

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

**Chattanooga, Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

**Years Ended June 30, 2014 and 2013**

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

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## **INTRODUCTORY INFORMATION**

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
ROSTER OF MANAGEMENT AND BOARD MEMBERS  
JUNE 30, 2014**

**MANAGEMENT:**

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

**BOARD MEMBERS:**

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

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

Our discussion and analysis of Hamilton County “911” Emergency Communications District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2014. This should be read in conjunction with the District’s financial statements.

### **USING THIS ANNUAL REPORT**

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

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

One of the most important questions asked about an entity’s finances is “How did we do this year?” The 2014 statement of net position and statement of revenues, expenses and changes in net position report information in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

District’s revenues were over expenses for the fiscal year ended June 30, 2014, with a net position increase of approximately \$342,000 from the previous year. The District realized an increase of revenue from FY13 to FY14 of approximately \$227,000. Emergency telephone service charge revenue reduced by approximately \$112,000, or 4.2%, which marked the eighth (8) straight year of annually reduced revenue from emergency telephone service charges. Shared wireless charge revenue increased approximately \$41,500, or 5.1%. Wireless operational funding decreased approximately \$106,000, or 5.4%.

**THE DISTRICT'S NET POSITION**

The District completed the year with net position of \$17,071,399, which is approximately \$342,000 more than the prior year ending net assets of \$16,729,052. Unrestricted net assets of approximately \$11 million have been designated by the Board to fund future operations and capital improvements.

Net assets and changes in net assets for the years ended June 30, 2014, 2013 and 2012, are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>NET POSITION:</b>			
Current and other assets	\$12,933,947	\$14,478,274	\$13,506,909
Capital assets	<u>6,405,185</u>	<u>4,184,169</u>	<u>4,424,471</u>
Total assets	19,339,132	18,662,443	17,931,180
Current liabilities	<u>(2,267,733)</u>	<u>(1,933,391)</u>	<u>(1,797,491)</u>
Net position	<u>\$17,071,399</u>	<u>\$16,729,052</u>	<u>\$16,133,689</u>
 Summary of net position -			
Invested in capital assets	\$ 6,405,185	\$ 4,184,169	\$ 4,424,271
Unrestricted	<u>10,666,214</u>	<u>12,544,883</u>	<u>11,709,418</u>
	<u>\$17,071,399</u>	<u>\$16,729,052</u>	<u>\$16,133,689</u>
 <b>CHANGES IN NET POSITION:</b>			
Operating revenues	\$11,885,208	\$11,658,322	\$11,147,296
Operating expenses	<u>11,596,933</u>	<u>11,114,929</u>	<u>10,600,333</u>
Operating income	288,275	543,393	546,963
Nonoperating revenues, net of expenses	<u>54,072</u>	<u>51,970</u>	<u>40,530</u>
Changes in net position	342,347	595,363	587,493
 <b>NET POSITION:</b>			
Beginning	<u>16,729,052</u>	<u>16,133,689</u>	<u>15,546,196</u>
Ending	<u>\$17,071,399</u>	<u>\$16,729,052</u>	<u>\$16,133,689</u>

**BUDGETARY HIGHLIGHTS**

In order to fund unanticipated, changing needs and to prevent budget overruns, the budget for June 30, 2014, was amended between expense line items. The total expense budget remained at \$11,132,036 as originally budgeted, with actual expenses being \$11,104,258.

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

The actual charges to appropriations (expenses) were approximately \$6,300 below the budgeted amount. Salaries and other personnel costs were under the amount budgeted by approximately \$1,100. Other budget variances of approximately \$5,200 are not considered individually significant and, therefore, are not addressed here.

Budgeted revenues, in total, were less than actual revenues by approximately \$144,000, with total operating revenues being over budget by approximately \$126,000 and interest income being over budget by approximately \$18,000.

**CAPITAL ASSETS**

At June 30, 2014, the District had \$15,566,833 invested in capital assets such as telecommunications equipment, office equipment, and building improvements. This amount represents a net increase of \$2,700,000 in requisitions.

