

**GRAINGER COUNTY EMERGENCY  
COMMUNICATIONS DISTRICT**

**RUTLEDGE, TENNESSEE**

**ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2013**

**and**

**INDEPENDENT AUDITOR'S REPORT**

GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2013

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GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

SCHEDULE OF BOARD OF DIRECTORS

June 30, 2013

Members of the Board of Directors are as follows:

|                    |               |
|--------------------|---------------|
| Jeff Atkins        | Chairman      |
| Woody Roach        | Vice Chairman |
| Martha Ann Cameron | Secretary     |
| Gary Wayne Dalton  | Member        |
| Sarah Fennell      | Member        |
| James Harville     | Member        |
| Dr. Mark Holland   | Member        |
| Mike Holt          | Member        |
| Travis Proffitt    | Member        |

# BROWN JAKE & McDANIEL, PC

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FRANK D. McDANIEL, CPA, CGFM, CGMA  
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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditor's Report

Board of Directors  
Grainger County Emergency  
Communications District  
Rutledge, Tennessee

We have audited the accompanying statement of net position of Grainger County Emergency Communications District (the "District"), a component unit of Grainger County, Tennessee, as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows 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 of America. 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 respective financial position of the District, as of June 30, 2013, and the respective changes in financial position and cash flows 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 5 - 7 and the schedule of 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 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 other supplementary information and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of the 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 the District's internal control over financial reporting and compliance.

*Brown Lake & McDaniel, PC*

Knoxville, Tennessee  
November 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR 2013

The financial statements of Grainger County Emergency Communications District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements of the District report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about their activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

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

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

Table 1

Condensed Statement of Net Position

|                                  | <u>June 30, 2013</u> | <u>June 30, 2012</u> | Increase<br>(Decrease) | %       |
|----------------------------------|----------------------|----------------------|------------------------|---------|
| Current and other assets         | \$ 674,397           | \$ 493,568           | \$ 180,829             | 36.64%  |
| Capital assets                   | <u>287,321</u>       | <u>113,785</u>       | <u>173,536</u>         | 152.51% |
| Total assets                     | <u>\$ 961,718</u>    | <u>\$ 607,353</u>    | <u>\$ 354,365</u>      | 58.35%  |
| Long-term liabilities            | \$ -                 | \$ -                 | \$ -                   | - %     |
| Current liabilities              | <u>113,627</u>       | <u>13,296</u>        | <u>100,331</u>         | 754.60% |
| Total liabilities                | <u>\$ 113,627</u>    | <u>\$ 13,296</u>     | <u>\$ 100,331</u>      | 754.60% |
| Net investment in capital assets | \$ 287,321           | \$ 113,785           | \$ 173,536             | 152.51% |
| Unrestricted                     | <u>560,770</u>       | <u>480,272</u>       | <u>80,498</u>          | 16.76%  |
| Total net position               | <u>\$ 848,091</u>    | <u>\$ 594,057</u>    | <u>\$ 254,034</u>      | 42.76%  |

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

One way to measure financial health of a company is to look at its increases or decreases in net position over time. Increases in net position, in general, are signs that a company's financial health is improving. Decreases may indicate that its financial health is deteriorating. However, you will need to also consider non-financial factors such as economic conditions, service growth, and legislative mandates.

The District's total net position increased by \$254,034 from last year.

