

**HAMBLEN COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

AUDIT REPORT

June 30, 2015 and 2014

**Hamblen County Emergency Communications District
June 30, 2015**

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INTRODUCTORY SECTION

Hamblen County Emergency Communications District
Roster of Officials
June 30, 2015

1

Board of Directors:

Roger Overholt, Chairman

Kay Senter, Secretary

Bill Brittain, (Ex-Officio)

Robert Laney

Joe Huntsman, Sr.

Chris Bell

Bill Jordan

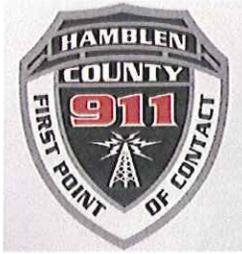
Rabon Coleman

Bill Honeycutt

Danny Houseright

Executive Director:

Eric Carpenter



Hamblen County Emergency Communications District
S. Eric Carpenter, CFSP
530 North Jackson Street
Morristown, Tennessee 37814
(423) 585-2700
ecarpenter@hamblen911.org

MANAGEMENTS'S DISCUSSION AND ANALYSIS

As management of the Hamblen County Emergency Communications District, we offer readers of the District's financial statements this narrative overview and analysis of the District's performance during the fiscal year ending June 30, 2015 and June 30, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's 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 statement.

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 the net position includes all the District's assets and liabilities and provides information about where the District has invested its resources (assets) and the obligation to the District's creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes 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. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, 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 balance 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 result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reports information about 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 or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. A summary of the district's net position and changes in it is presented on page 6.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

As can be seen from page 6, (Summarized financial information), the District's net position has increased approximately \$186,308 during the year ended June 30, 2015. The increase includes the effects of a prior period adjustment related to pension benefits. Revenues (Emergency Telephone Surcharge) increased by 15.7%. Total expenses increased approximately 4.71%. The administrative staff and employees continue to remain diligent and cost conscious.

For the year ended June 30, 2014, The District's net position increased approximately \$72,493. Revenues (Emergency Telephone Surcharge) decreased by 11.9%. Total expenses decreased approximately 8.54%.

THE DISTRICT'S NET POSITION

The District completed the year ended June 30, 2015 with a net position of \$2,714,304, which is approximately \$186,308 more than the prior year's ending net position of \$2,527,996.

The District completed the year ended June 30, 2014 with a net position of \$2,527,996, which is approximately \$72,493 more than the prior year's ending net position of \$2,455,503.

BUDGETARY HIGHLIGHTS

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

Income from residential phone lines decreased during the year ended June 30, 2015 by \$29,908 from budgeted income. State shared wireless income met projections. Shared wireless charges are still difficult to estimate due to varied reporting times by independent dial tone providers. Interest income deposits exceeded expectations by \$212 even though interest rate trends continued to be stagnant.

Total expenditures were \$129,721 less than budgeted with budget categories remaining in line for the year ended June 30, 2015.

Income from residential phone lines decreased during the year ended June 30, 2014 by \$14,524 from budgeted income. However, state shared wireless income exceeded projection by \$9,253. Shared wireless charges are still difficult to estimate due to varied reporting times by independent dial tone providers. Interest income deposits were \$1,296 below expectation as interest rate trends continued to be stagnant.

Total expenditures were \$86,326 less than budgeted with budget categories remaining in line for the year ended June 30, 2014.

CAPITAL ASSETS

The District's investment in capital assets amounts to \$1,814,181 with accumulated depreciation of \$1,136,018 for year ended June 30, 2015. Capital assets include the building, communications equipment, a vehicle, as well as office furniture and equipment.

The District's investment in capital assets amounts to \$1,808,670 with accumulated depreciation of \$1,051,669 for year ended June 30, 2014. Capital assets include the building, communications equipment, a vehicle, as well as office furniture and equipment.

ECONOMIC FACTORS AND FUTURE NEEDS

For many years, the main economic factor which faced the Hamblen County Emergency Communications District had been the continued fluctuation in revenue generated from landline, wireless, and VoIP telephones. The State Emergency Communications Board (State ECB) reviewed several options for a complete restructuring of E-911 surcharges and ECD funding models and presented those to the TN General Assembly in January 2014. The result was the passage of the '911 Funding Modernization and IP Transition Act of 2014'. This legislation, which became law on January 1, 2015, set a state-wide surcharge of \$1.16 for all services (landline, cellular, VoIP, and pre-paid). It also eliminated the State ECB's use of depreciation costs in determining whether or not an ECD is 'financially distressed'.