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

**ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS**

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

The District plans to replace the CAD (Computer Aided Dispatch) system within the next two years at an approximate cost of \$6 million to meet requirements for Next Generation 911 (NG911).

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Hamilton County "911" Emergency Communications District:

### Report on the Financial Statements

We have audited the accompanying financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the statements of net position, the related statements of revenue, expenses and change in net position and statements of cash flows.

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

### ***Opinion***

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hamilton County "911" Emergency Communications District as of June 30, 2014 and 2013, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hamilton County "911" Emergency Communications District's financial statements. The accompanying information listed in the table of contents as other supplementary information is presented for additional analysis and is not a required part of the financial statements. The schedules of operating expenses and schedule of budget to actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, on our consideration of Hamilton County "911" Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

October 28, 2014

## **FINANCIAL STATEMENTS**

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS:</b>		
Cash	\$ 221,944	\$ 1,599,027
Certificates of deposit and money market accounts	11,954,776	11,931,604
Interest receivable	34,960	5,630
Accounts receivable - telephone service charges	309,933	308,412
Accounts receivable - other	187,579	366,864
Accounts receivable for accumulated leave	224,755	266,737
Capital assets, net of accumulated depreciation and amortization	6,405,185	4,184,169
Total assets	19,339,132	18,662,443
 <b>LIABILITIES:</b>		
Accounts payable	596,552	117,390
Payable to primary government	1,098,557	1,232,333
Accumulated leave	572,624	583,668
Total liabilities	2,267,733	1,933,391
 <b>NET POSITION:</b>		
Invested in capital assets	6,405,185	4,184,169
Unrestricted	10,666,214	12,544,883
Total net position	\$ 17,071,399	\$ 16,729,052

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUES:</b>		
Emergency telephone service charges	\$ 2,562,568	\$ 2,674,692
State Emergency Communications Board - Shared wireless charge	857,015	815,531
Operational funding	1,860,595	1,966,238
Funding from local governments	6,604,999	6,201,698
Other income	31	163
Total operating revenues	11,885,208	11,658,322
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	9,301,105	8,718,594
Contracted services	1,011,670	965,543
Supplies and materials	552,706	676,542
Other	238,777	233,149
Depreciation and amortization	492,675	521,101
Total operating expenses	11,596,933	11,114,929
<b>OPERATING INCOME</b>	288,275	543,393
<b>NONOPERATING REVENUES:</b>		
Interest income	54,072	51,970
<b>CHANGE IN NET POSITION</b>	342,347	595,363
<b>NET POSITION:</b>		
Beginning	16,729,052	16,133,689
Ending	\$ 17,071,399	\$ 16,729,052

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from telephone companies	\$ 2,561,047	\$ 2,643,303
Receipts from State for shared wireless revenues and operational funding	2,717,610	2,781,769
Receipts from other local governments	6,826,266	5,897,599
Receipts from others	31	163
Payments to suppliers and others	(1,323,991)	(1,802,962)
Payments for employees	(9,445,925)	(8,654,966)
	<u>1,335,038</u>	<u>864,906</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(2,713,691)	(280,999)
	<u>(2,713,691)</u>	<u>(280,999)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	24,742	46,340
	<u>24,742</u>	<u>46,340</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(1,353,911)	630,247
 <b>CASH AND CASH EQUIVALENTS:</b>		
Beginning	13,530,631	12,900,384
Ending	<u>\$ 12,176,720</u>	<u>\$ 13,530,631</u>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>		
Cash	\$ 221,944	\$ 1,599,027
Certificates and money market accounts	11,954,776	11,931,604
	<u>\$ 12,176,720</u>	<u>\$ 13,530,631</u>

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

	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 288,275	\$ 543,393
Adjustments to reconcile income from operations to net cash provided by operating activities -		
Depreciation and amortization	492,675	521,101
Net (increase) decrease in operating assets:		
Accounts receivable	219,746	(335,488)
Net increase (decrease) in operating liabilities:		
Accounts payable and payable to primary government	345,386	147,849
Accumulated leave and related benefits	<u>(11,044)</u>	<u>(11,949)</u>
Net cash provided by operating activities	<u>\$ 1,335,038</u>	<u>\$ 864,906</u>

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Organization -**

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

**Financial reporting entity -**

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

**Basis of accounting -**

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

**Estimates -**

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Accounts receivable -**

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

**Capital assets -**

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

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

Depreciation and amortization expense was \$431,587 and \$61,088, respectively, for the year ended June 30, 2014; and \$458,545 and \$62,556, respectively, for the year ended June 30, 2013.

