

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT**

**Dunlap, Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

**Year Ended June 30, 2013**

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

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# Sequatchie County 911

Emergency Communications District

Hope Brown, Director

426 Cedar Street

Dunlap, Tennessee 37327

December 9, 2013

Please accept this statement on behalf of the Sequatchie County ECD as part of the audit for the fiscal year ending June 30, 2013 (FY 2013).

During FY 2013, the ECD Board frugally stewarded its limited fiscal resources and sought to minimize and eliminated its negative net position condition. By aggressive budget actions, the Board has adopted a proposed budget for the current fiscal year, FY 2014, that should continue to produce a positive net position condition.

The ECD desires to prepare for the statewide implementation of "next generation" 911 (NG-911), which is expected to be available at the end of FY 2014. Equipment necessary for NG-911 is funded by the Tennessee Emergency Communications Board (TECB). However, the depreciation impact on the ECD budget is not offset by new revenue; thus, the ECD has not been able to advance completely into NG-911.

The ECD is preparing for a period of overall decline in 911 revenues, as the decline of landline fees continues unabated, while growth of 911 fees from wireless/cellular devices no longer is sufficiently robust to offset the trend. This trend line has been confirmed by the TECB. No legislation is on the horizon that would improve revenues.

The ECD is "battening-down the hatches" for a fiscally stormy period that could extend for several years. Local governments will be required to fund discretionary expenditures in the future, as the ECD must carefully retain existing reserves to offset equipment replacement costs and other mandatory expenditures.

Respectfully submitted on behalf of the 911 Board,

*Hope Brown*

Hope Brown, 911 Director

SEQUATCHIE COUNTY EMERGENCY COMMUNICATIONS DISTRICT

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

**MANAGEMENT:**

Hope Brown

Executive director

**BOARD MEMBERS:**

Dan Ewton

Chairman

Clint Huth

Vice chairman

Mary Ruth Dunleavy

Secretary

Wayne Reynolds

Treasurer

Keith Land

Director

Winford Smith

Director

Randall Lockhart

Director

Joyce Dotson

Director

## MANAGEMENT'S DISCUSSION AND ANALYSIS

My discussion and analysis of Sequatchie County 911 Emergency Communication District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. This should be read in conjunction with the District's financial statements, which begin on page 10.

### USING THIS ANNUAL REPORT

This annual report consists of the following financial statements: the statement of net position, the statement of revenues, expenses and change in net position, and the statement of cash flows. These statements provide information about the activities of the District as a whole and present an overview of the District's finances.

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

One of the main areas of interest for an entity is determining how successful they were at meeting their financial objectives for the year. The District accounts for its financial activities where determination of income (increase in net position) or loss (decrease in net position) is necessary or useful to sound financial administration. The statements are prepared on the accrual basis of accounting which recognizes revenues when earned and expenses when incurred. The statement of net position shows the assets that the District owns and the liabilities (debts) that the District owes.

The information contained in the statement of revenues, expenses, and changes in net position is used as a "report card" to determine if the District has been successful at meeting its financial objectives. Net position and changes in net position are summarized as follows:

	<u>2013</u>	<u>2012</u>
<b>NET POSITION:</b>		
Current and other assets	\$ 97,409	\$ 62,074
Capital assets	<u>353,240</u>	<u>134,304</u>
Total assets	450,649	196,378
Current liabilities	(218,517)	(74,046)
Long-term liabilities	<u>-</u>	<u>(10,132)</u>
Net position	<u>\$ 232,132</u>	<u>\$ 112,200</u>
Summary of net position -		
Invested in capital assets	\$ 143,610	\$ 98,686
Unrestricted net position	<u>88,522</u>	<u>13,514</u>
	<u>\$ 232,132</u>	<u>\$ 112,200</u>

	<u>2013</u>	<u>2012</u>
<b>CHANGES IN NET POSITION:</b>		
Operating revenues	\$ 266,918	\$ 270,196
Operating expenses	<u>396,440</u>	<u>363,033</u>
Operating loss	(129,522)	(92,837)
Nonoperating revenues, net of expenses	<u>249,454</u>	<u>159,140</u>
Changes in net position	119,932	66,303
<b>NET ASSETS:</b>		
Beginning	<u>112,200</u>	<u>45,897</u>
Ending	<u>\$ 232,132</u>	<u>\$ 112,200</u>

