

Financial Statements

SEVIER COUNTY EMERGENCY
COMMUNICATIONS DISTRICT

Years Ended June 30, 2014 and 2013

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Sevier County Emergency Communications District
Sevierville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Sevier County Emergency Communications District, a component unit of Sevier County, Tennessee, which comprise the statements of net position as of June 30, 2014 and 2013 and the related statements of revenue, expenses and change in net position and statements of cash flows for the years 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 the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits 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 risks 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 financial position of Sevier County Emergency Communications District as of June 30, 2014 and 2013 and the changes in its financial position and its cash flows 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 to 6 and the schedule of funding progress – political subdivision pension plan supplementary information on page 21 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other information we obtained during our audits of the 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 Sevier County Emergency Communications District's financial statements. The statement of revenue and expenses – actual and budget as well as the schedule of the board of directors are presented for purposes of additional analysis and are not a required part of the financial statements.

The statement of revenue and expenses – actual and budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 or to 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 statement of revenue and expenses – actual and budget is fairly stated in all material respects in relation to the financial statements as a whole.

The schedule of the board of directors has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2015 on our consideration of Sevier County Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Sevier County Emergency Communications District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

January 21, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sevier County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the District's financial statements, as listed in the table of contents.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent accountants' audit report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities. The statement of net position includes all of the District's assets and liabilities and provides information about where the District has invested its resources (assets) and the obligations to the District's creditors (liabilities).

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses and change in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through surcharges and fees.

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

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The statement of net position and the statement of revenue, expenses and change in net position report information about the District's activities in a way that will help answer this question. The two statements report the net position of the District and the changes in it. One can think of the District's net position, the difference between assets and liabilities, as one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. A summary of the District's net position and change in it is presented below:

DAVID RAUHUFF
911 Coordinator

SUMMARIZED FINANCIAL INFORMATION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
NET POSITION			
Current assets	\$ 1,905,077	\$ 2,156,312	\$ 1,805,846
Capital assets, net of accumulated depreciation	<u>1,354,834</u>	<u>1,124,149</u>	<u>1,195,904</u>
TOTAL ASSETS	<u>\$ 3,259,911</u>	<u>\$ 3,280,461</u>	<u>\$ 3,001,750</u>
Liabilities	\$ 8,974	\$ 233,864	\$ 15,536
Net position:			
Investment in capital assets	1,354,834	1,124,149	1,195,904
Unrestricted	<u>1,896,103</u>	<u>1,922,448</u>	<u>1,790,310</u>
	<u>3,250,937</u>	<u>3,046,597</u>	<u>2,986,214</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,259,911</u>	<u>\$ 3,280,461</u>	<u>\$ 3,001,750</u>
CHANGE IN NET POSITION			
Operating revenue	\$ 992,168	\$ 983,959	\$ 1,011,292
Operating expenses	<u>1,069,336</u>	<u>1,172,204</u>	<u>889,342</u>
(LOSS)INCOME FROM OPERATIONS	(77,168)	(188,244)	121,950
Net nonoperating revenue	<u>281,508</u>	<u>248,627</u>	<u>142,348</u>
CHANGE IN NET POSITION	204,340	60,383	264,298
NET POSITION AT THE BEGINNING OF THE YEAR	<u>3,046,597</u>	<u>2,986,214</u>	<u>2,721,923</u>
NET POSITION AT THE END OF THE YEAR	<u>\$ 3,250,937</u>	<u>\$ 3,046,597</u>	<u>\$ 2,986,214</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

At June 30, 2014 the District's ending net position was \$3,250,937, which is \$204,340 more than the prior year's ending net position, an increase of 7% compared to the prior year. At June 30, 2013 the District's ending net position was \$3,046,597, an increase of \$60,383 or 2%. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$26,345 or 1% during the year ended June 30, 2014 and increased by \$132,138 or 7% during the year ended June 30, 2013. The decrease in unrestricted net position, as compared to the prior year, was due primarily to the large increase in communications equipment. The increase in unrestricted net position during the year ended June 30, 2013 can be attributed to a large amount of noncapital contributions. The larger increase in total net position as compared to the prior year was the result of a larger amount of contributions from the TECB and a reduced amount of operating expenses as compared to the prior year. The smaller increase in total net position during the year ended June 30, 2013 is the result of a large increase in operating expense.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Emergency telephone service charges	\$ 279,662	\$ 399,275	\$ 446,821
TECB-shared wireless charge	230,424	220,936	209,236
TECB-operational funding program	482,085	362,547	354,917

BUDGETARY HIGHLIGHTS

The District adopts an annual operating budget, which includes proposed expenses and the means for paying those expenses. As conditions change during the year, the budget may be amended to prevent budget overruns.

