

Knoxville-Knox County



Emergency Communications District



**FINANCIAL STATEMENTS
JUNE 30, 2015 and JUNE 30, 2014**

*Prepared By:
Knox County Finance Department*

**KNOXVILLE – KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2015 and June 30, 2014

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

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**INTRODUCTORY
SECTION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

BOARD OF DIRECTORS
June 30, 2015

Ms. Linda Murawski, Chair

Mayor Tim Burchett, Vice Chair

Mr. Bill Cole, Secretary and Treasurer

Mayor Madeline Rogero

Chief Stan Sharp

Commissioner Brad Anders

Sheriff Jimmy "J.J." Jones

Mr. Ken Knight

Mr. Russell Frazier

Chief David Rausch

Mr. Daron Long

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Knoxville - Knox County Emergency Communications District
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Knoxville - Knox County Emergency Communications District (the "District"), a discretely presented component unit of Knox County, Tennessee, which comprise the statements of net position as of June 30, 2015 and 2014 and the related statements of revenues, expenses, and changes in net position, and 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015 and 2014 and the changes in its 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 4 through 10 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 knowledge 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory and supplementary information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information 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 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 10, 2015



Knox County Emergency Communications District
605 Bernard Avenue, Knoxville, TN 37921

J. Robert Coker, Executive Director

Phone: 865-215-1100

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Management's Discussion and Analysis

As management of the Knoxville - Knox County Emergency Communications District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2015, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements, and supplementary information when reviewing the District's financial activities and condition.

Financial Highlights for Fiscal Year 2015

- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$24,397,585 (*net position*). Of this amount, \$15,783,495 is unrestricted. The unrestricted net position amount is a total of two amounts: \$5,765,128 may be used to meet the District's ongoing obligations to citizens and creditors, while the remaining amount of \$10,018,367 has been designated internally by management for the equipment reserve.
- ❖ The District's total net position increased by \$1,500,650. This increase is primarily the result of the ongoing principal operations of the District, and the State of Tennessee's Operational Funding Program change in funding allocation.
- ❖ The District's total capital assets before depreciation increased by \$265,795. This increase is due to purchases for the new CAD system to be completed in the upcoming fiscal years.

Financial Highlights for Fiscal Year 2014

- ❖ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$22,896,935 (*net position*). Of this amount, \$14,393,001 is unrestricted. The unrestricted net position amount is a total of two amounts: \$4,081,240 may be used to meet the District's ongoing obligations to citizens and creditors, while the remaining amount of \$10,311,761 has been designated internally by management for the equipment reserve.
- ❖ The District's total net position increased by \$2,570,036. This increase is primarily the result of the ongoing principal operations of the District, and the fact that the State of Tennessee distributed an additional lump sum payment in the amount of \$1,824,595 out of the State of Tennessee's Operational Funding Program.
- ❖ The District's total capital assets before depreciation increased by \$2,145,713. This increase is due to purchases for the new CAD system to be completed in the upcoming fiscal years.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: 1) financial statements comprised of the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements. The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the last two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (full accrual accounting), regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected user service fees, uncollected subsidy payments, and earned but unused vacation leave).

The Statement of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the District for the last two fiscal years.

The financial statements can be found on pages 11-14 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-24 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on pages 25-27 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. As of June 30, 2015, the District's assets exceeded its liabilities by \$24,397,585 (*net position*). At June 30, 2014, the District's net position totaled \$22,896,935. The District's net investment in capital assets consists of capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The District utilizes these capital assets to provide services to citizens and other user groups. As a result, the net position portion of net investment in capital assets, currently amounts to 35% of total net position, and is not available for future spending. Also, while the District's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$15,783,495 is a total of two

amounts: \$5,765,128 may be used to meet the District’s ongoing obligations to citizens and creditors and \$10,018,367 has been designated internally by management for the District’s equipment reserve.

As the following table shows, the District reported an increase in net position of \$1,500,650 for the current fiscal year ended June 30, 2015. As previously noted, this increase is primarily the result of the principal operations of the District, and the State of Tennessee’s distribution payment in the amount of \$3,784,498 out of the State of Tennessee’s Operational Funding Program which includes a change in the funding allocation. The increase of \$110,156 in net investment in capital assets is primarily due to a combination of two items: 1) a decrease in net investment in net capital assets due to depreciation expense charged during the current fiscal year of \$183,064; and 2) an increase in net investment in net capital assets primarily due to the purchases for the CAD system totaling \$293,394.