### **ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

For the year ended June 30, 2013, the cost of its required operating activities exceeded the revenues generated, and net position increased by approximately \$120,000. Operating revenues remained unchanged and operating expenses increased when compared to the prior year, with expenses increasing by approximately \$33,400. Telephone service charges, shared wireless charges and state operational funding remained relatively stable. Changes in categories of expenses were approximately as follows: Salaries and benefits increased by approximately \$40,000, contracted services increased by approximately \$14,000, supplies and materials increased by \$1,000, depreciation and amortization decreased by \$23,600, and other operating expenses increased by \$1,000.

### **THE DISTRICT'S NET POSITION**

At June 30, 2013, net position consisted of net investment in capital assets totaling \$143,610, and unrestricted net assets of \$88,522.

### **BUDGETARY HIGHLIGHTS**

Actual revenues of \$518,089 were approximately \$83,000 more than the amount budgeted. Actual expenses of \$398,157 were approximately \$36,000 less than the budget of \$434,061. Approximate results of actual expenses compared to the final budget were as follows: salaries and benefits were under budget by \$3,500; contracted services were under budget by \$3,200; supplies and materials were under budget by \$3,800; other charges were under budget by \$5,000; interest expense was under budget by \$100; depreciation and amortization were under budget by \$20,000.

**CAPITAL ASSETS**

At June 30, 2013, the District had \$353,240 invested in capital assets, including building and improvements, telecommunications and office equipment, and furniture and fixtures. The District has capital assets totaling \$712,771, with \$359,531 having been expensed through the provision for depreciation and amortization. The \$353,240 represents an increase of approximately \$219,000 from the prior year which consists mainly of communications equipment purchases totaling \$238,652 and depreciation totaling \$19,716. Detailed information about the District's capital assets is presented in Note 4 to the financial statements.

**LONG-TERM DEBT**

During 2013 the District purchased communications equipment totaling \$44,128 under a capital lease with quarterly payments including interest, payable through April 2014. The unpaid obligation at June 30, 2013, was \$33,165 a decrease of \$2,453 from the prior year. Additional information is presented in Note 7 to the financial statements.

**ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS**

The District is making long-range plans for financial viability. In 2013 the District continued to experience an increase in net position despite minimal change in revenues received from land-line telephones and TCEB shared wireless revenue. Management will continue to monitor the District's expenses and will make necessary changes to prevent the District from incurring future decreases in net position.

In June 2013 the District replaced and upgraded the Telephony system to meet the requirements for Next Gen 911. That cost of \$176,465 will be reimbursed from TECB technology grants. The accounting services of Landsford Tax Prep is assist in preparing the depreciation schedule.

Hope Brown  
Executive Director



## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of**

**Sequatchie County 911 Emergency Communications District:**

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of Sequatchie County 911 Emergency Communications District as of June 30, 2013, and the changes in its net position and its 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 management's discussion and analysis on pages 4 through 6 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 Sequatchie County 911 Emergency Communications District's financial statements. The accompanying information listed in the table of contents as other supplementary information is presented for additional analysis and is not a required part of the financial statements. The schedule of budget to actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of Sequatchie County 911 Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



December 9, 2013

## **FINANCIAL STATEMENTS**

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 75,763
Accounts receivable, telephone service charges	9,084
Prepaid expenses	<u>12,562</u>

Total current assets	<u>97,409</u>
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**CAPITAL ASSETS:**

Land	49,700
Buildings and improvements	120,599
Office equipment	5,116
Communications equipment	<u>537,356</u>

	712,771
Less accumulated depreciation	<u>359,531</u>

Capital assets, net	<u>353,240</u>
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Total assets	<u><u>\$ 450,649</u></u>
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(The accompanying notes are an integral part of these statements.)