In setting an across-the-board surcharge, the '911 Funding Modernization and IP Transition Act of 2014' also eliminated five (5) State ECB funding streams for operational, equipment purchase, and training programs. Over the past few years, the District has received over \$1,700,000 from these programs. In anticipation of this loss – and because we know that advances in technology occur quickly and will soon effect the operations of 911, as well as future infrastructure needs – the District established a Capital Projects Fund with a 10-year goal of \$500,000. This Fund will make tremendous strides in preventing 911 from returning to the local legislative bodies for one-time capital monies during the next periods of upgrades and enhancements.

The District continues to stand ready for NG911 implementation with IP based telephone and radio systems; and currently operates on a stable platform in regards to other critical systems, such as the CAD system, backup power supplies, and voice loggers.

The District, in cooperation with Hamblen County Government, the City of Morristown, and Morristown Utility Systems, jointly funds the Morristown-Hamblen GIS office. This partnership is proving to be very successful in preparation for joining the State GIS network for NG911 and has been a catalyst in streamlining the addressing process for the entire jurisdiction.

Another important part of our District is our continued relationship with the emergency service departments within our jurisdiction. From accreditation guidelines for law enforcement, to I.S.O. and NFPA standards for our fire departments, to assistance with streamlining the reporting benchmarks required of emergency medical services, we strive to provide a unified approach to our client agencies on a daily basis in order to assist them in maintaining their excellent ratings.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "S. Eric Carpenter". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

S. Eric Carpenter, CFSP
Executive Director

SUMMARIZED FINANCIAL INFORMATION

NET POSITION

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,182,264	\$ 1,812,797	\$ 1,702,928
Capital Assets	<u>678,164</u>	<u>757,001</u>	<u>785,700</u>
Total Assets	<u>2,860,428</u>	<u>2,569,798</u>	<u>2,488,628</u>
Deferred Outflow of Resources	39,656	-	-
Current Liabilities	24,791	22,655	15,967
Long Term Debt, Liabilities	<u>19,821</u>	<u>19,147</u>	<u>17,158</u>
Total Liabilities	<u>44,612</u>	<u>41,802</u>	<u>33,125</u>
Deferred Inflow of Resources	141,170	-	-
Net Position	2,714,304	2,527,996	2,455,503
Unrestricted Net Position	2,036,141	1,770,995	1,669,803
Investment In Capital Assets	678,163	757,001	785,700

CHANGES IN NET POSITION

Revenues (Em.Tel. Surchg.)	818,309	707,025	791,217
Operating Expenses	<u>1,172,894</u>	<u>1,120,136</u>	<u>1,215,827</u>
Operating Income	<u>(354,585)</u>	<u>(413,111)</u>	<u>(424,610)</u>
Non-operating revenues (expenses)			
Interest Income	2,212	1,704	1,505
Contributions from primary government	400,013	328,714	328,714
State ECB, Grants & Reimbursements	56,843	155,186	536,954
Pension Income	<u>20,952</u>	<u>-</u>	<u>-</u>
Total	<u>480,020</u>	<u>485,604</u>	<u>867,173</u>
Increase In Net Position	125,435	72,493	442,563
Prior Period Adjustment	60,873	-	-
Net Position, beginning of year	<u>2,527,996</u>	<u>2,455,503</u>	<u>2,012,940</u>
Net Position, end of year	2,714,304	2,527,996	2,455,503

FINANCIAL SECTION

CRAINE, THOMPSON & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hamblen County Emergency Communications District
Morristown, Tennessee 37814

Report on the Financial Statements

We have audited the accompanying financial statements of Hamblen County Emergency Communications District, a component unit of Hamblen County, Tennessee, as of June 30, 2015 and 2014, and for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hamblen County Emergency Communications District of Hamblen County, Tennessee, as of June 30, 2015 and 2014, and the respective changes in financial position and 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 the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements. The schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2015 on our consideration of Hamblen County Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hamblen County Emergency Communications District's internal control over financial reporting and compliance.

Craig Thompson & Jones, P.C.