During the fiscal year ended June 30, 2014, the District reported an increase in net position of \$2,570,036. This increase was primarily the result of the principal operations of the District, and the State of Tennessee’s distribution payment in the amount of \$1,824,595 out of the State of Tennessee’s Operational Funding Program. The increase of \$1,974,756 in net investment in capital assets results mainly from a combination of two items: 1) a decrease in net investment in net capital assets due to depreciation expense charged during the prior fiscal year totaling \$170,957; and 2) an increase in net investment in net capital assets primarily due to the construction in process purchases for the CAD system totaling \$2,145,713.

**Knoxville-Knox County Emergency Communications District
Net Position**

	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2013
Current and Other Assets	\$ 16,293,789	\$ 14,932,057	\$ 14,272,848
Capital Assets - Net	<u>8,614,090</u>	<u>8,503,934</u>	<u>6,529,178</u>
Total Assets	<u>24,907,879</u>	<u>23,435,991</u>	<u>20,802,026</u>
Current Liabilities	<u>510,294</u>	<u>539,056</u>	<u>475,127</u>
Net Position:			
Investment in			
Capital Assets	8,614,090	8,503,934	6,529,178
Unrestricted	<u>15,783,495</u>	<u>14,393,001</u>	<u>13,797,721</u>
Total Net Position	<u>\$ 24,397,585</u>	<u>\$ 22,896,935</u>	<u>\$ 20,326,899</u>

The next table shows the key elements from ongoing operations that contributed to the increase in net position of \$1,500,650 during the current fiscal year. Operating revenues, comprised mainly of user service fees, decreased by \$178,971 or approximately 3% during fiscal year 2015, and operating expenses increased by \$88,850 or 1%, a result primarily of increased contracted services. Also, Nonoperating Revenues increased by \$82,249 or 3%, the result of revenue from Radio maintenance for Non Public Safety Agencies and Knox County Departments.

For fiscal year 2015 Nonoperating Revenues increased by \$82,249. That increase is the combination of a decrease in the Tennessee Emergency Communications Board – Grants and Reimbursements totaling \$21,827, an increase of radio maintenance totaling \$151,105, a decrease of \$5,000 in miscellaneous revenue which is comprised mainly of charges for tower and facility rental, a decrease of rental income of \$45,000, and interest earnings increased by \$2,971.

Total expenses for FY 2015 increased by \$88,850, with the increase being comprised of an increase of \$894 in personnel costs (salaries and wages and employee benefits), increased costs of contracted services totaling \$51,854, an increase in supplies and materials totaling \$38,015, a decrease in other charges totaling \$14,020, and an increase of \$12,107 in depreciation expense. During FY 2014, total expenses increased by \$188,955, with the largest increase being comprised of increased costs of personnel (salaries and wages and employee benefits), a decrease in contracted services, a decrease in supplies and materials, and a decrease in other charges, combined with higher depreciation expense.

**Knoxville-Knox County Emergency Communications District
Changes in Net Position**

	FYE <u>June 30, 2015</u>	FYE <u>June 30, 2014</u>	FYE <u>June 30, 2013</u>
Revenues:			
Operating Revenues:			
TECB-Operational Funding Program	\$ 3,784,498	\$ 1,824,595	\$ 1,875,152
Emergency Telephone Service Charges	1,325,907	2,763,058	3,118,517
TECB-Wireless Fees	404,845	1,107,105	1,062,356
Other Operating Revenues - Tape Sales	21,672	21,135	19,325
Total Operating Revenues	<u>5,536,922</u>	<u>5,715,893</u>	<u>6,075,350</u>
Nonoperating Revenues:			
Contributions from Other Governments and Agencies	1,719,140	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828	492,828
Rental Income	164,000	209,000	160,900
TN Emergency Comm. Board - Grants and Reimbursements	15,202	37,029	16,372
Radio Maintenance (Non Public Safety Agencies)	239,585	88,480	201,140
Miscellaneous Income	-	5,000	5,368
Interest Income	16,496	13,525	17,960
Total Nonoperating Revenues	<u>2,647,251</u>	<u>2,565,002</u>	<u>2,613,708</u>
Total Revenues	<u>8,184,173</u>	<u>8,280,895</u>	<u>8,689,058</u>
Expenses:			
Operating Expenses:			
Salaries and Wages	3,968,317	3,926,078	3,689,684
Employee Benefits	1,067,273	1,108,618	1,041,347
Contracted Services	1,189,822	1,137,968	1,212,947
Supplies and Materials	208,574	170,559	190,827
Other Charges	66,473	80,493	98,997
Depreciation and Amortization	183,064	170,957	171,916
Total Operating Expenses	<u>6,683,523</u>	<u>6,594,673</u>	<u>6,405,718</u>
Total Expenses	<u>6,683,523</u>	<u>6,594,673</u>	<u>6,405,718</u>
Income before Capital Contributions	<u>1,500,650</u>	<u>1,686,222</u>	<u>2,283,340</u>
Capital Contributions:			
Capital Contributions - CAD System	-	883,814	747,638
Total Capital Contributions	<u>-</u>	<u>883,814</u>	<u>747,638</u>
Change in Net Position	1,500,650	2,570,036	3,030,978
Net Position - Beginning of Year	22,896,935	20,326,899	17,295,921
Net Position - End of Year	<u>\$ 24,397,585</u>	<u>\$ 22,896,935</u>	<u>\$ 20,326,899</u>