The amount budgeted for acquisitions for the years ended June 30, 2014 and 2013, was \$3,255,000 and \$2,162,000, respectively. Actual acquisitions for the same years were \$2,713,691 and \$280,999, respectively.

**Cash and cash equivalents -**

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

**Deferred outflows/inflows of resources -**

During 2013, the District adopted the provisions of GASB Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Under this statement, GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Deferred outflows/inflows of resources (continued)-**

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

As of June 30, 2014 and 2013, the District did not have any deferred outflows of resources or any deferred inflows of resources. This statement had no significant impact on the District.

**(2) BUDGETARY CONTROL:**

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

**(3) CASH AND INVESTMENTS:**

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

At June 30, 2014, the District reports cash equivalents as follows -

	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>
Deposits with State of Tennessee		
Local Government Investment Pool	0.00	\$ 193,207
Certificates of deposit	0.37	11,761,569
Total	0.36	\$11,954,776

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

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

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

Credit Risk - The District's policies are designed to maximize its earnings, while protecting the security and providing maximum liquidity, in accordance with all applicable state laws. The State of Tennessee Local Government Investment Pool is a 2a7-like pool, which is not rated.

At June 30, 2014, certificates of deposit funds consist of the following -

<u>Financial Institution</u>	<u>Type of Instrument</u>	<u>Interest</u>	<u>Maturity Date</u>	<u>Amount</u>
First Tennessee Bank	Certificate	0.44%	June 13, 2015	\$ 1,019,064
First Tennessee Bank	Certificate	0.48%	Sept 30, 2014	9,737,950
First Tennessee Bank	Certificate	0.40%	May 24, 2015	<u>1,004,555</u>
				<u>\$11,761,569</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(4) BOARD DESIGNATED RESERVES:**

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

An operational reserve has been established to provide funds for capital expansion and for operational expenses, in the event that the District needs reserved funds to enable it to meet its continuing operational needs. At June 30, 2014, the reserve consists certificates of deposit in the amount of \$10,716,252.

A risk management reserve has been established to provide for a liability plan with limited coverage for torts and other liabilities, and error and omissions of board members, employees and authorized volunteers. The reserve is intended to fund risk management claims and, at June 30, 2014, consists of investments with the State of Tennessee Local Government Investment Pool and certificates of deposit in the amounts of \$193,207 and \$1,045,317.

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

Changes in capital assets for the year ended June 30, 2014, are as follows -

	<u>Beginning</u>	<u>Additions</u>	<u>Reclasses &amp; Retirements</u>	<u>Ending</u>
<b>Capital assets:</b>				
Leasehold				
improvements	\$ 5,155,719	\$ 178,446	\$ -	\$ 5,334,165
Furniture and				
fixtures	220,201	-	-	220,201
Office equipment	134,167	-	-	134,167
Communications equip-				
ment and software	7,182,702	2,010,267	100,042	9,293,011
Vehicles	60,311	49,423	-	109,734
Projects in process	100,042	475,555	(100,042)	475,555
	<u>12,853,142</u>	<u>2,713,691</u>	<u>-</u>	<u>15,566,833</u>
<b>Less accumulated depreciation and amortization:</b>				
Leasehold				
improvements	2,197,031	191,391	-	2,388,422
Furniture and				
fixtures	189,326	11,235	-	200,561
Office equipment	103,098	10,849	-	113,947
Communications equip-				
ment and software	6,139,803	264,913	-	6,404,716
Vehicles	39,715	14,287	-	54,002
	<u>8,668,973</u>	<u>492,675</u>	<u>-</u>	<u>9,161,648</u>
	<u>\$ 4,184,169</u>	<u>\$ 2,221,016</u>	<u>\$ -</u>	<u>\$ 6,405,185</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(6) LEASED PREMISES:**

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

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

**(7) COMPENSATED ABSENCES:**

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

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(7) COMPENSATED ABSENCES (Continued):**

The receivable from the City is payable annually at \$27,143, through June, 2019, with a current balance of \$135,713. The receivable from the County is payable annually at \$14,840, through June, 2020, with a current balance of \$89,042.