Table 2  
Statement of Revenues, Expenses and Changes in Net Position

|                              | For the<br>Year Ended<br>June 30, 2013 | For the<br>Year Ended<br>June 30, 2012 | Increase<br>(Decrease) | %       |
|------------------------------|--|--|------------------------|---------|
| Operating revenue            | \$ 327,736                             | \$ 372,644                             | \$ (44,908)            | -12.05% |
| Non-operating revenue        | 450,793                                | 266,526                                | 184,267                | 69.14%  |
| Total revenues               | <u>778,529</u>                         | <u>639,170</u>                         | <u>139,359</u>         | 21.80%  |
| Salaries and wages           | 352,289                                | 333,580                                | 18,709                 | 5.61%   |
| Employee benefits            | 80,112                                 | 81,935                                 | (1,823)                | -2.22%  |
| Contracted services          | 145,591                                | 97,086                                 | 48,505                 | 49.96%  |
| Supplies and materials       | 15,349                                 | 17,274                                 | (1,925)                | -11.14% |
| Depreciation expense         | 47,318                                 | 65,200                                 | (17,882)               | -27.43% |
| Other charges                | 26,221                                 | 25,461                                 | 760                    | 2.98%   |
| Total expenses               | <u>666,880</u>                         | <u>620,536</u>                         | <u>46,344</u>          | 7.47%   |
| Income before capital grants | 111,649                                | 18,634                                 | 93,015                 | 499.17% |
| Capital grants               | <u>142,385</u>                         | <u>36,453</u>                          | <u>105,932</u>         | 290.60% |
| Change in net position       | 254,034                                | 55,087                                 | 198,947                | 361.15% |
| Beginning net position       | <u>594,057</u>                         | <u>538,970</u>                         | <u>55,087</u>          | 10.22%  |
| Ending net position          | <u>\$ 848,091</u>                      | <u>\$ 594,057</u>                      | <u>\$ 254,034</u>      | 42.76%  |

As can be seen in Table 2, the change in net position (formerly known as "net income") increased from the prior year by \$198,947. This increase resulted from increased non-operational funding and capital grant contributions from the Tennessee Emergency Communications Board while expenses increased by approximately 7%.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

Table 3

Capital Assets, Net of Accumulated Depreciation

|                     | <u>June 30, 2013</u> | <u>June 30, 2012</u> | <u>Increase<br/>(Decrease)</u> |
|---------------------|----------------------|----------------------|--------------------------------|
| Capital assets, net | \$ 287,321           | \$ 113,785           | \$ 173,536                     |

This year's capital additions include:

|                         |            |
|-------------------------|------------|
| Communication equipment | \$ 228,910 |
| Total additions         | \$ 228,910 |

The District plans to have additional capital outlays in 2014 for control and communication equipment to be funded through the Tennessee Emergency Communications Board.

At June 30, 2013, the District had no outstanding long-term debt and no plans to issue debt in the near future.

There were no significant variations from fiscal year 2013 budgeted operational expenditures and fiscal year 2013 actual operational expenditures. Fiscal year 2014 budget, approved August 20, 2013, contains no significant operational increases or decreases from fiscal year 2013.

This financial report is designed to provide the public and creditors with an overview of the finances of the District and to demonstrate accountability for the money received. If there are questions, comments, or requests for additional information pertaining to this report, please contact:

Mr. Randy Holt, Director  
Grainger County Emergency Communications District  
270 Justice Center Drive, Suite 103  
Rutledge, TN 37861

Phone (865) 828-3311

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## STATEMENT OF NET POSITION

June 30, 2013

ASSETS

|  |                   |
|--|-------------------|
| Current assets:  |                   |
| Cash and cash equivalents  | \$ 525,768        |
| Accounts receivable  |                   |
| Customers  | 14,419            |
| State of Tennessee - operating distributions                       | <u>33,308</u>     |
| Total current assets   | <u>573,495</u>    |
| Segregated assets:   |                   |
| Investments - certificate of deposit                               | <u>100,902</u>    |
| Capital assets:  |                   |
| Capital assets, net of accumulated depreciation totaling \$170,614 | <u>287,321</u>    |
| Total assets   | <u>\$ 961,718</u> |

LIABILITIES AND NET POSITION

|                                    |                   |
|------------------------------------|-------------------|
| Current liabilities:               |                   |
| Accrued employee leave             | \$ 8,375          |
| Other current liabilities          | 1,483             |
| Unearned capital outlay grant      | <u>103,769</u>    |
| Total liabilities                  | <u>113,627</u>    |
| Net position:                      |                   |
| Net investment in capital assets   | 287,321           |
| Unrestricted                       | <u>560,770</u>    |
| Total net position                 | <u>848,091</u>    |
| Total liabilities and net position | <u>\$ 961,718</u> |

See accompanying notes to basic financial statements.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