Budgetary Highlights

During 2015 differences between the original budget and final amended budget for ongoing operations were relatively minor. The only revisions to the budget were within the major budget categories to cover individual line items that exceeded budget and also included the reappropriation of amounts reserved for the new CAD system. Amendments to the budget increased the total revenue budget for the District in the amount of \$1,920,977, and amendments increased the total expense budget for the District in the amount of \$1,920,977. The Schedule of Revenues and Expenses – Budget to Actual (Budget Basis), which is found in the supplementary information section of this report on pages 25, and 26, details the original budget, budget amendments, amended budget, and actual revenues and expenditures, as well as the variances from the final amended budget.

During 2015 operating Revenues were \$357,048 under budget, while Nonoperating Revenues were a combined \$1,813,694 under budget. Operating expenses were \$3,561,062 under budget, and of the reserved and reappropriated amounts that were budgeted for Capital Outlay \$293,394 was spent. The net result of these budgetary variations was that the net increase in net position increased by \$1,390,320 compared with the budgeted net increase of \$0 in the final amended budget.

Capital Assets

The District's net investment in capital assets as of June 30, 2015, amounts to \$8,614,090 (net of accumulated depreciation). Capital assets include land, construction in progress, buildings, communications and office equipment, vehicle, software, and leasehold improvements. The District's net investment in capital assets increased for the current fiscal year by 1%, or \$110,156, due mainly to a combination of two items: 1) a decrease in net investment in capital assets due to depreciation expense charged during the current fiscal year of \$183,064 and 2) an increase in net investment in capital assets due to the purchases for the new CAD system totaling \$293,394. As of June 30, 2014, the District's net investment in capital assets amounted to \$8,503,934 (net of accumulated depreciation). For the fiscal year ending June 30, 2014, the District's net investment in capital assets increased 30%, or \$1,974,756. The fiscal year 2014 increase resulted mainly from a combination of two items: 1) a decrease in net investment in capital assets due to depreciation expense charged during the 2014 fiscal year totaling \$170,957 and 2) an increase in net investment in capital assets due to the continued improvements for the new CAD system totaling \$2,145,713. For a detailed schedule of the District's capital assets, see Note 4 to the Financial Statements.

Long-term Debt. Compensated absences payable increased by \$37,744 in FY 2015, and increased by \$10,199 in FY 2014. For a detailed schedule of the District's long term debt, see Note 6 to the Financial Statements.

Requests for Information

This financial report is designed to provide a general overview of the Knoxville-Knox County Emergency Communications District's finances for all of those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Knoxville-Knox County Emergency Communications District, 605 Bernard Avenue, Knoxville, Tennessee, 37917.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF NET POSITION
June 30, 2015 and June 30, 2014**

	2015	2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 16,135,629	\$ 13,391,498
Accounts Receivable	81,964	1,497,385
Due from Primary Government	-	3,575
Prepaid Items	76,196	39,599
Total Current Assets	16,293,789	14,932,057
 Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	8,614,090	8,503,934
Total Assets	24,907,879	23,435,991
 LIABILITIES		
Current Liabilities:		
Accounts Payable	32,911	129,333
Accrued Payroll Payable	172,711	143,870
Compensated Absences Payable	303,046	265,302
Due to Primary Government	1,626	551
Total Current Liabilities	510,294	539,056
 NET POSITION		
Investment in Capital Assets	8,614,090	8,503,934
Unrestricted	15,783,495	14,393,001
Total Net Position	\$ 24,397,585	\$ 22,896,935

