating revenues | <u>201,847</u> |
| Change in net position | 53,075 |
| NET POSITION AT JULY 1 | 1,333,915 |
| Prior period adjustment (Note 10) | <u>(6,800)</u> |
| NET POSITION AT JULY 1, as restated | <u>1,327,115</u> |
| NET POSITION AT JUNE 30 | <u><u>\$ 1,380,190</u></u> |

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

| | |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from 911 surcharge collections | \$ 927,660 |
| Cash payments to Sullivan County per contract | (278,479) |
| Cash payments to suppliers for goods and services | (367,201) |
| Cash payments to employees for services and related benefits and taxes | <u>(311,907)</u> |
| Net cash used in operating activities | <u>(29,927)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchase of capital assets | <u>(279,442)</u> |
| Net cash used in capital and related financing activities | <u>(279,442)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| Proceeds from State ECB grants | 442,246 |
| Proceeds from rental property | <u>16,300</u> |
| Net cash provided by non-capital financing activities | <u>458,546</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>1,645</u> |
| Net cash provided by investing activities | <u>1,645</u> |
| Net increase in cash and cash equivalents | 150,822 |
| CASH AT BEGINNING OF YEAR | <u>502,223</u> |
| CASH AT END OF YEAR | <u><u>\$ 653,045</u></u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES | |
| Acquisition of property and equipment by accounts payable | <u><u>\$ 7,502</u></u> |

(Continued)

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

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

| | |
|--|---------------------------|
| Operating loss | \$ (148,772) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 83,319 |
| (Increases) decreases in: | |
| Accounts receivable - surcharge | 17,207 |
| Prepaid expenses | (8,328) |
| Increases (decreases) in: | |
| Accounts payable | 18,022 |
| Accrued expenses | <u>8,625</u> |
| Total adjustments | <u>118,845</u> |
| Net cash used in operating activities | <u><u>\$ (29,927)</u></u> |

The Notes to Financial Statements are an integral part of this statement.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies

Organization

The Tennessee General Assembly's passage of Emergency Communications District Law (Acts 1984, ch. 867) declared that the establishment of a uniform emergency number to shorten the time required for a citizen to request and receive emergency aid is a matter of public concern and interest. It is the intent of communication districts to provide a simplified means of securing emergency services.

The legislative body of any municipality or county may, by ordinance or resolution, respectively, create an emergency communications district within all or part of the boundaries of such municipality or county. Prior to the establishment of such district, an election must be held and certified by the County Election Commission indicating the voters' approval of the communication district. Such an election was held in Sullivan County in August, 1986, whereby the voters approved a referendum which formed the Sullivan County Enhanced 9-1-1 Emergency Communications District (the "District").

The District is a component unit of Sullivan County, Tennessee (the "County"), as defined by Statement No. 14, "The Reporting Entity" as amended by Statement No. 61, of the Governmental Accounting Standards Board. A voting majority of the District's Board of Directors are appointed and approved by the County's County Executive and County Commission, respectively. The District must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges.

Measurement focus and basis of accounting

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are surcharge revenues. Operating expenses include the equipment expenses, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

In accordance with *Tennessee Code Annotated 7-86-120*, an annual budget is adopted by the District. The budget is approved by the Board and is also submitted to the primary government, Sullivan County, Tennessee. Expenses are presented at the legal level of control, which in accordance with the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts*, is the line-item level.

The following procedures are used by the District in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed throughout the year as a management control device.
2. Budgets are adopted on a modified cash basis reflecting revenues when monies received and expenses upon payment. A reconciliation of the budgetary data to the accrual basis financial statements is included with the accompanying financial statements.
3. All budgetary data presented in the accompanying financial statements is the final approved revised data.
4. Budget items can only be revised upon approval of the Board of Directors.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all cash on hand, in bank, and all highly liquid investments (including restricted assets) including certificates of deposit to be cash and cash equivalents.