## LIABILITIES AND NET POSITION

### **CURRENT LIABILITIES:**

Capital lease obligation	\$ 33,165
Accounts payable - capital assets	176,465
Accrued payroll and payroll withholdings	5,185
Accrued employee leave	<u>3,702</u>

Total current liabilities 218,517

### **NET POSITION:**

Net investment in capital assets	143,610
Unrestricted	<u>88,522</u>

Total net position 232,132

Total liabilities and net position \$ 450,649

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

**REVENUES:**

Emergency telephone service charges	\$ 108,129
Tennessee Emergency Communications Board -	
Shared wireless charge	34,205
Operational funding	124,182
Other	402
	266,918

**EXPENSES:**

Salaries and benefits	292,177
Contracted services	55,521
Supplies and materials	17,998
Other expenses	11,028
Depreciation and amortization	19,716
	396,440

**OPERATING LOSS** (129,522)

**NONOPERATING REVENUES (EXPENSES):**

State grants and reimbursements	121,127
County and City funding	130,000
Interest income	44
Interest expense	(1,717)
	149,454

**CHANGE IN NET POSITION** 119,932

**NET POSITION:**

Beginning	112,200
	119,932
Ending	\$ 232,132

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts for emergency communication services	\$ 142,477
Receipts for operational funding	124,182
Other	402
Payments to/for employees	(291,850)
Payments for goods and services	<u>(85,417)</u>
Net cash used by operating activities	<u>(110,206)</u>

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES:**

Payment of interest	(1,717)
Cash paid for capital assets	(18,058)
Payment of capital lease obligations	<u>(46,582)</u>
Net cash used by capital and related financing activities	<u>(66,357)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Receipts from State grants and reimbursements	121,127
County and City funding	130,000
Payments on line of credit	<u>(40,000)</u>
Net cash provided by noncapital financing activities	<u>211,127</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>44</u>
Net cash provided by investing activities	<u>44</u>

**NET INCREASE IN CASH** 34,608

**CASH:**

Beginning	<u>41,155</u>
Ending	<u><u>\$ 75,763</u></u>

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

**RECONCILIATION OF OPERATING LOSS TO NET****CASH USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (129,522)
Adjustments to reconcile operating loss to net cash used by operating activities -	
Depreciation and amortization	19,716
(Increase) decrease in operating assets:	
Accounts receivable	143
Prepaid expenses	(870)
Increase (decrease) in operating liabilities:	
Accrued payroll and withholdings	<u>327</u>
 Net cash used by operating activities	 <u><u>\$ (110,206)</u></u>

**SCHEDULE OF NONCASH CAPITAL AND FINANCING ACTIVITIES:**

Purchase of capital assets	\$ (238,652)
Accounts payable - capital assets	176,465
Financing thereon	<u>44,129</u>
 Cash paid for capital assets	 <u><u>\$ (18,058)</u></u>

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Organization -**

Sequatchie County 911 Emergency Communications District is a governmental entity organized pursuant to Chapter 867 of the 1984 Tennessee Public Acts ("The Emergency Communications District Law"), which was enacted to establish local emergency telephone service and to provide for the funding of such services.

**Financial Reporting Entity -**

The District is a component unit of Sequatchie County, Tennessee. The Sequatchie County Board of Commissioners appoints the District's Board of Directors, may appropriate funds for the operation and maintenance of the District, and must approve long-term debt issued by the District.

**Basis of Accounting -**

The District is a governmental unit, subject to accounting directives issued by the Governmental Accounting Standards Board (GASB), and anticipates recovering the cost of its services in a manner similar to a private business enterprise. Therefore, the District uses the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. Operating revenues are those that result from the activities of the District, including City and County funding, telephone service charges, revenue from contracted services, and state allocations and operational funding. Revenue from other sources is considered nonoperating.

**Estimates -**

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Accounts Receivable -**

Accounts receivable for telephone service charges and other is reported at the outstanding principal amount. All recorded amounts are considered to be collectible; therefore no allowance for uncollectibles is recorded.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Capital Assets -**

The District capitalizes significant purchases of capital assets, including software, which are recorded at cost. Depreciation is provided over the estimated useful lives of the individual assets by the straight-line method. Depreciation expense for the year ended June 30, 2013, was \$19,716.