August 21, 2015

Hamblen County Emergency Communications District
Statement of Net Position
June 30, 2015 and 2014

	June 30,	
	2015	2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,959,269	\$ 1,687,174
Accounts receivable	-	98,230
Due from Primary Government	-	27,393
Net pension asset	222,995	-
Total current assets	<u>2,182,264</u>	<u>1,812,797</u>
Capital assets:		
Building & improvements	359,695	359,695
Communications equipment	1,243,229	1,238,865
Office equipment	9,096	9,096
Furniture and fixtures	179,354	178,207
Vehicles	22,806	22,806
Sub-total	<u>1,814,181</u>	<u>1,808,670</u>
Less - allowance for depreciation	(1,136,018)	(1,051,669)
Capital assets - net	<u>678,163</u>	<u>757,001</u>
Total assets	<u>2,860,428</u>	<u>2,569,798</u>
<u>Deferred Outflow of Resources</u>		
Pension other deferrals	<u>39,656</u>	<u>-</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	11,022	10,866
Accrued liabilities	4,810	3,211
Retirement contributions	2,351	2,195
Compensated absences payable	6,607	6,382
Total current liabilities	<u>24,791</u>	<u>22,655</u>
Long-term liabilities:		
Compensated absences payable	<u>19,821</u>	<u>19,147</u>
Total liabilities	<u>44,612</u>	<u>41,802</u>
<u>Deferred Inflow of Resources</u>		
Pension changes in experience	42,115	-
Pension changes in investment earnings	99,055	-
Total deferred inflow of resources	<u>141,170</u>	<u>-</u>
Net position		
Investment in capital assets	678,163	757,001
Unrestricted	2,036,141	1,770,995
Total net position	<u>2,714,304</u>	<u>2,527,996</u>

The accompanying notes are an integral part of these financial statements.

Hamblen County Emergency Communications District
Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Operating revenues:		
Emergency telephone service charge	\$ 150,868	\$ 279,054
State emergency communications board-shared wireless charge	85,693	159,308
TECB Distribution of 911 Surcharges (Base Amount)	581,152	267,379
Miscellaneous income	596	1,284
Total operating revenue	<u>818,309</u>	<u>707,025</u>
Operating expenses:		
Salaries and wages	626,875	610,188
Employee benefits	208,518	228,048
Contracted services	182,228	123,647
Supplies and materials	34,030	32,784
Other charges	36,894	28,351
Depreciation	84,349	97,118
Total operating expenses	<u>1,172,894</u>	<u>1,120,136</u>
Net operating income (loss)	<u>(354,585)</u>	<u>(413,111)</u>
Non-operating revenues (expenses)		
Interest income	2,212	1,704
Pension income	20,952	-
Contributions from primary government	400,013	328,714
TECB-Reimbursements and/or Grants	56,843	155,186
Total non-operating revenues (expenses)	<u>480,020</u>	<u>485,603</u>
Increase in net position	125,435	72,493
Net position, beginning of year	2,527,996	2,455,503
Prior period adjustment	60,873	-
Net position, end of year	<u>\$ 2,714,304</u>	<u>\$ 2,527,996</u>

The accompanying notes are an integral part of these financial statements.

Hamblen County Emergency Communications District
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2015 and 2014

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Received from customers	\$ 334,790	\$ 371,559
Payments to suppliers	(252,996)	(175,096)
Payments to employees	(872,397)	(839,244)
Other receipts (payments)	609,141	268,663
	<u>(181,462)</u>	<u>(374,118)</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	<u>(5,511)</u>	<u>(68,420)</u>
	<u>(5,511)</u>	<u>(68,420)</u>
Cash flows from noncapital financing activities:		
Contributions from primary government	400,013	328,714
Grant from State Emergency Communications Board	<u>56,843</u>	<u>155,186</u>
	<u>456,856</u>	<u>483,900</u>
Cash from investing activities:		
Interest on investments	<u>2,212</u>	<u>1,704</u>
	<u>2,212</u>	<u>1,704</u>
Net increase (decrease) in cash and cash equivalents	272,095	43,066
Cash and cash equivalents at beginning of year	<u>1,687,174</u>	<u>1,644,108</u>
Cash and cash equivalents at end of year	<u>\$ 1,959,269</u>	<u>\$ 1,687,174</u>

The accompanying notes are an integral part of these financial statements.