Surcharge Revenue

The District recognizes surcharge revenue as earned. Century Link, BTES and Charter, the local telephone 'service suppliers', collect and remit surcharge revenues to the District on a monthly basis. Surcharge revenue collections are being remitted to the District within thirty (30) days subsequent to the last business day of the preceding month. The service suppliers are entitled to and retain three percent (3%) of their collected surcharges as an administrative fee. The District also receives revenue from the State of Tennessee for wireless revenue. This revenue is equivalent to 25% of the revenue generated by wireless communications and is based on a proportion of the population of each District. These funds are remitted to the District on a bi-monthly basis. The District, and all properties at any time owned by it, are exempt from all taxation in the State of Tennessee (Acts 1984, ch. 867).

Depreciation

Depreciation for capital assets is provided on the straight-line method over the estimated useful lives, which range from three years for office and training equipment to twenty-five years for the buildings. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain and loss is recognized in income as incurred.

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets is capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

Note 2. Cash and Cash Equivalents

State statutes authorize the District to invest in obligations of the federal government, state government, the state investment pool, certificates of deposit and other time deposits, and repurchase agreements.

All of the District's cash and cash equivalents were deposited with financial institutions at June 30, 2013. All deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits were fully collateralized by the Tennessee Bank Collateral Pool.

Note 3. Capital Assets

Capital asset activity for the year was as follows:

| | <u>Beginning July 1, as restated</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30</u> |
|--|--|------------------|------------------|----------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 123,393 | \$ _____ | \$ _____ | \$ 123,393 |
| Capital assets, being depreciated | | | | |
| Automobiles | 84,110 | - | - | 84,110 |
| Office and training equipment | 289,764 | - | - | 289,764 |
| Machinery and equipment | 179,478 | 274,744 | - | 454,222 |
| Other equipment | 8,357 | - | - | 8,357 |
| Furniture and fixtures | 46,360 | - | - | 46,360 |
| Buildings | <u>680,856</u> | <u>12,200</u> | - | <u>693,056</u> |
| Total capital assets, being depreciated | <u>1,288,925</u> | <u>286,944</u> | - | <u>1,575,869</u> |

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. Capital Assets (Continued)

| | Beginning July 1, <u>as restated</u> | <u>Increases</u> | <u>Decreases</u> | Balance June 30 |
|---|--|-------------------|------------------|--------------------|
| Less accumulated depreciation for | | | | |
| Automobiles | \$ (81,002) | \$ (2,764) | \$ - | \$ (83,766) |
| Office and training equipment | (266,466) | (13,838) | - | (280,304) |
| Machinery and equipment | (177,686) | (22,333) | - | (200,019) |
| Other equipment | (8,304) | (52) | - | (8,356) |
| Furniture and fixtures | (33,770) | (6,109) | - | (39,879) |
| Buildings | <u>(293,323)</u> | <u>(38,223)</u> | - | <u>(331,546)</u> |
| Total accumulated depreciation | <u>(860,551)</u> | <u>(83,319)</u> | - | <u>(943,870)</u> |
| Total capital assets, depreciated, net | <u>428,374</u> | <u>203,625</u> | - | <u>631,999</u> |
| Total capital assets, net | <u>\$ 551,767</u> | <u>\$ 203,625</u> | <u>\$ -</u> | <u>\$ 755,392</u> |

Depreciation expense for the fiscal year ended June 30, 2013 was \$83,319.

Note 4. Accrued Expenses

Accrued expenses consist of the following:

| | |
|---------------------------------------|------------------|
| Accrued salaries and related expenses | \$ 9,715 |
| Accrued vacations | <u>69,963</u> |
| Totals | <u>\$ 79,678</u> |

Accrued salaries and related expenses represents the amount owed for salaries and related expenses earned but not paid as of June 30. Accrued vacations represent the cost of accumulated vacation earned but not taken through June 30, at current wage rates. Actual payment of the employee benefits will occur in future periods.