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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

For the Years Ended June 30, 2015 and June 30, 2014

	2015	2014
Operating Revenues:		
TECB - Operational Funding Program	\$ 3,784,498	\$ 1,824,595
Emergency Telephone Service Charges	1,325,907	2,763,058
TECB - Wireless Fees	404,845	1,107,105
Other Operating Revenues - Tape Sales	21,672	21,135
Total Operating Revenues	5,536,922	5,715,893
Operating Expenses:		
Salaries and Wages	3,968,317	3,926,078
Employee Benefits	1,067,273	1,108,618
Contracted Services	1,189,822	1,137,968
Supplies and Materials	208,574	170,559
Other Charges	66,473	80,493
Depreciation and Amortization	183,064	170,957
Total Operating Expenses	6,683,523	6,594,673
Operating Loss	(1,146,601)	(878,780)
Nonoperating Revenues (Expenses):		
Contributions from Other Governments and Agencies	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828
Rental Income	164,000	209,000
Tennessee Emergency Communications Board - Grants and Reimbursements	15,202	37,029
Radio Maintenance (Non Public Safety Agencies)	77,521	34,272
Radio Maintenance - County Departments	162,064	54,208
Miscellaneous Income	-	5,000
Interest Income	16,496	13,525
Total Nonoperating Revenues (Expenses) - Net	2,647,251	2,565,002
Income before Capital Contributions	1,500,650	1,686,222
Capital Contributions:		
Capital Contributions - CAD System	-	883,814
Total Capital Contributions	-	883,814
Change in Net Position	1,500,650	2,570,036
Total Net Position - Beginning of Year	22,896,935	20,326,899
Total Net Position - End of Year	\$ 24,397,585	\$ 22,896,935

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and June 30, 2014**

	2015	2014
Cash Flows from Operating Activities		
Cash Received from Surcharges and Other Revenues	\$ 7,359,503	\$ 5,492,395
Cash Payments to Suppliers for Goods and Services	(1,596,813)	(1,359,266)
Cash Payments for Payroll, Taxes and Related Benefits	(4,969,005)	(5,040,120)
	793,685	(906,991)
Cash Flows from Noncapital Financing Activities		
Contributions from Other Governments and Agencies	1,719,140	1,719,140
Contributions from Primary Government	492,828	492,828
Tennessee Emergency Communications Board - Grants and Reimbursements	15,202	37,029
	2,227,170	2,248,997
Cash Flows from Capital and Related Financing Activities		
Purchase of Equipment	(293,220)	(2,145,713)
Capital Contributions - CAD System	-	883,814
	(293,220)	(1,261,899)
Cash Flows from Investing Activities		
Interest Received	16,496	13,525
	16,496	13,525
Net Increase in Cash and Cash Equivalents	2,744,131	93,632
Cash and Cash Equivalents - Beginning of Year	13,391,498	13,297,866
Cash and Cash Equivalents - End of Year	\$ 16,135,629	\$ 13,391,498

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**STATEMENTS OF CASH FLOWS - (Continued)
For the Years Ended June 30, 2015 and June 30, 2014**

**Reconciliation of Operating Loss to
Net Cash Provided (Used) by Operating Activities**

	<u>2015</u>	<u>2014</u>
Operating Loss	\$ (1,146,601)	\$ (878,780)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	183,064	170,957
Rental Income	164,000	209,000
Radio Maintenance	239,585	88,480
Miscellaneous Income	-	5,000
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,415,421	(525,181)
(Increase) Decrease in Due from Primary Government	3,575	(797)
(Increase) Decrease in Prepaid Items	(36,597)	(39,599)
Increase (Decrease) in Accounts Payable	(96,422)	85,250
Increase (Decrease) in Accrued Payroll Payable	28,841	(15,623)
Increase (Decrease) in Compensated Absences Payable	37,744	10,199
Increase (Decrease) in Due to Primary Government	1,075	(15,897)
Net Cash Provided (Used) by Operating Activities	<u>\$ 793,685</u>	<u>\$ (906,991)</u>

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

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Knoxville - Knox County Emergency Communications District (the District) was established January 1, 1985, pursuant to the provisions of Section 7-86-101, Tennessee Code Annotated. The District has established and operates a consolidated public safety answering point (PSAP) service and emergency radio dispatch service for the residents of the City of Knoxville and Knox County, Tennessee.