For the Fiscal Year Ended June 30, 2013

|   |                   |
|---|-------------------|
| Operating revenue:                              |                   |
| Emergency telephone surcharges                  | \$ 129,188        |
| State shared wireless charge                    | 55,688            |
| State of Tennessee operational funding          | <u>142,860</u>    |
|   | <u>327,736</u>    |
| Operating expenses:                             |                   |
| Salaries and wages                              | 352,289           |
| Employee benefits                               | 80,112            |
| Contracted services                             | 145,591           |
| Supplies and materials                          | 15,349            |
| Other charges                                   | <u>26,221</u>     |
|   | <u>619,562</u>    |
| Operating margin (loss) before depreciation     | (291,826)         |
| Depreciation expense                            | <u>47,318</u>     |
| Operating margin (loss)                         | <u>(339,144)</u>  |
| Non-operating revenue (expense):                |                   |
| Interest income                                 | 2,163             |
| Contribution - primary government               | 212,500           |
| Contributions - municipalities                  | 35,000            |
| State Emergency Board-grants and reimbursements | 199,350           |
| Loss on disposal of fixed assets                | (8,055)           |
| Miscellaneous income (expense)                  | <u>9,835</u>      |
|   | <u>450,793</u>    |
| Income before capital grants                    | 111,649           |
| Capital grants - State of Tennessee             | <u>142,385</u>    |
| Change in net position                          | 254,034           |
| Net position, beginning of the year             | <u>594,057</u>    |
| Net position, end of the year                   | <u>\$ 848,091</u> |

See accompanying notes to basic financial statements.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2013

|   |                          |
|---|--------------------------|
| Cash flows from operating activities:                         |                          |
| Cash received from service fees and other operating revenues  | \$ 334,273               |
| Cash paid to suppliers for goods and services                 | (269,696)                |
| Cash paid to employees for services provided                  | <u>(353,304)</u>         |
| Net cash used by operating activities                         | <u>(288,727)</u>         |
| Cash flows from noncapital financing activities:              |                          |
| Cash received from municipal governments                      | 35,000                   |
| State Emergency Board - grants and reimbursements             | 199,350                  |
| Contribution from primary government                          | 212,500                  |
| Miscellaneous income  | <u>9,835</u>             |
| Net cash provided by noncapital financing activities          | <u>456,685</u>           |
| Cash flows from capital and related financing activities:     |                          |
| Leasehold and office equipment additions, net of disposals    | (228,910)                |
| Capital contributions - State Emergency Board                 | <u>246,155</u>           |
| Net cash provided by capital and related financing activities | <u>17,245</u>            |
| Cash flows from investing activities:                         |                          |
| Interest income   | 2,163                    |
| Proceeds from maturities of investments                       | 100,000                  |
| Purchases of investments                                      | <u>(100,902)</u>         |
| Net cash provided by investing activities                     | <u>1,261</u>             |
| Net increase in cash and cash equivalents                     | 186,464                  |
| Cash and cash equivalents, beginning of the year              | <u>339,304</u>           |
| Cash and cash equivalents, end of the year                    | <u><u>\$ 525,768</u></u> |

(Continued)

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

STATEMENT OF CASH FLOWS  
(Continued)

For the Fiscal Year Ended June 30, 2013

Reconciliation of operating margin (loss) to net cash  
used by operating activities:

|   |                     |
|---|---------------------|
| Operating margin (loss)   | \$ (339,144)        |
| Adjustments to reconcile operating margin (loss)<br>to net cash used by operating activities: |                     |
| Depreciation  | 47,318              |
| Decrease in receivables   | 6,537               |
| Decrease in accrued employee leave  | (1,015)             |
| Decrease in other current liabilities   | <u>(2,423)</u>      |
| Net cash used by operating activities   | <u>\$ (288,727)</u> |

See accompanying notes to basic financial statements.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

1. Summary of Significant Accounting PoliciesGeneral Statement

Grainger County Emergency Communications District (the District) is a 911 service which will receive telephone requests for emergency services and provide for the dispatch of appropriate emergency service units. The District is a component unit of another governmental entity. Grainger County, Tennessee is the primary government in whose financial reporting entity Grainger County E-911 is included. The District expects to receive a significant portion of its income from the tax revenues of Grainger County. Also, Grainger County's legislative body approves board members and annual operating contributions to the District.