Note 5. Tennessee Consolidated Retirement System

A. Plan Description

Employees of Sullivan County Enhanced 9-1-1 Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 5. Tennessee Consolidated Retirement System (Continued)

A. Plan Description (Continued)

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 Sullivan County Enhanced 9-1-1 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/>.

B. Funding Policy

Sullivan County Enhanced 9-1-1 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.

Sullivan County Enhanced 9-1-1 Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 9.75% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sullivan County Enhanced 9-1-1 Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

C. Annual Pension Cost

For the year ending June 30, 2013, Sullivan County Enhanced 9-1-1 Emergency Communication District's annual pension cost of \$22,566 to TCRS was equal to Sullivan County Enhanced 9-1-1 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 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Sullivan County Enhanced 9-1-1 Emergency Communication 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.

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 5. Tennessee Consolidated Retirement System (Continued)

C. Annual Pension Cost (Continued)

| Trend Information | | | |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| 6/30/13 | \$22,566 | 100.00% | \$ - |
| 6/30/12 | \$30,919 | 100.00% | \$ - |
| 6/30/11 | \$29,446 | 100.00% | \$ - |

D. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 98.72 percent funded. The actuarial accrued liability for benefits was \$0.55 million, and the actuarial value of assets was \$0.54 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 \$0.21 million, and the ratio of the UAAL to the covered payroll was 3.28 percent.

The schedule 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.

Note 6. Leases

Operating Lease

The District entered into an operating lease agreement on March 14, 2006 with United Telephone-Southeast, d.b.a. Century Link to be provided with a CML ECS 1000 System. The lease was for a term of 60 months with monthly payments due in the amount of \$2,900 after an upfront payment of \$116,000. The total lease amount of \$174,000 was amortized over the life of the lease. The District had an option at the end of the lease to replace the equipment and begin a new lease or continue the current lease with monthly payments of \$2,900 for an additional 36 months. The lease was scheduled to expire March 31, 2011. However, due to the Next Gen upgrade that will be occurring in the near future, Century Link agreed to move forward with the current lease terms on a month to month basis with the District. The monthly payment remained the same.

The District entered into an operating lease agreement along with seven other regional ECD's on December 1, 2012 with United Telephone-Southeast, d.b.a. Century Link to lease floor space at Century Link's Bristol, TN and Johnson City, TN facilities to house the Next Gen 911 Equipment upgrades. The lease's initial term is 60 months and was paid in full upfront. The District's portion of the lease was \$6,750 which will be amortized over the term of the lease.

Total lease/rent expense for the year was \$15,233.

The District is a lessor of certain real property under short-term agreements with a single lessee.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 7. Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage for each of the above risks of loss. Workman's compensation insurance is retrospectively rated. Premium variance is not considered material. Management believes the coverage obtained through its commercial insurance policies is adequate to preclude any significant uninsured risk exposure to the District. There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage since the inception of the District. Claims experienced in the fiscal year 2013 are considered by management to be insignificant.

Note 8. Inter-local Cooperation Agreement

The Sullivan County, Tennessee, County Commission approved the Inter-local Cooperation Agreement providing for Emergency Communications Service between Sullivan County, Tennessee, (the "County"), the Sullivan County Sheriff, (the "Sheriff"), and Sullivan County Enhanced 9-1-1 Emergency Communications District, (the "District"). Under terms of the agreement, the County and the Sheriff shall provide the physical facilities and employees necessary to operate and maintain an emergency communication service for the District for the period beginning July 1, 2012 and ending on June 30, 2013. The County, by and through the Sheriff, shall provide a public safety answering point and central dispatch and qualified employees to operate an emergency communications service for the District. The agreement calls for the Sheriff to hire six District employees to become "at-will" employees of the County. In return for the facilities and the employees for the one-year period specified, the District agrees to pay to the County \$278,479 in twelve equal monthly installments. The agreement calls for annual renewal upon approval by the County, the Sheriff and the District. The agreement was renewed under the same terms for the subsequent fiscal year. For the year ended June 30, 2013, there were no amounts owed to the Sheriff's Department.