The District is considered a component unit of Knox County, Tennessee and is discretely presented in the Knox County Comprehensive Annual Financial Report. The District is governed by an eleven-member Board of Directors (the Board). The majority of the Board is appointed by the Knox County Commission. Debt issuances or lease agreements exceeding five years require the approval of the Knox County Commission. The District has the authority to levy an emergency telephone service charge to be used to fund the emergency telephone service. The Knox County Commission, however, may reduce the levy established by the District, provided that the reduction does not preclude the District from the authorized activities provided in the Tennessee Code Annotated.

B. Basis of Accounting

The financial statements of the District are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Additionally, proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are user fees for landline and wireless telephone customers, as well as charges for tapes. Operating expenses for proprietary funds include the cost of sales and services such as salaries and wages, employee benefits, contracted services, supplies and materials, other charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position

1. Deposits and Investments

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. The District's cash, cash equivalents and investments are pooled and managed by the Trustee of Knox County. State Statutes authorize the District to invest in obligations of the federal government, State of Tennessee, U.S. governmental agencies, the State of Tennessee Local Government Investment Pool, certificates of deposit and repurchase agreements. All investments are reported at fair value. Short-term investments, however, are reported at cost, which approximates fair value. Currently, no investments are held in the District's name. Tennessee Code Annotated Section 7-86-126 requires financial institutions to secure the District's deposits by pledging governmental securities as collateral. The market value of the securities must be equal to 105% of the average daily balance of the District's deposits.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded at full value. Any amounts later determined to be uncollectible are written off when that determination is made. Any necessary allowance for doubtful accounts would not be material.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when paid, and expensed in the applicable future accounting period.

4. Capital Assets

Capital assets, which include property, buildings, equipment, software and leasehold improvements, are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position (Continued)

4. Capital Assets (Continued)

Property, buildings, equipment, software and leasehold improvements are depreciated using the straight-line method over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Years</u>
Buildings	40
Communication and Office Equipment	5-10
Leasehold Improvements	15
Computer Software	7
Vehicles	5

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When capital assets are sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is charged or credited to operations.

Capital assets considered construction in progress are stated at cost and are depreciated using the straight-line method over their estimated useful lives when placed into service.

5. Compensated Absences Payable

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy that, upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned.

Employees may accumulate vacation leave according to the following schedule:

<u>Years of Service</u>	<u>Maximum Accrual</u>
0-8	36 days
9-20	39 days
21 and greater	42 days

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position (Continued)

6. Net Position

Net Position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted net position, and unrestricted net position. Net investment in capital assets includes all capital assets, net of accumulated depreciation. The restricted net position 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 assets at June 30, 2015, and at June 30, 2014. The unrestricted net position category includes all other assets that do not meet the definition of “restricted” or “investment in capital assets”. The District’s Board established an internal equipment reserve and this reserve is designated to purchase equipment for the District. The amount in the reserve for the years ended June 30, 2015 and 2014 totaled \$10,018,367 and \$10,311,761, respectively. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

7. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

8. Revenue Recognition

All fees are collected and remitted to the District through the State of Tennessee Emergency Communications Board (TECB). Revenues are recognized by the District in the period allocated by the TECB. Effective January 1, 2015, the State legislature passed a new law that changed the funding formula for emergency communications districts.

9. Reclassifications

Certain items have been reclassified from prior year to conform to current period presentation.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 2: BUDGETARY INFORMATION

As required by State Statutes, the District adopts an annual operating budget. The budget proposal is prepared by the Executive Director and approved by the Board. The appropriated budget is prepared by division, major category, and line item. The budget is prepared on the budgetary basis of accounting. Expenditures cannot exceed a line item or major category within a division without an amendment to the budget approved by the Board. All annual appropriations lapse at fiscal year end.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are not reported as expenditures or liabilities because the commitments will be honored in the subsequent year. Outstanding encumbrances are reappropriated in the subsequent year. The encumbrances committed at June 30, 2015 were \$1,641,329 and the encumbrances committed at June 30, 2014 were \$1,920,977. The encumbrances for June 30, 2015, and June 30, 2014 were related primarily to capital expenditures for the ongoing CAD project. See Note 5.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The District reports a total increase or decrease in net position which enables the Board to determine the funds available for appropriation.