Revenue from residential phone lines decreased as compared to the year ended June 30, 2013 and was \$167,338 less than budgeted revenue. State shared wireless revenue decreased as compared to the year ended June 30, 2013 and was \$28,223 less than the budgeted revenue. Operating income increased as compared to the June 30, 2013 but was still \$23,962 less than the budgeted income. Actual expenses were \$52,794 less than the budgeted amount.

CAPITAL ASSETS

At June 30, 2014 the District had \$1,354,834 invested in capital assets, net of accumulated depreciation, an increase of \$230,685 or 21% over the prior year (an decrease of \$71,755 during the year ended June 30, 2013). This change during the year ended June 30, 2014 was a result of an increase in communications equipment of \$456,637 and depreciation expense of \$229,984. The change during the year ended June 30, 2013 was a result of an increase in communications equipment of \$138,221 and depreciation expense of \$209,976. Additional information on capital assets can be found in Note D.

ECONOMIC FACTORS AND FUTURE NEEDS

The main economic factor facing the District is the potential continued decrease in revenue generated from landline telephones. Many residents now use cell phones for their residential lines. While the increase in cell phone use is generating revenue, only a portion of that revenue is being returned to each 911 district under the current system being used by the State of Tennessee for distributing shared wireless fees. The uncertainty of landline use and income from shared wireless fees has been a problem in estimating revenue for budget preparation. However, in recent years, increased funding from the Tennessee Emergency Communications Board in the form of operational funding, grants and reimbursements have more than offset the decrease in emergency telephone service charges.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any question or need additional information, please contact David Rauhuff, Director of the Sevier County Emergency Communications District, 245 Bruce Street, Sevierville, TN 37862.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 518,547	\$ 406,087
Certificates of deposit	1,255,507	1,650,162
Accounts receivable	26,140	31,520
Due from TECB	38,965	37,682
Prepaid expenses	<u>65,918</u>	<u>30,860</u>
TOTAL CURRENT ASSETS	1,905,077	2,156,312
CAPITAL ASSETS		
Construction in progress	420,088	2,955
Building and improvements	699,961	697,861
Furniture and fixtures	89,479	80,648
Equipment	1,947,540	1,918,967
Vehicles	<u>49,438</u>	<u>49,438</u>
	3,206,506	2,749,869
Accumulated depreciation	<u>(1,851,672)</u>	<u>(1,625,720)</u>
	<u>1,354,834</u>	<u>1,124,149</u>
TOTAL ASSETS	<u>\$ 3,259,911</u>	<u>\$ 3,280,461</u>

See the accompanying notes to the financial statements.

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 3,896	\$ 225,920
Compensated absences payable	<u>5,078</u>	<u>7,944</u>
TOTAL CURRENT LIABILITIES	8,974	233,864
NET POSITION		
Investment in capital assets	1,354,834	1,124,149
Unrestricted	<u>1,896,103</u>	<u>1,922,448</u>
	<u>3,250,937</u>	<u>3,046,597</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,259,911</u>	<u>\$ 3,280,461</u>

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE		
Emergency telephone service charges	\$ 279,662	\$ 399,275
TECB - shared wireless charge	230,242	220,936
TECB - operational funding	482,085	362,547
Other operating revenue	<u>180</u>	<u>1,202</u>
TOTAL OPERATING REVENUE	992,168	983,959
OPERATING EXPENSES		
Salaries and wages:		
Director	62,685	66,689
Administrative personnel	<u>97,489</u>	<u>153,379</u>
	160,173	220,067
Employee benefits:		
Payroll taxes	11,958	16,357
Medical insurance	45,575	36,645
Retirement	<u>21,495</u>	<u>29,362</u>
	79,028	82,364
Contracted services:		
Addressing/mapping	6,361	6,361
Advertising	966	721
Auditing services	7,700	7,468
Contracts with government agencies	200,000	200,000
Fees paid to service providers	72,915	80,021
Maintenance agreements	170,471	154,704
Janitorial services	8,600	8,947
Mapping/Data base consultants	18,953	19,814
Maintenance and repairs - communications equipment	8,325	187
Maintenance and repairs - buildings and facilities	6,322	55,191
Maintenance and repairs - office equipment	350	460
Maintenance and repairs - vehicles	0	600
Fuel - vehicles	<u>819</u>	<u>1,855</u>
	501,781	536,329