Note 9. Subsequent Events

Management evaluated all activity of the District through October 30, 2013 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosures in the Notes to the Financial Statements.

Note 10. Prior Period Adjustment

Capital Assets

A prior period adjustment was recorded that decreased capital assets by \$8,500 and accumulated depreciation by \$1,700, thereby decreasing beginning net position by \$6,800. This is the result of an item being incorrectly recorded as a capital asset during 2012.

REQUIRED SUPPLEMENTARY INFORMATION

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2013

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|---|------------------------------------|--------------------------|---------------------------|---|
| July 1, 2011 | \$541 | \$548 | \$7 | 98.72% | \$214 | 3.28% |
| July 1, 2009 | \$379 | \$388 | \$9 | 97.82% | \$135 | 6.27% |
| July 1, 2007 | \$312 | \$321 | \$9 | 97.20% | \$117 | 7.69% |

SUPPLEMENTARY SCHEDULES

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES - DETAIL
For the Year Ended June 30, 2013

| | |
|--|-------------------|
| CONTRACTED SERVICES | |
| Addressing/mapping expense | \$ 112 |
| Audit services | 6,500 |
| Accounting services | 235 |
| Administrative fees - service charge | 12,512 |
| Buildings & facilities lease | 1,910 |
| Contracts with government agencies (Note 8) | 278,479 |
| Contracts with private agencies | 9,000 |
| Data processing services | 7,556 |
| Maintenance agreements | 57,413 |
| Lease/rental - communications equipment | 10,316 |
| Lease/rental - office equipment | 3,007 |
| Maintenance and repairs - communications equipment | 2,842 |
| Maintenance and repairs - buildings and facilities | 16,703 |
| Maintenance and repairs - office equipment | 1,031 |
| Maintenance and repairs - vehicles | 3,058 |
| | <u>\$ 410,674</u> |
| | |
| SUPPLIES AND MATERIALS | |
| Bank service charges | \$ 54 |
| Internet | 613 |
| Office supplies | 5,115 |
| Custodial supplies | 34 |
| Postage | 506 |
| Small equipment purchases | 2,976 |
| Uniforms & shirts | 2,425 |
| Utilities - electric | 9,408 |
| Utilities - gas | 1,198 |
| Utilities - water | 697 |
| Utilities - general telephone | 101,498 |
| Utilities - cell phones and pagers | 19,190 |
| | <u>\$ 143,714</u> |
| | |
| OTHER CHARGES | |
| Dues and memberships | \$ 2,990 |
| Assets purchased with other agencies | 5,235 |
| Board meeting | 1,502 |
| Fuel - vehicles | 5,285 |
| Legal notices | 764 |
| Licenses & fees | 375 |
| Insurance - workers compensation | 1,000 |
| Insurance - buildings and contents | 21,650 |
| Insurance - vehicles | 4,088 |
| Pest control | 180 |
| Premiums on surety bonds | 2,873 |
| Public education | 15,728 |
| Service awards | 4,038 |
| Training expenses | 15,679 |
| Travel expenses | 18,707 |
| Miscellaneous | 892 |
| | <u>\$ 100,986</u> |