**Deferred outflows/inflows of resources -**

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

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

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

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

**(2) BUDGETARY CONTROL:**

The District's Board approves an annual budget based upon anticipated revenues and estimated operating expenses. In accordance with the level of control established by the Tennessee Comptroller of the Treasury, operating expenses may not exceed the amount budgeted in each line item. Budgeted expenses may be amended, as needed, to meet changing needs.

**(3) COMPENSATED ABSENCES:**

The District's employees earn vacation based upon a prescribed formula. The benefits are accrued as employees earn the right to the paid time off, and the liability is included in these financial statements.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(3) COMPENSATED ABSENCES** (Continued):

The employees also earn sick leave based upon a prescribed formula. Sick leave is not payable upon retirement or termination, and no liability is recorded for this benefit.

**(4) CHANGES IN CAPITAL ASSETS:**

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

	<u>Beginning</u>	<u>Additions</u>	<u>Reclasses &amp; Retirements</u>	<u>Ending</u>
<b>Non-depreciable Assets:</b>				
Land	\$ 49,700	\$ -	\$ -	\$ 49,700
<b>Depreciable Assets:</b>				
Buildings and improvements	120,599	-	-	120,599
Office equipment	5,116	-	-	5,116
Communications equipment	<u>298,704</u>	<u>238,652</u>	<u>-</u>	<u>537,356</u>
	<u>474,119</u>	<u>238,652</u>	<u>-</u>	<u>712,771</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	66,257	8,137	-	74,394
Office equipment	5,116	-	-	5,116
Communications equipment	<u>268,442</u>	<u>11,579</u>	<u>-</u>	<u>280,021</u>
	<u>339,815</u>	<u>19,716</u>	<u>-</u>	<u>359,531</u>
<b>Net capital assets</b>	<u>\$ 134,304</u>	<u>\$ 218,936</u>	<u>\$ -</u>	<u>\$ 353,240</u>

**(5) CASH AND INVESTMENTS:**

The District reports its cash and investments in accordance with GASB Statement Number 40, "Deposit and Investment Risk Disclosures", which is designed to improve financial reporting of deposit and investment risks.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(5) CASH AND INVESTMENTS** (Continued):

At June 30, 2013, the District's cash and investments consist of the following -

	<b>Weighted Average Maturity (Years)</b>	<b>Cost Basis</b>
Cash in demand deposit accounts	<u>0.00</u>	<u>\$ 75,763</u>

Interest Rate Risk - As a means of limiting its exposure to losses resulting from rising interest rates, the District's usual policy is to invest in certificates of three years or less. The exposure to interest rate changes is presented using the weighted average maturity method. Its policy is to limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. The District's investments experienced no significant fluctuations in fair value during the year.

Custodial Credit Risk - The District's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal deposit insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by Federal Reserve Banks acting as third party agents. State statutes also authorize the types of investments in which the District may participate. The District limits its investments to certificates of deposit with local banks.

Credit Risk - The District's policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(6) LINE OF CREDIT:**

The District maintains a \$75,000 unsecured line of credit for operating purposes with Mountain Valley Bank. The line of credit has a variable interest rate. Changes in the line of credit are as follows -

<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
\$ 40,000	\$ -	\$ 40,000	\$ -

**(7) CAPITAL LEASE OBLIGATIONS:**

Capital lease obligations are as follows -

Capital lease with Motorola Solutions, Inc. for \$44,128, secured by communications equipment, payable in quarterly installments of \$11,357, including interest at 4.07%, through April, 2014	\$ <u>33,165</u>
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Changes in the capital lease obligation are as follows -

<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
\$ 35,618	\$ 44,129	\$ 46,582	\$ 33,165

**(8) OPERATING LEASES:**

The District leases office equipment from MSA, Inc., for \$97 per month, under an operating lease of 60 months through August, 2015. Lease expense totaled \$1,235 for the 2013 year.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(9) RETIREMENT PLAN:**

**Plan description -**

Employees of Sequatchie County 911 Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Sequatchie County 911 Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

**Funding policy -**

Sequatchie County 911 Emergency Communications District requires employees to contribute 5.0 percent of earnable compensation.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(9) RETIREMENT PLAN** (Continued):

**Funding policy** (continued) -

Sequatchie County 911 Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 5.38% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sequatchie County 911 Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**Annual pension cost** -

For the year ending June 30, 2013, Sequatchie County 911 Emergency Communications District's annual pension cost of \$13,006 to TCRS was equal to its 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. Sequatchie County 911 Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 9 years. An actuarial valuation was performed as of July 1 2011, which established contribution rates effective July 1, 2012.

**Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/2013	\$13,006	100.00%	\$0.00
6/30/2012	\$10,687	100.00%	\$0.00
6/30/2011	\$17,161	100.00%	\$0.00

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(9) RETIREMENT PLAN** (Continued):

**Funded status and funding progress -**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 68.72% funded. The actuarial accrued liability for benefits was \$0.17 million, and the actuarial value of assets was \$0.11 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.23 million, and the ratio of the UAAL to the covered payroll was 22.49%.

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

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liab(AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/2011	\$115	\$167	\$52	68.72%	\$232	22.49%
7/1/2009	\$57	\$112	\$55	50.79%	\$203	27.12%
7/1/2007	\$14	\$ 32	\$18	43.75%	\$162	11.11%

**(10) RISK MANAGEMENT:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is insured, subject to specified limits, for risks of these types of losses, including workers' compensation, general liability, personal property, and errors and omissions. Historically, settled claims have been less than insurance coverage.

**(11) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through December 9, 2013, the date which these financial statements were available for issue.

## **SUPPLEMENTARY INFORMATION**

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>REVENUES:</b>				
Emergency telephone service charges	\$ 108,000	\$ 108,000	\$ 108,129	\$ 129
State Emergency Communications Board -				
Shared wireless charge	33,000	33,000	34,205	1,205
Operational funding	124,080	124,080	124,182	102
Grants and reimbursements	40,356	40,356	121,127	80,771
County and City funding	130,000	130,000	130,000	-
Other income	-	-	402	402
Interest income	-	-	44	44
	<u>435,436</u>	<u>435,436</u>	<u>518,089</u>	<u>82,653</u>
<b>EXPENSES:</b>				
<b>Salaries and Benefits -</b>				
Salaries	228,000	259,700	259,655	45
Payroll taxes	21,000	21,450	21,410	40
Group insurance	18,000	-	-	-
Retirement	15,000	14,550	11,112	3,438
	<u>282,000</u>	<u>295,700</u>	<u>292,177</u>	<u>3,523</u>
<b>Contracted Services -</b>				
Addressing and mapping	-	11,100	11,048	52
Advertising	200	675	663	12
Audit services	4,500	4,800	4,800	-
Accounting services	2,000	3,350	3,322	28
Contracts with				
government agencies	20,400	-	-	-
911 service provider fees	1,600	1,600	1,308	292
Legal services	4,800	4,800	4,800	-
Maintenance agreements	4,600	12,200	12,170	30
Mapping/database consultants	5,400	-	-	-
NCIC/TBI/TIES	5,000	3,350	2,875	475
Pest control	600	600	485	115
Office equipment rental	17,800	1,825	1,235	590
Maintenance and repairs -				
Communications equipment	1,000	7,950	7,914	36
Office equipment	1,000	-	-	-
Facilities	1,000	2,600	2,562	38
Vehicle	1,000	2,350	2,339	11
Fuel - vehicle	1,500	1,500	-	1,500
	<u>72,400</u>	<u>58,700</u>	<u>55,521</u>	<u>3,179</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>Supplies and Materials -</b>				
Office supplies	\$ 2,000	\$ 4,900	\$ 4,893	\$ 7
Custodial supplies	500	1,100	1,026	74
Data processing supplies	500	500	-	500
Postage	300	300	225	75
Uniforms and shirts	2,800	2,800	562	2,238
Utilities	8,100	8,100	7,282	818
Telephone	3,700	4,050	4,010	40
	<u>17,900</u>	<u>21,750</u>	<u>17,998</u>	<u>3,752</u>
<b>Other -</b>				
Dues and memberships	600	600	580	20
Insurance and surety bonds	11,661	8,761	7,124	1,637
Internet charges	700	700	-	700
Legal notices	250	250	144	106
Licenses and fees	50	50	-	50
Training and travel	3,500	3,500	2,729	771
Miscellaneous	5,000	2,250	451	1,799
	<u>21,761</u>	<u>16,111</u>	<u>11,028</u>	<u>5,083</u>
<b>Interest</b>	<u>-</u>	<u>1,800</u>	<u>1,717</u>	<u>83</u>
<b>Depreciation and amortization</b>	<u>40,000</u>	<u>40,000</u>	<u>19,716</u>	<u>20,284</u>
<b>Total expenses</b>	<u>434,061</u>	<u>434,061</u>	<u>398,157</u>	<u>35,904</u>
<b>NET INCOME</b>	<u>\$ 1,375</u>	<u>\$ 1,375</u>	<u>\$ 119,932</u>	<u>\$ 118,557</u>