The criteria for including organizations as component units within a County's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the County appoints all of the organization's board
- the County is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- there is fiscal dependency by the organization on the County

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District applies all GASB pronouncements. The more significant accounting policies of the District are described below.

The entity is a proprietary fund type known as an Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs are financed through user charges.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)1. Summary of Significant Accounting Policies (Continued)Basis of Presentation (Continued)

Proprietary funds are accounted for on a "flow of economic resources" measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets.

Methods of Accounting

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Net Position

The District classifies net assets into three components - 1) net investment in capital assets, 2) restricted for debt service, and 3) unrestricted.

Cash and Cash Equivalents

For purposes of these financial statements, the District considers all highly liquid investments having original maturity dates of three months or less to be cash equivalents.

Budgetary Principles

Prior to the beginning of the fiscal year, the Board of Directors adopts an annual budget. All revisions must be approved by the Board. All annual appropriations lapse at fiscal year end. Budgetary control is maintained at the line item level.

The District prepares its budget on a basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). The major difference between the budgetary basis of accounting and GAAP is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP). At June 30, 2013, the District had no encumbrances.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)1. Summary of Significant Accounting Policies (Continued)Capital Assets

Capital assets owned by the District are recorded at cost, or if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Depreciation is calculated on each class of depreciable property using the straight-line method.

Use of 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.

Operating and Non-Operating Revenues and Expenses

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Recently Issued and Adopted Accounting Pronouncements

**Implementation of GASB Statement No. 62** - During the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)1. Summary of Significant Accounting Policies (Continued)Recently Issued and Adopted Accounting Pronouncements (Continued)

**Implementation of GASB Statement No. 63** - During the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting the balance sheets and statements of revenues, expenses and changes in net position.

**Implementation of GASB Statement No. 65** - During the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Implementation of these new GASB Statements had no significant impact on the District's financial statements.

Evaluation of Subsequent Events

Management has evaluated subsequent events through November 8, 2013, which is the date the financial statements were available to be issued.

2. Cash and Investments

Cash consisted of the following at June 30, 2013:

|   |                  |
|---|------------------|
| Cash in bank  | <u>\$525,768</u> |
| Twelve-month certificate of deposit,<br>maturing February 21, 2015 with an<br>interest rate of .95% | <u>\$100,902</u> |

At June 30, 2013, \$250,000 of the District's deposits is insured by federal depository insurance and the remaining is collateralized. Investment policies of the District follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)3. Capital Assets

Capital assets, together with annual depreciation and amortization rates, consist of the following:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decreases</u>  | <u>Ending<br/>Balance</u> | <u>Depreciation<br/>Rates</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|-------------------------------|
| Capital assets, being depreciated:                                   |                              |                   |                   |                           |                               |
| Communication equipment  | \$ 378,913                   | \$ 228,910        | \$ (168,833)      | \$ 438,990                | 10 - 20%                      |
| Building and improvements  | 8,315                        | -                 | -                 | 8,315                     |                               |
| Furniture and fixtures   | 11,128                       | -                 | (5,543)           | 5,585                     | 10%                           |
| Other fixed assets   | 5,045                        | -                 | -                 | 5,045                     | 10%                           |
| Office equipment   | <u>1,876</u>                 | <u>-</u>          | <u>(1,876)</u>    | <u>-</u>                  | 20%                           |
| Total capital assets, being<br>depreciated                           | <u>405,277</u>               | <u>228,910</u>    | <u>(176,252)</u>  | <u>457,935</u>            |                               |
| Less accumulated depreciation for:                                   |                              |                   |                   |                           |                               |
| Communication equipment  | (276,340)                    | (44,090)          | 162,663           | (157,767)                 |                               |
| Building and improvements  | (1,683)                      | (1,188)           | -                 | (2,871)                   |                               |
| Furniture and fixtures   | (7,885)                      | (1,315)           | 3,888             | (5,312)                   |                               |
| Other fixed assets   | (4,160)                      | (504)             | -                 | (4,664)                   |                               |
| Office equipment   | <u>(1,424)</u>               | <u>(221)</u>      | <u>1,645</u>      | <u>-</u>                  |                               |
| Total accumulated depreciation                                       | <u>(291,492)</u>             | <u>(47,318)</u>   | <u>168,196</u>    | <u>(170,614)</u>          |                               |
| Total capital assets, being<br>depreciated, net                      | <u>113,785</u>               | <u>181,592</u>    | <u>(8,056)</u>    | <u>287,321</u>            |                               |
| Total net capital assets, excluding<br>plant acquisition adjustments | <u>\$ 113,785</u>            | <u>\$ 181,592</u> | <u>\$ (8,056)</u> | <u>\$ 287,321</u>         |                               |