Hamblen County Emergency Communications District
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2015 and 2014

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Net operating income (loss)	\$ (354,585)	\$ (413,111)
Depreciation	84,349	97,118
Changes in operating assets and liabilities:		
(Increase) or decrease in accounts receivable	125,620	(66,800)
Increase or (decrease) in accounts payable	1,756	6,034
Increase or (decrease) in retirement contributions	(39,500)	(10)
Increase or (decrease) in estimated compensated absences	898	2,652
	<u>898</u>	<u>2,652</u>
Net cash provided (used) by operating activities	<u>\$ (181,462)</u>	<u>\$ (374,118)</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF THE ORGANIZATION

The District was established by the County for the purpose of enhancing "911" and selective routing services under T.C.A. 7-86-101 through 7-86-117 "Emergency Communications District Law." The District is a component unit of Hamblen County, Tennessee. It is managed by an eleven member Board of Directors appointed by the Hamblen County Commission for terms of four years. The District is fiscally dependent upon the County as it must obtain County Commission approval before the issuance of most debt and the County Commission has the ability to adjust the District's service charges.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of accounting – accrual.
Revenue is recognized when earned and expenses are recorded when incurred.
- B. Fund type - proprietary.
- C. For purposes of the statement of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.
- D. Capital assets and depreciation:
 - 1) All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. The District's capitalization threshold is set at \$1,000 per unit cost. Interest costs incurred on financing during the construction or installation period of capital assets are capitalized as part of the cost of the assets. For the year under review, there were no interest costs capitalized.
 - 2) Capital assets consist of:

June 30, 2015	Beginning Balance	Additions	Ending Balance	Accumulated Depreciation	Net Capital Assets
Capital Assets					
Building	\$ 359,695	\$ -	\$ 359,695	\$ 134,866	\$ 224,829
Communications equipment	1,238,865	4,364	1,243,229	804,955	438,274
Furniture and fixtures	178,207	1,147	179,354	168,996	10,358
Office equipment	9,096	-	9,096	4,393	4,703
Automobile	22,806	-	22,806	22,806	-
Total	<u>\$ 1,808,670</u>	<u>\$ 5,511</u>	<u>\$ 1,814,180</u>	<u>\$ 1,136,016</u>	<u>\$ 678,163</u>

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Capital assets and depreciation (continued):

3) Capital assets consist of:

June 30, 2014	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Capital Assets					
Building	\$ 359,695	\$ -	\$ 359,695	\$ 125,666	\$ 234,029
Communications equipmen	1,183,319	55,546	1,238,865	732,541	506,324
Furniture and fixtures	168,981	9,226	178,207	167,438	10,769
Office equipment	5,449	3,647	9,096	3,218	5,878
Automobile	22,806	-	22,806	22,806	-
Total	<u>\$1,740,250</u>	<u>\$ 68,419</u>	<u>\$ 1,808,670</u>	<u>\$ 1,051,669</u>	<u>\$ 757,001</u>

4) The straight-line method of depreciation is used, totaling \$84,349 for 2015 and \$97,118 for 2014. Accumulated depreciation was \$1,136,016 as of June 30, 2015, and \$1,051,669 as of June 30, 2014.

- E. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. The useful lives of the capital assets of the District are such estimates.
- F. Measurement focus is a term used to describe “which” transactions are recorded within the financial statements. The proprietary fund is accounted for using the “economic resources” measurement focus. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are these expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. Proprietary funds utilize the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

- G. Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Hamblen County Emergency Communications District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Hamblen County Emergency Communications District's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

NOTE 3 - DEPOSITS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2015 and June 30, 2014, the District had no exposure to custodial credit risk as its deposits were either insured by the FDIC or collateralized with securities held by the State of Tennessee Bank Collateral Pool.

NOTE 4 – CONTRIBUTIONS FROM PRIMARY GOVERNMENT

When the District was formed, the City of Morristown and Hamblen County, Tennessee, each verbally agreed to fund the salaries and benefits of four dispatchers as the District has absorbed these employees. The District bills the two entities monthly for these expenses.

NOTE 5 - CONCENTRATION OF CREDIT RISK

Hamblen County Emergency Communications District was established for the purpose of enhancing "911" and selective routing services in Hamblen County. All fees are collected through either Bell South/AT&T who bills every telephone customer in Hamblen County or the State Department of Commerce and Insurance of Tennessee who remits ECB wireless revenue monthly.