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with |
|---|-------------------------|----------------------|-----------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| INCOME | | | | |
| Emergency phone service charges | \$ 436,133 | \$ 436,133 | \$ 436,239 | \$ 106 |
| SECB shared wireless charge | 205,553 | 205,553 | 208,354 | 2,801 |
| TECB operational funding | 270,803 | 270,803 | 265,860 | (4,943) |
| Interest income | 5,000 | 5,000 | 1,645 | (3,355) |
| ST ECB grants | 280,471 | 280,471 | 184,102 | (96,369) |
| Rental income | <u>16,800</u> | <u>16,800</u> | <u>16,100</u> | <u>(700)</u> |
| Total income | <u>1,214,760</u> | <u>1,214,760</u> | <u>1,112,300</u> | <u>(102,460)</u> |
| EXPENSES | | | | |
| Salaries & wages | 231,441 | 234,641 | 232,941 | 1,700 |
| Employee benefits | 79,009 | 84,666 | 84,073 | 593 |
| Contracted services | 346,905 | 376,205 | 371,807 | 4,398 |
| Pest control | 275 | 275 | 180 | 95 |
| Communications equipment lease | 35,000 | 13,000 | 10,316 | 2,684 |
| Buildings & facilities lease | - | 8,500 | 7,873 | 627 |
| Office equipment rental/lease | 3,100 | 3,100 | 3,007 | 93 |
| Vehicles lease/rentals | 1,200 | 1,200 | - | 1,200 |
| Maint. communications equip. & software | 2,000 | 4,000 | 2,842 | 1,158 |
| Maint. buildings & facilities | 12,685 | 18,500 | 16,703 | 1,797 |
| Maint. office equip. | 1,000 | 2,100 | 1,031 | 1,069 |
| Maint. vehicles | 3,500 | 3,500 | 3,058 | 442 |
| Fuel - vehicles | 11,232 | 5,700 | 5,285 | 415 |
| Supplies & materials | 9,514 | 12,565 | 11,056 | 1,509 |
| Electric utility | 9,675 | 10,125 | 9,408 | 717 |
| Gas utility | 1,250 | 1,350 | 1,198 | 152 |
| Water utility | 575 | 775 | 697 | 78 |
| General telephone | 101,000 | 102,500 | 101,498 | 1,002 |
| Cell phone & pagers | 22,500 | 22,500 | 19,190 | 3,310 |
| Workers compensation insurance | 850 | 1,000 | 1,000 | - |
| Liability insurance | 788 | - | - | - |
| Buildings/contents insurance | 22,000 | 22,000 | 21,650 | 350 |
| Vehicles insurance | 3,812 | 4,088 | 4,088 | - |
| Legal notices | 1,250 | 1,250 | 764 | 486 |
| Licenses and fees | 800 | 800 | 375 | 425 |
| Premiums on surety bonds | 3,060 | 6,260 | 5,238 | 1,022 |
| Public education | 8,000 | 16,000 | 15,728 | 272 |
| Service awards | 3,525 | 4,050 | 4,038 | 12 |
| Training expenses | 20,000 | 20,000 | 15,679 | 4,321 |

(Continued)

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUES AND EXPENSES DETAIL -
BUDGET TO ACTUAL COMPARISON - BUDGETARY BASIS
For the Year Ended June 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with |
|--|-------------------------|----------------------|-----------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| EXPENSES (Continued) | | | | |
| Travel expenses | \$ 18,000 | \$ 23,000 | \$ 18,707 | \$ 4,293 |
| Internet charges | 500 | 850 | 613 | 237 |
| Depreciation | 80,000 | 87,000 | 83,319 | 3,681 |
| Other charge expense | 5,400 | 6,400 | 5,438 | 962 |
| Payroll expenses | 275 | 275 | - | 275 |
| Reconciliation discrepancies | 110 | 110 | - | 110 |
| Capital purchases | <u>165,000</u> | <u>106,508</u> | <u>5,235</u> | <u>101,273</u> |
| Total expenses | <u>1,205,231</u> | <u>1,204,793</u> | <u>1,064,035</u> | <u>140,758</u> |
| CHANGE IN NET ASSETS | <u>\$ 9,529</u> | <u>\$ 9,967</u> | <u>\$ 48,265</u> | <u>\$ 38,298</u> |
| Change in net assets (budgetary basis) | | | \$ 48,265 | |
| Reconciliation to GAAP basis: | | | | |
| Increase in prepaid expenses | | | 8,328 | |
| Increase in accrued expenses not adjusted | | | <u>(3,518)</u> | |
| | | | <u>\$ 53,075</u> | |

The above Statement of Revenues and Expenses - Detail; Budget to Actual Comparison presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of resultant basis and timing differences in the change in net assets for the year ended June 30, 2013 is presented above.