Depreciation charged to expense totaled \$47,318 for the year ended June 30, 2013.

4. Compensated Absences

The vacation year is a calendar year beginning January 1 and ending December 31. Regular full-time employees accumulate the following hours of vacation:

| <u>YEARS OF<br/>SERVICE</u> | <u>VACATION<br/>EARNED</u> |
|-----------------------------|----------------------------|
| 1 - 2                       | 40 HOURS                   |
| 3 - 10                      | 80 HOURS                   |
| 11 - 15                     | 120 HOURS                  |

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)4. Compensated Absences (Continued)

Employees may accrue annual vacation leave up to a maximum of 192 hours. Unpaid vacation leave totaled \$8,375 for the year ended June 30, 2013.

Sick leave is earned by regular full-time employees at the rate of one day per month for a total of twelve (12) days earned per year. Sick leave can be accumulated and carried forward year to year, without any maximum limitation. The employee shall not be paid for accumulated sick leave credit days, but shall be able to count the unused sick leave credit days toward their retirement, to the extent allowed under the rules and regulations under the Tennessee Consolidated Retirement System. It is management's belief that sick leave does not vest, and therefore, no accrual of such leave has been made.

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. The District purchases commercial insurance for all of these risks of loss. There have been no claims that have exceeded the insurance coverage during the three prior years.

6. Retirement Plan***Plan Description***

Employees of Grainger County Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The 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 Grainger County Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)6. 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 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**

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

Grainger County Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 3.35% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Grainger County Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2013, Grainger County Emergency Communications District's annual pension cost of \$8,223 to the TCRS was equal to Grainger County 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. Grainger County Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 10 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)6. Retirement Plan (Continued)**Annual Pension Cost** (Continued)**Trend Information**

| <u>Fiscal<br/>Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-----------------------------------|--|--|---------------------------------------|
| June 30, 2013                     | \$ 8,223                                 | 100.00%                                      | \$0.00                                |
| June 30, 2012                     | 8,026                                    | 100.00%                                      | \$0.00                                |
| June 30, 2011                     | 8,431                                    | 100.00%                                      | 0.00                                  |

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 87.24 percent funded. The actuarial accrued liability for benefits was \$0.20 million, and the actuarial value of assets was \$0.18 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.03 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.22 million, and the ratio of the UAAL to the covered payroll was 11.82 percent.

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

**Schedule of Funding Progress**

(Dollar amounts in thousands)

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Plan Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>-Entry Age<br/>(b)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)<br/>(b) - (a)</u> | <u>Funded<br/>Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>((b-a)/c)</u> |
|---|---|---|--|-----------------------------------|------------------------------------|--|
| July 1, 2011                            | \$ 176  | \$ 202  | \$ 26  | 87.24%                            | \$ 218                             | 11.82%   |
| July 1, 2009                            | \$ 107  | \$ 135  | \$ 28  | 79.29%                            | \$ 199                             | 14.11%   |
| July 1, 2007                            | \$ 56   | \$ 86   | \$ 30  | 65.12%                            | \$ 238                             | 12.61%   |

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)7. General Litigation

Grainger County Emergency Communications District was indirectly named in litigation in the previous fiscal year. The claim was dismissed in court on March 26, 2013.