NOTE 3: DEPOSITS AND INVESTMENTS

At June 30, 2015, and June 30, 2014, the bank collateral pool administered by the Treasurer of the State of Tennessee covered the District's cash and cash equivalents, which were pooled and managed by the Trustee of Knox County. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the District. The amount of collateral required to secure these deposits must be equal to 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Reclass & Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Construction in Progress	4,421,476	293,394	-	4,714,870
Total Capital Assets Not Being Depreciated	4,477,565	293,394	-	4,770,959
Capital Assets Being Depreciated:				
Buildings	5,099,736	-	-	5,099,736
Communications and Office Equipment	12,499,067	-	(105,090)	12,393,977
Vehicles	60,748	106,836	-	167,584
Computer Software	29,345	-	(29,345)	-
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	17,896,631	106,836	(134,435)	17,869,032
Less Accumulated Depreciation for:				
Buildings	(1,199,545)	(134,460)	-	(1,334,005)
Communications and Office Equipment	(12,403,955)	(29,292)	99,112	(12,334,135)
Vehicles	(31,625)	(17,369)	(101,032)	(150,026)
Computer Software	(29,345)	-	29,345	-
Leasehold Improvements	(205,792)	(1,943)	-	(207,735)
Total Accumulated Depreciation	(13,870,262)	(183,064)	27,425	(14,025,901)
Total Capital Assets Being Depreciated, Net	4,026,369	(76,228)	(107,010)	3,843,131
Total Capital Assets, Net	\$ 8,503,934	\$ 217,166	\$ (107,010)	\$ 8,614,090

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 4: CAPITAL ASSETS (Continued)

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 56,089	\$ -	\$ -	\$ 56,089
Construction in Progress	2,304,235	2,117,241	-	4,421,476
Total Capital Assets Not Being Depreciated	2,360,324	2,117,241	-	4,477,565
Capital Assets Being Depreciated:				
Buildings	5,099,736	-	-	5,099,736
Communications and Office Equipment	12,499,067	-	-	12,499,067
Vehicles	32,276	28,472	-	60,748
Computer Software	29,345	-	-	29,345
Leasehold Improvements	207,735	-	-	207,735
Total Capital Assets Being Depreciated	17,868,159	28,472	-	17,896,631
Less Accumulated Depreciation for:				
Buildings	(1,084,294)	(115,251)	-	(1,199,545)
Communications and Office Equipment	(12,373,817)	(30,138)	-	(12,403,955)
Vehicles	(19,475)	(12,150)	-	(31,625)
Computer Software	(29,345)	-	-	(29,345)
Leasehold Improvements	(192,374)	(13,418)	-	(205,792)
Total Accumulated Depreciation	(13,699,305)	(170,957)	-	(13,870,262)
Total Capital Assets Being Depreciated, Net	4,168,854	(142,485)	-	4,026,369
Total Capital Assets, Net	\$ 6,529,178	\$ 1,974,756	\$ -	\$ 8,503,934

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 5: CONSTRUCTION IN PROGRESS

Construction in progress activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
CAD System (Expected Completion in FY 2016)	\$ 4,421,476	\$ 293,394	\$ -	\$ 4,714,870

Construction in progress activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
CAD System	\$ 2,304,234	\$ 2,117,241	\$ -	\$ 4,421,476

NOTE 6: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated Absences	\$ 265,302	\$ 365,602	\$ (327,858)	\$ 303,046	\$ 303,046

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated Absences	\$ 255,103	\$ 324,481	\$ (314,282)	\$ 265,302	\$ 265,302

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 7: CONTRIBUTED CAPITAL

The State of Tennessee and Knox County's current ambulance provider gave a capital contribution during FY 2014 of cash in the total amount of \$883,814 for specific requirements for the District's CAD system currently in progress in the current fiscal year. The CAD system is scheduled to be in operation in fiscal year 2016.

NOTE 8: RELATED PARTY TRANSACTIONS

Under an intergovernmental cooperation agreement setting forth their mutual understandings regarding financial assistance provided to the District in return for consolidated PSAP service and emergency radio dispatch service, the City of Knoxville and Knox County make annual allocations to the District. The City of Knoxville and Knox County, Tennessee provided funding of \$2,211,968 in the current fiscal year and past fiscal year to the District, which amounted to 27% and 27% of total revenues for the fiscal years 2015 and 2014, respectively. The City of Knoxville and Knox County are not legally responsible for funding operational deficits of the District.