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

(continued)

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Supplies and materials:		
Office supplies	2,862	3,852
Custodial supplies	0	448
Postage	62	336
Small equipment purchases	283	0
Utilities - electric	21,299	21,577
Utilities - water and sewer	494	575
Utilities - general telephone	45,184	34,773
Utilities - cell phone	924	1,369
	<u>71,109</u>	<u>62,930</u>
Other charges:		
Board meeting expenses	2,552	2,394
Dues and memberships	923	1,081
Internet service	1,645	1,300
Insurance	20,190	20,410
Licenses and fees	0	3,970
Premiums on surety bonds	934	3,475
Public education	5,049	13,120
Training	0	14,787
	<u>31,294</u>	<u>60,537</u>
Depreciation	<u>225,952</u>	<u>209,976</u>
TOTAL OPERATING EXPENSES	<u>1,069,336</u>	<u>1,172,204</u>
(LOSS) FROM OPERATIONS	(77,168)	(188,244)

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

(continued)

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
NONOPERATING REVENUE		
Interest income	8,221	14,966
Insurance proceeds	<u>2,840</u>	<u>0</u>
	11,061	14,966
CAPITAL CONTRIBUTIONS		
Capital contributions from TECB	<u>270,447</u>	<u>233,661</u>
CHANGE IN NET POSITION	204,340	60,383
NET POSITION AT THE BEGINNING OF THE YEAR	<u>3,046,597</u>	<u>2,986,214</u>
NET POSITION AT THE END OF THE YEAR	<u>\$ 3,250,937</u>	<u>\$ 3,046,597</u>

See the accompanying notes to the financial statements.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH PROVIDED(USED) BY OPERATING ACTIVITIES		
Cash received from telephone charges	\$ 1,005,079	\$ 1,006,253
Cash paid to suppliers	(949,106)	(539,958)
Cash paid to employees	<u>(163,038)</u>	<u>(220,125)</u>
NET CASH (USED)PROVIDED BY OPERATING ACTIVITIES	(107,066)	246,170
CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(456,637)	(138,220)
Capital contributions from TECB	270,447	233,661
Insurance proceeds	<u>2,840</u>	<u>0</u>
NET CASH (USED)PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(183,350)	95,441
CASH PROVIDED(USED) BY INVESTING ACTIVITIES		
Decrease(increase) in investments	394,655	(13,403)
Purchase of investments	0	(200,000)
Interest received	<u>8,221</u>	<u>14,966</u>
NET CASH PROVIDED(USED) BY INVESTING ACTIVITIES	<u>402,876</u>	<u>(198,437)</u>
NET INCREASE IN CASH	112,460	143,174
CASH AT THE BEGINNING OF THE YEAR	<u>406,087</u>	<u>262,914</u>
CASH AT THE END OF THE YEAR	<u>\$ 518,547</u>	<u>\$ 406,087</u>

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENTS OF CASH FLOWS

(continued)

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF (LOSS) FROM OPERATIONS TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES		
(Loss) from operations	\$ (77,168)	\$ (188,244)
Adjustments to reconcile (loss) from operations to net cash (used)provided by operating activities:		
Depreciation	225,952	209,976
(Increase)decrease in:		
Accounts receivable	5,380	12,889
Due from TECB	(1,283)	(3,060)
Prepaid expenses	(35,057)	(3,719)
Increase(decrease) in:		
Accounts payable	(222,024)	220,533
Accrued expenses	0	(2,147)
Compensated absences payable	(2,865)	(58)
	<u>(29,898)</u>	<u>434,414</u>
NET CASH (USED)PROVIDED BY OPERATING ACTIVITIES	<u>\$ (107,066)</u>	<u>\$ 246,170</u>

See the accompanying notes to the financial statements.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE A - DESCRIPTION OF ORGANIZATION

Sevier County Emergency Communications District (the District) was established in February 1987, pursuant to the provisions of Chapter 867 of the Public Acts of 1984 of the State of Tennessee. The District is responsible for furnishing local emergency telephone service and a primary emergency telephone number for the residents of Sevier County, Tennessee. The District is governed by a nine-member Board of Directors appointed by the Mayor and County Commissioners of Sevier County, Tennessee. The Board of Directors has the authority to levy an emergency telephone service charge to be used to fund the operations of the District.