NOTE 6 - COMPENSATED ABSENCES

A. Annual leave:

Annual leave cannot be accumulated over 28 days or 224 hours.

Upon termination, employees are reimbursed for their accumulated annual leave. The table below details the changes in the accrued compensated absences for the years ended June 30, 2015 and 2014.

NOTE 6 - COMPENSATED ABSENCES (continued)

<u>Fiscal Year</u> <u>Ending</u>	<u>Beginning</u> <u>Balance</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
June 30, 2015	\$ 25,529	\$ 899	\$ 26,428	\$ 6,607	\$ 19,821
June 30, 2014	\$ 22,877	\$ 2,652	\$ 25,529	\$ 6,382	\$ 19,147

B. Sick leave:

Sick leave is accumulated at the rate of one day per month without limit. Sick leave may be used to allow an employee early retirement on a day for day basis.

NOTE 7 – PENSION PLAN INFORMATION

General Information about the Pension Plan

Plan Description - Employees of Hamblen County Emergency Communications District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms - At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

NOTE 7 - PENSION PLAN INFORMATION (continued)

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>14</u>
Total	<u><u>19</u></u>

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Hamblen County Emergency Communications District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Hamblen County Emergency Communications District were \$39,656 based on a rate 6.68 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Hamblen County Emergency Communications District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Hamblen County Emergency Communications District's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions - The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary range from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Cost of living adjustments	2.5 percent, if provided

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

NOTE 7 - PENSION PLAN INFORMATION (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocations
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Hamblen County Emergency Communications District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 - PENSION PLAN INFORMATION (continued)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2013	\$ 1,318,117	\$ 1,341,349	\$ (23,232)
Service cost	38,907		38,907
Interest	100,993		100,993
Differences between expected and actual experience	(47,379)		(47,379)
Contributions-employer		37,641	(37,641)
Contributions-employee		29,089	(29,089)
Net investment income		226,117	(226,117)
Benefit payments, including refunds of employee contributions	(20,911)	(20,911)	-
Administrative expense		(563)	563
Net changes	71,610	271,373	(199,763)
Balance at June 30, 2014	<u>\$ 1,389,727</u>	<u>\$ 1,612,722</u>	<u>\$ (222,995)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate - The following presents the net pension liability (asset) of Hamblen County Emergency Communications District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net Pension Liability (Asset)	\$ (9,640)	\$ (222,995)	\$ (400,058)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension income - For the year ended June 30, 2015, Hamblen County Emergency Communications District recognized pension income of \$20,952.

NOTE 7 - PENSION PLAN INFORMATION (continued)

Deferred outflows of resources and deferred inflows of resources - For the year ended June 30, 2015, Hamblen County Emergency Communications District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 42,115
Net difference between projected and actual earnings on pension plan investments	-	99,055
Contributions subsequent to the measurement date of June 30, 2014	<u>39,656</u>	<u>(not applicable)</u>
Total	<u><u>39,656</u></u>	<u><u>\$ 141,170</u></u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ (30,028)
2017	(30,028)
2018	(30,028)
2019	(30,028)
2020	(5,264)
Thereafter	(15,792)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, Hamblen County Emergency Communications District reported a payable of \$39,656 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 8 - RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District is insured through Strate Insurance Group as an ancillary to Hamblen County's insurance. There were no actual or potential claims against the District according to the County Attorney; therefore, no provision has been made. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

NOTE 9 – BUDGETARY INFORMATION

The District must file a budget annually with Hamblen County. The budget is prepared on the accrual basis of accounting. The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* has established the legal level of control, which is the level at which management loses the ability to reapply budgeted resources from one use to another without special approval, at the line-item level.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made due to the implementation of GASB 68.