SULLIVAN COUNTY ENHANCED 9-1-1
EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
June 30, 2013

| <u>Effective Date</u> | <u>Expiration Date</u> | <u>Insurer/Agent</u> | <u>Policy Numbers</u> |
|--|----------------------------|--|---------------------------|
| Commercial Liability, Property and Casualty, and Employee Dishonesty Package | | | |
| 6/30/2012 | 6/30/2013 | Glatfelter Insurance Group VFIS / Mark Bowery Insurance | VFIS-TR-2055773-05 |
| Commercial Automobile | | | |
| 6/30/2012 | 6/30/2013 | Glatfelter Insurance Group VFIS / Mark Bowery Insurance | VFIS-CM-1053521-05 |
| Workers Compensation | | | |
| 3/1/2013 | 3/1/2014 | Star Insurance Company/ TPA Insurance Agency | WC-0457763-04 |
| Directors' Bonds | | | |
| Various | Various | Bond Insurance Agency VFIS / Mark Bowery Insurance | Various |

SCHEDULE OF SURCHARGE RATES

Surcharge rates in effect July 1, 2012 through June 30, 2013, were \$1.50 per month for residential customers and \$3.00 (for each line up to 100 lines) for commercial customers.

COMPLIANCE SECTION



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

To the Board of Directors
Sullivan County Enhanced 9-1-1
Emergency Communications District
Blountville, 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 Sullivan County Enhanced 9-1-1 Emergency Communications District (the District), a component unit of Sullivan 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 October 30, 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 opinion 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 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 30, 2013

**SULLIVAN COUNTY ENHANCED 9-1-1 EMERGENCY
COMMUNICATIONS DISTRICT**

**COMMENTS AND SUGGESTIONS FOR
YOUR CONSIDERATION**

JUNE 30, 2013



INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Senior Management and
The Board of Directors of
Sullivan County Enhanced 9-1-1 Emergency Communications District
Blountville, Tennessee

In planning and performing our audit of the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This report does not affect our report dated October 30, 2013, on the financial statements of Sullivan County Enhanced 9-1-1 Emergency Communications District. Since our audit is not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all inclusive of areas where improvements might be achieved. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with the District's management, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comments are as follows:

Organization Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide segregation of duties. The District has taken appropriate actions in implementing certain procedures to mitigate the inadequacy of the segregation of duties. These procedures include assigning opening of mail and bank deposits to an individual independent of recordkeeping. Check writing responsibilities are assigned to an individual independent of opening of mail and deposits made to the bank. Also, bank reconciliations are now performed by an individual with no recordkeeping responsibilities to the District. However, the proper segregation of duties within the accounting function is not always possible, due to the inability to rotate accounting tasks and have others perform accounting tasks in the absence of those with assigned duties, due to limited staffing.

We strongly suggest that the procedures detailed above be continued and periodically reevaluated to assure that incompatible functions are reduced to a minimum and that proper mitigating controls are utilized as much as possible.

Your Success is Our Focus

Bank Reconciliations

During testing of cash balances, we noted that the bank reconciliation did not agree to the cash balance recorded. It was noted that the client was using the Quickbooks generated bank reconciliations as the source item to identify cleared transactions. This bank reconciliation did not include all transactions. Additionally, we noted that the prepared bank reconciliation was not signed off on indicating review by management.

Bank reconciliation procedures are an important control, which help ensure all items are recorded properly and are appropriate transactions for the District. It is our recommendation that the bank reconciliation be prepared using the cash register to ensure all transactions are accounted for, and after completion, the bank reconciliation be reviewed by the appropriate management person and signed off on, indicating the review.

Prior Period Adjustment

During our testing of fixed assets, we noted an item that was incorrectly recorded as a fixed asset during the prior year. Therefore, beginning retained earnings was misstated. A journal entry was recorded to adjust fixed assets, accumulated depreciation, and retained earnings, accordingly. It is our recommendation that items be correctly identified and recorded in the year they occur.

This report is intended solely for the information and use of the Board of Directors, management and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 30, 2013