The District is considered a component unit of Sevier County, Tennessee because the Sevier County mayor appoints, and the Sevier County commissioners affirm, the District's Board of Directors and must approve most debt issued by the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position groups:

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

Investment in capital assets: This category includes capital assets, net of accumulated depreciation. Investment in capital assets at June 30, 2014 and 2013 has been calculated as follows:

	<u>2014</u>	<u>2013</u>
Capital assets	\$ 3,206,506	\$ 2,749,869
Accumulated depreciation	<u>(1,851,672)</u>	<u>(1,625,720)</u>
	<u>\$ 1,354,834</u>	<u>\$ 1,124,149</u>

Restricted: This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. The District had no restricted net position as of June 30, 2014 and 2013.

Unrestricted: This category includes net position that is not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “investment in capital assets”. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Accounts Receivable

Accounts receivable that are deemed uncollectible based upon a periodic review of the accounts are charged to revenue. At June 30, 2014 and 2013, no allowances for uncollectible accounts were considered necessary.

Capital Assets

Capital assets, which includes property and equipment, are recorded at cost and defined by the District as assets with an initial, individual cost of \$100 or more. Depreciation is computed using the straight-line method over the estimated useful lives, which range from three to forty years.

Operating Budget

The District is required by state law to adopt an annual operating budget. The Board of Directors approves the original budget and any amendments, and maintains the legal level of control at the line item level. The budget is prepared on the accrual basis of accounting. All appropriations lapse at the end of the year.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

Compensated Absences

The District's employees are granted vacation leave in varying amounts based on years of employment and eight hours of sick leave monthly. Vacation leave may be accumulated up to 120 hours. There is no restriction on the amount of sick leave that may be accumulated. Employees may receive payment for unused vacation leave, up to the 120 hour maximum, upon termination or resignation. Accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees. The District's policies do not provide for an employee to be paid for any unused sick leave in the event of termination. Accordingly, no liability is recorded for accumulated sick leave.

Use of Restricted/Unrestricted Net Position

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

Emergency Telephone Service Charges

The District records emergency telephone service charge revenue collected from telephone service providers net of vendor compensation. Vendor compensation was \$8,815 for the year ended June 30, 2014 and \$12,465 for the year ended June 30, 2013.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2013 to conform to the presentation used in the financial statements for the year ended June 30, 2014.

NOTE C - CASH

Cash represents money on deposit in various banks. The District considers all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

State of Tennessee law authorizes the District to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All of the District's cash and cash equivalent balances at June 30, 2014 and 2013 were entirely insured through the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>7/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/14</u>
<u>Capital assets not being depreciated</u>				
Construction in progress	\$ 2,955	\$ 417,133	\$ 0	\$ 420,088
<u>Capital assets being depreciated</u>				
Equipment	1,918,967	28,573	0	1,947,540
Furniture and fixtures	80,648	8,831	0	89,479
Buildings and improvements	697,861	2,100	0	697,861
Vehicles	<u>49,438</u>	<u>0</u>	<u>0</u>	<u>49,438</u>
	2,746,914	39,504	0	2,786,418
<u>Accumulated depreciation</u>				
Equipment	(1,203,707)	(205,355)	0	(1,409,062)
Furniture and fixtures	(71,779)	(1,827)	0	(73,606)
Buildings and improvements	(300,796)	(18,770)	0	(319,565)
Vehicles	<u>(49,438)</u>	<u>0</u>	<u>0</u>	<u>(49,438)</u>
	<u>(1,625,720)</u>	<u>(225,951)</u>	<u>0</u>	<u>(1,851,672)</u>
	<u>\$ 1,124,149</u>	<u>\$ 230,686</u>	<u>\$ 0</u>	<u>\$ 1,354,834</u>