\$23,232	Initial establishment of net pension asset as of 7-1-2013
<u>\$37,641</u>	Recording of employer contributions made during the year ended 6-30-2014
<u>\$60,873</u>	Total prior period adjustment

SUPPLEMENTAL INFORMATION

Hamblen County Emergency Communications District
Budgetary Comparison
Year Ended June 30, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance Fav. (Unfav.)</u>
Operating revenues:			
Emergency telephone service charge	\$ 150,868	\$ 180,776	\$ (29,908)
State emergency communications board-shared wireless charge	85,693	85,693	0
TECB Distribution of 911 Surcharges (Base Amount)	581,152	581,406	(255)
Miscellaneous income	597	1,500	(903)
	<u>818,310</u>	<u>849,375</u>	<u>(31,065)</u>
Total operating revenues			
Operating expenses:			
Director	56,023	56,052	29
Administrative personnel	36,945	36,962	17
Dispatchers	465,821	466,222	401
Overtime	8,684	9,000	316
Part-time personnel	26,917	27,800	883
Social Security	36,892	39,313	2,421
Medicare	8,628	9,194	566
Life insurance	2,293	2,600	307
Medical insurance	149,915	166,854	16,939
Dental insurance	8,402	10,800	2,398
Disability insurance	1,698	1,949	251
Retirement contributions	-	40,019	40,019
Compensated Absences	898	898	0
Other fringe benefits	691	1,378	687
Audit services	5,105	5,400	295
Administrative fees - services charges	871	1,000	129
Legal services	30	1,000	970
Mapping / Data	69,599	84,950	15,351
NCIC/TBI/TIES expenses	2,010	2,680	670
Other Consultants	19,058	19,200	143
Pest control	288	320	32
Lease/Rental - communications equipment	44,836	52,000	7,164
Maintenance and repairs - communications equipment	7,479	9,000	1,521
Maintenance and repairs - building and facilities	1,230	5,500	4,270
Maintenance and repairs - vehicles	405	1,000	595
Fuel - Vehicle	1,197	3,000	1,803
Language Line	118	300	182
Other contracted services	30,121	30,150	29
Office supplies	4,126	4,500	374
Custodial supplies	1,462	2,000	538
Postage	356	500	144
Utilities - electric	11,633	15,000	3,367
Utilities - gas	1,165	1,700	535
Utilities - general telephone	8,959	11,400	2,441
Other supplies and materials	2,939	3,000	61
Board meeting expenses	-	200	200

Hamblen County Emergency Communications District
Budgetary Comparison
 Year Ended June 30, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance Fav. (Unfav.)</u>
Dues and memberships	811	900	89
Employee testing & exams	336	800	464
Insurance - workers compensation	711	2,900	2,189
Insurance - liability	3,660	3,900	240
Insurance - building & contents	3,344	4,000	657
Insurance - vehicles	988	1,050	62
Premium on surety bonds	2,116	2,400	284
Training expenses	15,392	19,500	4,108
Travel expenses	9,537	10,000	463
General Telephone E.O.C	3,389	3,600	211
Depreciation	84,349	96,000	11,651
Education	720	721	1
Holiday	17,897	18,906	1,009
Christmas	2,144	2,217	73
Longevity	4,200	4,200	-
Perfect Attendance	6,627	8,799	2,172
Total operating expenses	<u>1,173,013</u>	<u>1,302,734</u>	<u>129,721</u>
Net operating income	<u>(354,703)</u>	<u>(453,359)</u>	<u>98,656</u>
Non-operating revenues (expenses):			
Restricted Capital Contributions	0	(50,000)	50,000
Interest income	2,212	2,000	212
Pension Income	20,952	-	20,952
Contributions from primary government	400,013	400,000	13
TECB-Reimbursements and/or Grants	56,843	56,843	(0)
Total non-operating revenues (expenses)	<u>480,018</u>	<u>408,843</u>	<u>71,175</u>
Increase (decrease) in net position	<u>\$ 125,315</u>	<u>\$ (44,516)</u>	<u>\$ 169,831</u>

Hamblen County Emergency Communications District
Schedule of Detailed Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Salaries and wages:		
Director	\$ 56,023	\$ 54,948
Administrative personnel	37,843	38,887
Dispatchers	506,093	491,025
Part-time personnel	26,917	25,328
Total salaries and wages	<u>\$ 626,875</u>	<u>\$ 610,188</u>
Employee benefits:		
Social security	\$ 36,892	\$ 35,824
Medicare	8,628	8,378
Life insurance	2,293	2,180
Medical insurance	149,915	132,699
Dental insurance	8,402	9,289
Disability insurance	1,698	1,646
Other Fringe Benefits	691	378
Retirement contributions	-	37,654
Total employee benefits	<u>\$ 208,518</u>	<u>\$ 228,048</u>
Contracted services:		
Audit services	\$ 5,105	\$ 5,110
Administrative fees - service charges	871	859
Legal services	30	120
Mapping / Data	69,599	13,755
NCIC/TBI/TIES expenses	2,010	2,680
Other Consultants	19,058	15,053
Pest control	288	288
Lease/rental - communications equipment	44,836	46,360
Maintenance and repairs - communications equipment	7,479	7,026
Maintenance and repairs - buildings and facilities	1,230	1,805
Maintenance and repairs - vehicles	405	335
Fuel Vehicle	1,197	1,879
Other contracted services	30,121	28,378
Total contracted services	<u>\$ 182,228</u>	<u>\$ 123,647</u>