**INTERNAL CONTROL AND COMPLIANCE SECTION**



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

**To the Board of Directors of**

**Sequatchie County 911 Emergency Communications District:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie 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 December 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified certain deficiencies in internal control, described in the

accompanying schedule of findings and responses as 2010-1a, 2010-1b, and 2013-1 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sequatchie County 911 Emergency Communications District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

### **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and , accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Johnson, Nickey & Meucham, P.C.*

December 9, 2013

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013**

**CURRENT YEAR FINDINGS:**

**2013-1 Controls Over the Payroll Process:**

**Condition:**

Our consideration of the internal control structure for payroll disclosed that the District was paying employees overtime for vacation time utilized.

**Criteria:**

The District's personnel policies and procedures state that vacation time is to be calculated as straight time and employees are not to receive overtime pay as a result of utilizing vacation time.

**Effect:**

Because of this significant deficiency, employees are receiving overtime wages for vacation time that is not eligible for overtime pay.

**Recommendation:**

Management should consider reviewing each payroll to ensure that only hours eligible for overtime pay are being included.

**Management's Response:**

Management concurs with the finding. For the year ended June 30, 2013, it was found that the current Sage payroll system was automatically placing employees used vacation time in the overtime line. The District is in the process of evaluating the entire Sage payroll software that is used to correct the error. Sage is working closely with the District to make necessary changes. The payroll software will be modified to reflect that vacation time will be paid at straight time rates.

**PRIOR YEAR FINDINGS NOT CORRECTED:**

**2010-1a Controls Over the Financial Reporting Process:**

**Condition:**

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to prepare the financial statements and the related footnotes in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2013 year.

**Criteria:**

Standards relating to the internal control structure require an entity to employ someone with the qualifications and skills to prepare the financial statements and related footnotes.

**Effect:**

Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013**

**PRIOR YEAR FINDINGS NOT CORRECTED (Continued):**

**2010-1a Controls Over the Financial Reporting Process (Continued):**

**Recommendation:**

Management should consider employing someone with the qualifications and training to perform the above tasks.

**Management's Response:**

Management considers that the cost of correcting the controls over the preparation of the financial statements would exceed the benefits achieved, and has no plans to employ a professional with these skills and qualifications.

**Auditor Response:**

We consider that we have reported what we view as management's responsibility, as well as recommending a correction for the deficiency.

**2010-1b Controls Over the Financial Reporting Process:**

**Condition:**

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to record the end of year adjustments necessary for preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2013 year.

**Criteria:**

Standards relating to the internal control structure require an entity to provide a complete trial balance, with no significant adjustments required, from which to prepare financial statements.

**Effect:**

Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America.

**Recommendation:**

Management should consider employing someone with the qualifications and skills to perform the above tasks.

**Management's Response:**

Management contracted with an outside accounting firm for recording its transactions and adjustments on a monthly basis.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013**

**PRIOR YEAR FINDINGS CORRECTED:**

**2010-3 Controls Over the Recording of Expenses:**

**Condition:**

For the 2010 year, there were numerous recording errors, for which audit adjustments were proposed and accepted by management. Although there was much improvement noted for the 2012 year, auditing procedures still found evidence of recording errors, for which adjustments were proposed. This finding was corrected in the 2013 year.