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

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

	<u>Balance</u> <u>7/1/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/13</u>
<u>Capital assets not being depreciated</u>				
Construction in progress	\$ 0	\$ 2,955	\$ 0	\$ 2,955
<u>Capital assets being depreciated</u>				
Equipment	1,785,779	133,188	0	1,918,967
Furniture and fixtures	78,570	2,078	0	80,648
Buildings and improvements	697,861	0	0	697,861
Vehicles	<u>49,438</u>	<u>0</u>	<u>0</u>	<u>49,438</u>
	2,611,648	135,266	0	2,746,914
<u>Accumulated depreciation</u>				
Equipment	(1,014,389)	(189,318)	0	(1,203,707)
Furniture and fixtures	(70,034)	(1,745)	0	(71,779)
Buildings and improvements	(281,884)	(18,912)	0	(300,796)
Vehicles	<u>(49,438)</u>	<u>0</u>	<u>0</u>	<u>(49,438)</u>
	<u>(1,415,744)</u>	<u>(209,976)</u>	<u>0</u>	<u>(1,625,720)</u>
	<u>\$ 1,195,904</u>	<u>\$ (71,755)</u>	<u>\$ 0</u>	<u>\$ 1,124,149</u>

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

NOTE E - PENSION PLAN

Plan Description

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

Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in the state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of the 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, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The District requires employees to contribute 5.0 % of earnable compensation. The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2014 was 13.21% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees.

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

Annual Pension Cost

For the year ended June 30, 2014, the District's annual pension cost of \$21,495 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include: (a) a rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0 % annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The District's unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was four years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/14	\$ 21,495	100.00%	\$ 0
6/30/13	29,362	100.00%	0
6/30/12	28,166	100.00%	0

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 97.83% funded. The actuarial accrued liability (AAL) for benefits was \$0.91 million, and the actuarial value of assets was \$0.89 million, resulting in a UAAL of \$0.02 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.24 million, and the ratio of the UAAL to the covered payroll was 8.09%.

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

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2014 and 2013

Actuarial valuation date	7/1/13	7/1/11	7/1/09
Actuarial value of plan assets	\$ 888,000	\$ 718,000	\$ 521,000
Actuarial accrued liability (AAL)	908,000	800,000	664,000
Unfunded AAL (UAAL)	20,000	82,000	143,000
Funded ratio	97.83%	89.76%	78.46%
Covered payroll	244,000	181,000	180,000
UAAL as a percentage of covered payroll	8.09%	45.38%	79.47%

NOTE F - 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 participates in the Tennessee Municipal League Risk Management Pool (the Pool) and pays annual premiums to the Pool for general insurance coverage, destruction of property and workers' compensation insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The pooling agreement allows the Pool to make additional assessments or refund surplus revenue to the District. It is not possible to estimate the amount of such additional assessments or refunds.

REQUIRED SUPPLEMENTARY INFORMATION

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

FUNDING PROGRESS – POLITICAL SUBDIVISION
PENSION PLAN SUPPLEMENTARY INFORMATION

June 30, 2014

	7/1/13	7/1/11	7/1/09
Actuarial valuation date			
Actuarial value of plan assets	\$ 888,000	\$ 718,000	\$ 521,000
Actuarial accrued liability (AAL)	908,000	800,000	664,000
Unfunded AAL (UAAL)	20,000	82,000	143,000
Funded ratio	97.83%	89.76%	78.46%
Covered payroll	244,000	181,000	180,000
UAAL as a percentage of covered payroll	8.09%	45.38%	79.47%

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUE AND EXPENSES - ACTUAL AND BUDGET

Year Ended June 30, 2014

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
OPERATING REVENUE			
Emergency telephone service charges, net	\$ 279,662	\$ 447,000	\$ (167,338)
TECB - shared wireless charge	230,242	219,500	10,742
TECB - operational funding	482,085	354,200	127,885
Other operating revenue	<u>180</u>	<u>300</u>	<u>(120)</u>
TOTAL OPERATING REVENUE	992,168	1,021,000	(28,832)
OPERATING EXPENSES			
Salaries and wages:			
Director	62,685	62,685	0
Administrative personnel	<u>97,489</u>	<u>100,354</u>	<u>(2,865)</u>
	160,173	163,039	(2,865)
Employee benefits:			
Payroll taxes	11,958	11,958	0
Medical insurance	45,575	45,575	0
Retirement	<u>21,495</u>	<u>21,495</u>	<u>0</u>
	79,028	79,028	0
Contracted services:			
Addressing/mapping	6,361	6,361	0
Advertising	966	1,000	(34)
Auditing services	7,700	7,700	0
Contracts with government agencies	200,000	200,000	0
Fees paid to service providers	72,915	82,175	(9,260)
Maintenance agreements	170,471	194,000	(23,530)
Janitorial services	8,600	8,600	0
Mapping/Data base consultants	18,953	24,200	(5,248)
Maintenance and repairs - communications equipment	8,325	11,550	(3,225)
Maintenance and repairs - buildings and facilities	6,322	6,645	(323)