**REQUIRED SUPPLEMENTARY INFORMATION**

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## SCHEDULE OF FUNDING PROGRESS

June 30, 2013

(Dollar amounts in thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Plan Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>- Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b) - (a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b - a)/c) |
|--------------------------------|---|--|--|--------------------------|---------------------------|---|
| July 1, 2011                   | \$176                                       | \$202  | \$26                                   | 87.24%                   | \$218                     | 11.82%  |
| July 1, 2009                   | \$107                                       | \$135  | \$28                                   | 79.29%                   | \$199                     | 14.11%  |
| July 1, 2007                   | \$56  | \$86   | \$30                                   | 65.12%                   | \$238                     | 12.61%  |

See independent auditor's report.

## **OTHER SUPPLEMENTARY INFORMATION**

GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

SCHEDULE OF EXPENDITURES OF STATE AWARDS\*

June 30, 2013

| Description   | Project Number | CFDA Number | Balance July 1, 2012 | Receipts and Loans Received | Expenditures and Loans Paid | Balance June 30, 2013 Unexpended (Receivable) |
|---|----------------|-------------|----------------------|-----------------------------|-----------------------------|---|
| Grants:   |                |             |                      |                             |                             |   |
| Tennessee Department of Commerce and Insurance - GIS Grant  | N/A            | N/A         | \$ -                 | \$ 29,019                   | \$ 29,019                   | \$ -  |
| Tennessee Department of Commerce and Insurance - GIS Allocation   | N/A            | N/A         | -                    | 10,000                      | 10,000                      | -   |
| Tennessee Department of Commerce and Insurance - One Time Payment FY13  | N/A            | N/A         | -                    | 33,931                      | 33,931                      | -   |
| Tennessee Department of Commerce and Insurance - Zetron Max Call Taking System  | N/A            | N/A         | -                    | 207,539                     | 103,769                     | 103,769                                       |
| Tennessee Department of Commerce and Insurance - Reimbursement of Non-Recurring Costs                                     | N/A            | N/A         | -                    | 45,600                      | 45,600                      | -   |
| Tennessee Department of Commerce and Insurance - Powerphone Call Handling Equipment Reimb. for Essential/Necessary Equip. | N/A            | N/A         | -                    | 38,616                      | 38,616                      | -   |
| Tennessee Department of Commerce and Insurance - Pictometry Software Reimbursement  | N/A            | N/A         | -                    | 57,720                      | 57,720                      | -   |
| Tennessee Department of Commerce and Insurance - Dispatcher Training Allocation   | N/A            | N/A         | -                    | 12,000                      | 12,000                      | -   |
| Tennessee Department of Commerce and Insurance - Monthly Recurring Reimbursement  | N/A            | N/A         | -                    | 11,081                      | 11,081                      | -   |
| Tennessee Department of Commerce and Insurance - 25% Distribution   | N/A            | N/A         | -                    | 46,190                      | 55,688                      | (9,498)                                       |
| Tennessee Department of Commerce and Insurance - Recurring Operational Funding  | N/A            | N/A         | -                    | 119,050                     | 142,860                     | (23,810)                                      |
| Total Grants  |                |             | \$ -                 | \$ 610,746                  | \$ 540,284                  | \$ 70,461                                     |

\*Schedule is presented on the full accrual basis of accounting.

See independent auditor's report.

GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
 RUTLEDGE, TENNESSEE  
 SCHEDULE OF BUDGET VS. ACTUAL REVENUES AND EXPENSES  
 For the Fiscal Year Ended June 30, 2013