**(8) TRANSACTIONS WITH OTHER GOVERNMENTS:**

The District incurs costs relative to personnel, utilities, and other, some of which are reimbursed by the City of Chattanooga, and credited to the appropriate expense accounts. As of and for the years ended June 30, 2014 and 2013, these transactions and balances were as follows -

	<b>2014</b>	<b>2013</b>
Reimbursements:		
City of Chattanooga	\$ 54,469	\$ 230,697
Accounts receivable:		
City of Chattanooga	\$ 187,325	\$ 317,430

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

As of and for the years ended June 30, 2014 and 2013, the funding and amounts receivable from these entities were as follows -

	<b>2014</b>	<b>2013</b>
Funding:		
Hamilton County	\$1,814,858	\$1,741,942
City of Chattanooga	4,074,225	3,809,159
City of East Ridge	369,402	352,461
City of Red Bank	156,855	156,024
City of Collegedale	97,772	63,107
City of Signal Mountain	91,887	79,005
	<b>\$6,604,999</b>	<b>\$6,201,698</b>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(9) RISK MANAGEMENT:**

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

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

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

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

**(10) RETIREMENT PLAN:**

**Plan description -**

Employees of Hamilton County "911" Emergency Communications District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(10) RETIREMENT PLAN** (Continued):

vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamilton County "911" Emergency Communications District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15<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 -**

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

Hamilton County "911" Emergency Communications District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 7.72% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County "911" Emergency Communications District is established and may be amended by the TCRS Board of Trustees.

**Annual pension cost -**

For the year ending June 30, 2014, Hamilton County "911" Emergency Communications District's annual pension cost of \$429,796 to TCRS was equal to Hamilton County "911" Emergency Communications District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0% rate of inflation,

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(10) RETIREMENT PLAN** (Continued):

(c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamilton County "911" Emergency Communications District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 1 year. An actuarial valuation was performed as of July 1 2011, which established contribution rates effective July 1, 2012.

**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>
6/30/2014	\$ 429,796	100.00%	\$0.00
6/30/2013	\$ 405,474	100.00%	\$0.00
6/30/2012	\$ 547,092	100.00%	\$0.00

**Funded status and funding progress -**

As of July 1, 2013, the most recent actuarial valuation date, the plan was 100% funded. The actuarial accrued liability for benefits was \$4.23 million, and the actuarial value of assets was \$4.23 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.00 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.33 million, and the ratio of the UAAL to the covered payroll was 0.00%.

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

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**(10) RETIREMENT PLAN** (Continued):

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liab(AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAAL) (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>
7/1/2013	\$4,233	\$4,233	\$ 0	100.00%	\$5,331	0.00%
7/1/2011	\$2,894	\$2,909	\$14	99.50%	\$4,930	0.29%
7/1/2009	\$694	\$ 710	\$17	97.67%	\$1,880	0.88%

**(11) LITIGATION:**

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

**(12) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through October 28, 2014, the date which these financial statements were available for issue.