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUE AND EXPENSES - ACTUAL AND BUDGET

(continued)

Year Ended June 30, 2014

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Contracted services(continued)			
Maintenance and repairs -			
office equipment	350	1,000	(650)
Fuel vehicles	819	1,000	(181)
	<u>501,781</u>	<u>544,231</u>	<u>(42,450)</u>
Supplies and materials:			
Office supplies	2,862	3,900	(1,038)
Custodial supplies	0	1,000	(1,000)
Postage	62	62	0
Small equipment purchases	283	0	283
Utilities - electric	21,299	23,000	(1,701)
Utilities - water and sewer	494	500	(6)
Utilities - general telephone	45,184	45,732	(548)
Utilities - cell phone	924	950	(26)
	<u>71,109</u>	<u>75,144</u>	<u>(4,035)</u>
Other charges:			
Board meeting expenses	2,552	2,590	(38)
Dues and memberships	923	923	0
Internet service	1,645	1,668	(23)
Insurance	20,190	20,409	(219)
Premiums on surety bonds	934	934	0
Public education	5,049	6,775	(1,726)
	<u>31,294</u>	<u>33,299</u>	<u>(2,005)</u>
Depreciation	<u>225,952</u>	<u>227,390</u>	<u>(1,438)</u>
TOTAL OPERATING EXPENSES	<u>1,069,336</u>	<u>1,122,130</u>	<u>(52,794)</u>
(LOSS) FROM OPERATIONS	(77,168)	(101,130)	23,962

SEVIER COUNTY EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF REVENUE AND EXPENSES - ACTUAL AND BUDGET

(continued)

Year Ended June 30, 2014

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
NONOPERATING REVENUE			
Interest income	8,221	5,000	3,221
Insurance proceeds	<u>2,840</u>	<u>0</u>	<u>2,840</u>
	11,061	5,000	6,061
CAPITAL CONTRIBUTIONS			
Capital contributions from TECB	<u>270,447</u>	<u>270,400</u>	<u>47</u>
CHANGE IN NET POSITION	204,340	174,270	30,070
NET POSITION AT THE BEGINNING OF THE YEAR	<u>3,046,597</u>	<u>3,046,597</u>	<u>0</u>
NET POSITION AT THE END OF THE YEAR	<u><u>\$ 3,250,937</u></u>	<u><u>\$ 3,220,867</u></u>	<u><u>\$ 30,070</u></u>

See the accompanying independent accountants' audit report.

SEVIER COUNTY EMERGENCY COMMUNICAIONS DISTRICT

BOARD OF DIRECTORS

June 30, 2014

Board of Directors for 2013-2014

Jack Baldwin	Pigeon Forge Chief of Police	Chairman of the Board
Randy Brackins	Gatlinburg Chief of Police	Vice-Chairman
Larry Waters	Sevier County Mayor	Treasurer
Steve Huskey	Sevier County Ambulance Service	Secretary
Ron Seals	Sevier County Sheriff	Board Member
Tony Watson	Pigeon Forge Fire Department	Board Member
Don Myers	Sevierville Chief of Police	Board Member
Gene Byrd	County Commissioner	Board Member
Fred Atchley, Jr.	County Commissioner	Board Member

Management Officials for 2013-2014

David Rauhuff	District Coordinator
Misty Ramsey	Office Manager

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

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

Board of Directors
Sevier County Emergency Communications District
Sevierville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Sevier County Emergency Communications District, which comprise the statement of net position as of June 30, 2014 and 2013, and the related statements of revenue, expenses and change in net position, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated January 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Sevier County Emergency Communications District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sevier County Emergency Communications District's internal control. Accordingly, we do not express an opinion on the effectiveness of Sevier County Emergency Communications 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 Sevier County Emergency Communications District's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits 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 Sevier County 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*.

We noted certain other matters that we have reported to management of Sevier County Emergency Communications District in a separate letter dated January 21, 2015.

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 Sevier County Emergency Communications 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 Sevier County Emergency Communications District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

January 21, 2015

SEVIER COUNTY EMERGENCY COMMUNICAIONS DISTRICT

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

There were no prior year findings reported.