|  | <u>Budget</u>     | <u>Actual</u>     |
|--|-------------------|-------------------|
| Operating revenues:                                |                   |                   |
| Emergency telephone surcharge                      | \$ 143,000        | \$ 129,188        |
| State shared wireless charge                       | 53,000            | 55,688            |
| State Emergency Board - operational funding        | <u>142,813</u>    | <u>142,860</u>    |
| Total operating revenues                           | <u>338,813</u>    | <u>327,736</u>    |
| Operating expenses:                                |                   |                   |
| Director   | 42,500            | 42,500            |
| Administrative (Bookkeeper)                        | 32,800            | 32,800            |
| Dispatcher   | 253,000           | 242,023           |
| Part-time pay                                      | 30,000            | 28,516            |
| Social security                                    | 21,905            | 21,905            |
| Longevity pay                                      | 4,000             | 3,450             |
| Christmas bonus                                    | 3,000             | 3,000             |
| Medicare   | 5,300             | 5,123             |
| Unemployment                                       | 2,440             | 1,915             |
| Medical insurance                                  | 50,555            | 42,813            |
| Life insurance                                     | 300               | 224               |
| Retirement   | 9,800             | 8,132             |
| Addressing/mapping expenses                        | 89,620            | 64,573            |
| Advertising  | 500               | 375               |
| Audit service                                      | 6,840             | 6,840             |
| Accounting service                                 | 400               | 300               |
| Contract with private agencies                     | 8,000             | 7,261             |
| Fees to service providers                          | 32,000            | 28,773            |
| Maintenance agreements                             | 36,000            | 33,017            |
| Office equipment lease                             | 1,200             | 1,044             |
| Maintenance and repairs - communications equipment | 3,300             | 2,684             |
| Employee testing                                   | 500               | -                 |
| Office supplies                                    | 2,800             | 2,354             |
| Data processing service                            | 1,000             | 724               |
| Data processing supplies                           | 600               | -                 |
| Postage  | 500               | 411               |
| Small equipment                                    | 1,000             | 104               |
| Uniforms   | 3,060             | 2,250             |
| Utilities  | 1,300             | 857               |
| Utilities - general telephone                      | 9,500             | 8,198             |
| Utilities - cell phone and pagers                  | 1,300             | 1,175             |
| Bank charges                                       | 100               | 30                |
| Board meeting expense                              | 200               | -                 |
| Dues and memberships                               | 500               | 452               |
| Workers compensation insurance                     | 2,000             | 1,194             |
| Liability insurance                                | 9,500             | 8,714             |
| Legal notices                                      | 200               | -                 |
| Licenses and fees                                  | 300               | -                 |
| Surety bonds                                       | 500               | 384               |
| Public education                                   | 4,500             | 4,471             |
| Training expenses                                  | 5,000             | 2,890             |
| Travel expenses                                    | <u>9,500</u>      | <u>8,086</u>      |
| Total operating expenses                           | <u>687,320</u>    | <u>619,562</u>    |
| Operating margin (loss) before depreciation        | (348,507)         | (291,826)         |
| Depreciation expense                               | <u>58,000</u>     | <u>47,318</u>     |
| Operating margin (loss)                            | <u>(406,507)</u>  | <u>(339,144)</u>  |
| Non-operating income (expense):                    |                   |                   |
| Interest income                                    | 1,000             | 2,163             |
| Contribution from primary government               | 212,500           | 212,500           |
| Contributions - municipalities                     | 35,000            | 35,000            |
| State Emergency Board - grants and reimbursements  | 168,441           | 199,350           |
| Miscellaneous income (expense)                     | 2,913             | 9,835             |
| Gain (loss) on disposal of capital assets          | <u>(8,100)</u>    | <u>(8,055)</u>    |
| Total non-operating income (expense)               | <u>411,754</u>    | <u>450,793</u>    |
| Income before capital contributions                | 5,247             | 111,649           |
| Capital grants - State Emergency Board             | <u>207,539</u>    | <u>142,385</u>    |
| Change in net position                             | <u>\$ 212,786</u> | <u>\$ 254,034</u> |

See independent auditor's report.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## SCHEDULE OF OPERATING EXPENSES