## **SUPPLEMENTARY INFORMATION**

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Salaries and Benefits -</b>		
Salaries - director	\$ 99,136	\$ 95,737
Salaries - administrative	188,830	182,078
Salaries - technology	349,225	313,509
Salaries - telecommunications	5,880,839	5,659,619
Salaries - communications training officers	34,002	49,807
Compensated absences	13,736	40,609
Social security taxes	390,021	376,050
Medicare taxes	91,214	87,947
Group insurance	1,687,828	1,358,966
Retirement benefits	566,274	554,272
	9,301,105	8,718,594
 <b>Contracted Services -</b>		
Auditing services	8,500	8,500
Administrative fees - service charges	74,351	76,480
Contracts with government agencies	40,000	40,000
Data processing services	1,863	2,048
Janitorial services	48,843	47,115
Legal services	75,821	25,956
Maintenance agreements	523,739	566,793
Mapping/database consulting	107,851	62,312
Other consulting	14,086	23,820
Pest control	410	410
Office equipment rental	17,196	19,245
Communications equipment repairs	104	2,357
Building maintenance and repairs	75,155	75,919
Office equipment repair	385	-
Vehicle maintenance and repairs	1,390	730
Fuel - vehicles	5,691	2,351
Grounds maintenance	5,354	-
Interpretation services	8,886	8,814
Technology support	2,045	2,693
	1,011,670	965,543

	<u>2014</u>	<u>2013</u>
<b>Supplies and Materials -</b>		
Office supplies	\$ 7,290	\$ 6,908
Custodial supplies	9,445	9,639
Communications supplies	1,888	1,451
Postage	1,128	953
Small equipment purchases	24,127	26,969
Uniforms	15,201	16,880
Utilities - electric	75,520	81,722
Utilities - gas	8,906	7,222
Utilities - water	4,841	4,939
Telephone - communications	60,180	488,678
Telephone - administration	328,450	15,463
Telephone - cell phones and pagers	15,730	15,718
	<u>552,706</u>	<u>676,542</u>
<b>Other -</b>		
Board meeting expenses	798	1,235
Dues and memberships	9,634	15,161
Employee testing and exams	14,096	16,186
Insurance - workers compensation	48,064	50,651
Insurance - liability	42,744	42,368
Insurance - buildings and contents	2,832	2,369
Insurance - equipment	4,550	4,079
Insurance - vehicles	3,192	1,971
Premiums on surety bonds	6,265	5,518
Legal notices	4,970	3,982
Licenses and taxes	1,709	7,367
Public education	4,342	4,023
Service awards and incentives	11,563	7,199
Training	19,120	17,850
Seminars and workshops	12,505	7,869
Travel	42,767	34,967
Internet charges	4,865	4,483
Miscellaneous	4,761	5,871
	<u>238,777</u>	<u>233,149</u>
<b>Depreciation and amortization</b>	<u>492,675</u>	<u>521,101</u>
	<u>\$ 11,596,933</u>	<u>\$ 11,114,929</u>

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF BUDGET TO ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014**