Hamblen County Emergency Communications District
Schedule of Detailed Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Supplies and materials:		
Office supplies	\$ 4,126	\$ 3,097
Custodial supplies	1,462	1,206
Postage	356	620
Utilities - electric	11,633	11,475
Utilities - gas	1,165	1,183
Utilities - general telephone	12,348	13,454
Utilities - cell phones & pagers	-	-
Other supplies and materials	2,939	1,749
Total supplies and materials	<u>\$ 34,030</u>	<u>\$ 32,784</u>
Other charges:		
Board meeting expenses	\$ -	\$ 56
Dues and memberships	811	853
Employee testing and exams	336	364
Insurance - workers compensation	711	2,254
Insurance - liability	3,660	3,660
Insurance - buildings and contents	3,344	3,470
Insurance - vehicles	988	988
Premiums on surety bonds	2,116	1,969
Training expenses	15,392	6,810
Travel expenses	9,537	7,927
Total other charges	<u>\$ 36,894</u>	<u>\$ 28,351</u>
Depreciation expense	<u>\$ 84,349</u>	<u>\$ 97,118</u>

Hamblen County Emergency Communications District
Pension Plan - Supplementary Information
June 30, 2015

**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based
on Participation in the Public Employee Pension Plan of TCRS
Last Fiscal Year Ending June 30**

Total Pension Liability	2014
Service cost	\$ 38,907
Interest	100,933
Changes of benefit terms	-
Differences between expected and actual experience	(47,379)
Changes of assumptions	-
Benefit Payments, including refunds of employee contributions	(20,911)
Net Change in Total Pension Liability (Asset)	71,610
Total Pension Liability (Asset) - beginning	1,318,117
Total Pension Liability (Asset) - ending (a)	\$ 1,389,727
Plan Fiduciary Net Position	
Contributions - employer	\$ 37,641
Contributions - employee	29,089
Net investment income	226,117
Benefit Payments, including refunds of employee contributions	(20,911)
Administrative expenses	(563)
Other	-
Net Change in Plan Fiduciary Net Position	\$ 271,373
Plan Fiduciary Net Position - beginning	1,341,349
Plan Fiduciary Net Position - ending (b)	\$ 1,612,722
Net Pension Liability (Asset) - ending (a) - (b)	\$ (222,995)
Plan Fiduciary Net Position as a % of the Total Total Pension Liability	116.05%
Covered-employee payroll	\$581,775
Net Pension Liability (Asset) as a % of covered-employee payroll	38.33%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

Hamblen County Emergency Communications District
Pension Plan - Supplementary Information
June 30, 2015

Schedule of Contributions Based on Participation
in the Public Employee Pension Plan TCRS
Last Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>
Actuarilly determined contribution	\$ 37,641	\$ 39,656
Contribution in relation to the actuarially determined contribution	<u>37,641</u>	<u>39,656</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 581,775	\$ 593,653
Contributions as a percentage of covered-employee payroll	6.47%	6.68%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Hamblen County Emergency Communications District
Pension Plan - Supplementary Information
June 30, 2015

Notes to Schedule

Valuation date - Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	2 years
Asset valuation method	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary range from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent, if provided

INTERNAL CONTROL AND COMPLIANCE SECTION

CRAINE, THOMPSON & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

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

Board of Directors
Hamblen County Emergency Communications District
Morristown, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hamblen County Emergency Communications District, a component unit of Hamblen County, Tennessee, as of and for the year ended June 30, 2015, which collectively comprise the Hamblen County Emergency Communications District's basic financial statements and have issued our report thereon dated August 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hamblen 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hamblen County Emergency Communications District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hamblen 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal 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 Hamblen 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Craige Thompson + Jones, P.C.

August 21, 2015