For the Fiscal Year Ended June 30, 2013

|  |            |
|--|------------|
| Operating expenses:                                |            |
| Salaries and wages:                                |            |
| Director   | \$ 42,500  |
| Administrative personnel                           | 32,800     |
| Dispatchers  | 242,023    |
| Part-time personnel                                | 28,516     |
| Christmas bonus                                    | 3,000      |
| Longevity pay                                      | 3,450      |
|  | <hr/>      |
| Total salaries and wages                           | 352,289    |
| Employee benefits:                                 |            |
| Social security                                    | 21,905     |
| Medicare   | 5,123      |
| Medical insurance                                  | 42,813     |
| Unemployment compensation                          | 1,915      |
| Life insurance                                     | 224        |
| Retirement contributions                           | 8,132      |
|  | <hr/>      |
| Total employee benefits                            | 80,112     |
| Contracted services:                               |            |
| Accounting   | 300        |
| Advertising  | 375        |
| Addressing/mapping                                 | 64,573     |
| Audit services                                     | 6,840      |
| Contract with private agency                       | 7,261      |
| Data processing services                           | 724        |
| Fees paid to service providers                     | 28,773     |
| Maintenance agreements                             | 33,017     |
| Rental/office equipment                            | 1,044      |
| Maintenance and repairs - communications equipment | 2,684      |
|  | <hr/>      |
| Total contracted services                          | 145,591    |
| Supplies and materials:                            |            |
| Office supplies                                    | 2,354      |
| Postage  | 411        |
| Small equipment purchases                          | 104        |
| Uniforms and shirts                                | 2,250      |
| Utilities  | 857        |
| Utilities - general telephone                      | 8,198      |
| Utilities - cell phones and pagers                 | 1,175      |
|  | <hr/>      |
| Total supplies and materials                       | 15,349     |
| Other charges:                                     |            |
| Bank charges                                       | 30         |
| Dues and memberships                               | 452        |
| Insurance - workers compensation                   | 1,194      |
| Insurance - liability                              | 8,714      |
| Premiums on surety bonds                           | 384        |
| Public education                                   | 4,471      |
| Training expenses                                  | 2,890      |
| Travel expenses                                    | 8,086      |
|  | <hr/>      |
| Total other charges                                | 26,221     |
|  | <hr/>      |
| Total operating expenses                           | \$ 619,562 |

See independent auditor's report.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## SCHEDULE OF TELEPHONE SURCHARGE RATES

June 30, 2013

|             |                 |
|-------------|-----------------|
| Residential | \$1.50/ month   |
| Commercial  | \$3.00/ month   |
| Wireless    | \$1.00/ month * |

\* The State of Tennessee collects this charge from service providers monthly for each wireless customer in the State and retains 75% of the collections. The other 25% is allocated and distributed among various communications districts serving citizens based on population and other service area data. Grainger County ECD receives their allocated share of these charges.

See independent auditor's report.

## GRAINGER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

RUTLEDGE, TENNESSEE

## SCHEDULE OF INSURANCE COVERAGES

June 30, 2013

PACKAGE POLICY:

|   |            |
|---|------------|
| Property/contents                       | \$ 616,210 |
| Tower/antenna                           | 14,233     |
| Repeater/tower                          | 42,699     |
| Repeater/tower/antenna                  | 5,922      |
| Liability:                              |            |
| General aggregate                       | 3,000,000  |
| Products/completed operations aggregate | 3,000,000  |
| Each occurrence                         | 1,000,000  |
| Personal injury and advertising injury  | 1,000,000  |
| Fire damage, any one fire               | 1,000,000  |
| Medical expense, any one person         | 5,000      |

AUTOMOBILE:

|  |           |
|--|-----------|
| CSL hired and non-owned auto liability | 1,000,000 |
|--|-----------|

UMBRELLA:

|   |           |
|---|-----------|
| Each occurrence                         | 1,000,000 |
| Products completed operations aggregate | 2,000,000 |
| General aggregate                       | 2,000,000 |

WORKERS COMPENSATION:

|  |         |
|--|---------|
| Bodily injury by accident, each accident | 100,000 |
| Bodily injury by disease, policy limit   | 500,000 |
| Bodily injury by disease, each employee  | 100,000 |

See independent auditor's report.

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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors  
Grainger County Emergency  
Communications District  
Rutledge, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Grainger County Emergency Communications District (the District), a component unit of Grainger 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 8, 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 of 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee  
November 8, 2013