	<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	\$ 2,712,000	\$ 2,712,000	\$ 2,562,568	\$ (149,432)
Communications Board - Shared wireless charge	811,000	811,000	857,015	46,015
Operational funding	1,630,919	1,630,919	1,860,595	229,676
Funding from local governments	6,604,999	6,604,999	6,604,999	-
Interest income	36,000	36,000	54,072	18,072
Other income	75	75	31	(44)
<b>Total revenues</b>	<u>11,794,993</u>	<u>11,794,993</u>	<u>11,939,280</u>	<u>144,287</u>
<b>EXPENSES:</b>				
<b>Salaries and Benefits -</b>				
Salaries - director	99,150	99,150	99,136	14
Salaries - administrative	188,500	188,840	188,830	10
Salaries - technology	340,398	349,240	349,225	15
Salaries - telecommunications	5,800,724	5,880,950	5,880,839	111
Salaries - communications training officers	47,895	34,032	34,002	30
Compensated absences	50,000	13,766	13,736	30
Social security taxes	401,553	390,388	390,021	367
Medicare taxes	93,911	91,477	91,214	263
Group insurance	1,552,455	1,687,869	1,687,828	41
Retirement benefits	566,225	566,463	566,274	189
	<u>9,140,811</u>	<u>9,302,175</u>	<u>9,301,105</u>	<u>1,070</u>
<b>Contracted Services -</b>				
Auditing services	8,500	8,500	8,500	-
Accounting services	2,000	-	-	-
Administrative service charges	85,000	74,463	74,351	112
Contracts with govt agencies	40,000	40,000	40,000	-
Data processing services	2,000	2,000	1,863	137
Janitorial services	50,000	49,000	48,843	157
Legal services	26,736	26,736	26,724	12
Legal services - other	10,000	49,150	49,097	53
Maintenance agreements	626,546	524,000	523,739	261
Mapping/database consulting	65,000	108,195	107,851	344
Other consulting	11,000	14,135	14,086	49
Pest control	500	500	410	90
Communications equipment rental	250	-	-	-
Office equipment rental	19,400	17,270	17,196	74
Communications equipment repairs	500	200	104	96
Building maintenance and repairs	45,000	75,170	75,155	15
Office equipment repair	2,000	500	385	115
Vehicle maintenance and repairs	2,250	1,430	1,390	40
Fuel - vehicles	7,500	5,859	5,691	168
Grounds maintenance	10,000	5,400	5,354	46
Interpretation services	12,000	8,900	8,886	14
Technology support	3,000	2,200	2,045	155
	<u>1,029,182</u>	<u>1,013,608</u>	<u>1,011,670</u>	<u>1,938</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	\$ 9,350	\$ 7,550	\$ 7,290	\$ 260
Custodial supplies	8,700	9,460	9,445	15
Communications supplies	1,600	1,939	1,888	51
Postage	1,000	1,138	1,128	10
Small equipment purchases	19,250	24,530	24,127	403
Uniforms	32,000	15,230	15,201	29
Utilities - electric	100,000	75,600	75,520	80
Utilities - gas	10,000	9,000	8,906	94
Utilities - water	6,900	4,900	4,841	59
Telephone - communications	61,000	60,300	60,180	120
Telephone - administration	365,000	328,550	328,450	100
Telephone - cell phones and pagers	17,615	16,240	15,730	510
	<u>632,415</u>	<u>554,437</u>	<u>552,706</u>	<u>1,731</u>
<b>Other -</b>				
Board meeting expenses	900	810	798	12
Dues and memberships	11,965	9,740	9,634	106
Employee testing and exams	16,180	14,350	14,096	254
Insurance - workers compensation	51,340	48,122	48,064	58
Insurance - liability	50,000	46,200	45,936	264
Insurance - buildings and contents	2,400	2,842	2,832	10
Insurance - equipment	4,100	4,560	4,550	10
Premiums on surety bonds	5,500	6,275	6,265	10
Legal notices	4,000	4,980	4,970	10
Licenses and taxes	9,445	1,760	1,709	51
Public education	20,000	4,400	4,342	58
Service awards and incentives	10,000	11,620	11,563	57
Training	20,000	19,185	19,120	65
Seminars and workshops	13,130	12,610	12,505	105
Travel	46,668	43,002	42,767	235
Internet charges	6,000	4,900	4,865	35
Miscellaneous	8,000	4,950	4,761	189
	<u>279,628</u>	<u>240,306</u>	<u>238,777</u>	<u>1,529</u>
<b>Contingency</b>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenses</b>	<u>11,132,036</u>	<u>11,110,526</u>	<u>11,104,258</u>	<u>6,268</u>
	<u>\$ 662,957</u>	<u>\$ 684,467</u>	<u>\$ 835,022</u>	<u>\$ 150,555</u>
<b>Total Actual Budgeted Expenses -</b>			\$ 11,104,258	
Deprecation and amortization			<u>492,675</u>	
Total GAAP basis expenses			<u>\$ 11,596,933</u>	

**INTERNAL CONTROL AND COMPLIANCE SECTION**



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

**To the Board of Directors of**

**Hamilton County "911" Emergency Communications District:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hamilton County "911" Emergency Communications District, a component unit of Hamilton County, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Hamilton County "911" Emergency Communications District's basic financial statements, and have issued our report thereon dated October 28, 2014.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hamilton County “911” Emergency Communications District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

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

October 28, 2014

**HAMILTON COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014 AND 2013**

**CURRENT YEAR FINDING:**

None

**PRIOR YEAR FINDINGS:**

None