Knox County provides various administrative and internal service functions to the District. During the current fiscal year, the total charged by the County to the District for those services was \$51,113. The County charged the District \$46,652 for those services in fiscal year 2014.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District controls these various risks by purchasing commercial insurance coverage. The District purchases workers' compensation, property and liability insurance.

The District has had no significant reduction in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 10: DEFERRED COMPENSATION PLAN and DEFINED CONTRIBUTION PLAN

A. Deferred Compensation Plan

The District provides the opportunity for each of its employees to participate in a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Under this plan, employees may elect to reduce their salary by at least \$20 per month in tax-deferred savings to supplement retirement income. The deferred compensation is generally not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as an asset or liability of the District.

B. Defined Contribution Plan

The District has a defined contribution plan that covers substantially all full time employees of the District. The plan's investments are held in trust at Wells Fargo (WYSTAR) Trust and the plan is administered by USI Consulting Group. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Participation begins on the first day of employment and all eligible employees not participating in another County, or state retirement plan are required to participate. Employees vest in the employer contributions at 20% per year after one year of service and are 100% vested after five years. The District's defined contribution plan requires all participants to contribute a minimum of 4% of compensation with an additional option of 2% up to a maximum contribution of 6%. For each plan year the employer shall contribute to the plan as a matching employer contribution on behalf of each active participant an amount equal to 100% of the participant mandatory contributions and voluntary matched contributions, up to a maximum of 6% of the participant's compensation.

C. Contributions

As of June 30, 2015, there were 62 active plan members. During the year, the District made total employer contributions of \$171,105 and the District's employees contributed a total amount of \$177,322 to the DC Plan and 457 Plan. During 2014, the District contributed a total amount of \$178,735 and the District's employees contributed a total amount of \$178,735 to the DC Plan and 457 Plan.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)

For the Year Ended June 30, 2015

	Original Budget	Amendments	Amended Budget	Actual	Variance Under (Over)	YTD % of Budget
Operating Revenues						
TECB - Operational Funding Program	\$ 4,051,237	\$ -	\$ 4,051,237	\$ 3,784,498	\$ 266,739	93%
Emergency Telephone Service Charges	1,257,733	-	1,257,733	1,325,907	(68,174)	105%
TECB - Wireless Fees	561,000	-	561,000	404,845	156,155	72%
Other Operating Revenue - Tape Sales	24,000	-	24,000	21,672	2,328	90%
Total Operating Revenues	5,893,970	-	5,893,970	5,536,922	357,048	94%
Operating Expenses						
<u>Salaries and Wages</u>						
Director	131,358	-	131,358	131,358	-	100%
Administrative Personnel	666,738	-	666,738	649,879	16,859	97%
Dispatchers	1,630,082	(20,000)	1,610,082	1,409,485	200,597	88%
Call Processors	1,963,994	(51,000)	1,912,994	1,659,339	253,655	87%
Part-time Personnel	135,000	15,700	150,700	118,256	32,444	78%
Total Salaries and Wages	4,527,172	(55,300)	4,471,872	3,968,317	503,555	89%
<u>Employee Benefits</u>						
Social Security	346,534	-	346,534	265,125	81,409	77%
Retirement	213,078	(10,000)	203,078	171,105	31,973	84%
Health Insurance	818,800	(32,000)	786,800	626,352	160,448	80%
Life Insurance	14,400	-	14,400	4,691	9,709	33%
Total Employee Benefits	1,392,812	(42,000)	1,350,812	1,067,273	283,539	79%
<u>Contracted Services</u>						
Medical Services	6,298	-	6,298	1,470	4,828	23%
Licensing and Related Costs	2,450	-	2,450	-	2,450	0%
Other Professional Services	44,500	60,300	104,800	98,852	5,948	94%
Equipment - Rent/Repair/Maintenance	321,160	208,720	529,880	509,463	20,417	96%
Vehicle - Rent/Repair/Maintenance	3,000	-	3,000	461	2,539	15%
Communications and IT Related	526,400	(18,500)	507,900	411,605	96,295	81%
Other Services Related to Daily Operations	9,250	-	9,250	616	8,634	7%
Services - Maintenance of Building and Grounds	113,522	(107,720)	5,802	250	5,552	4%
Contract with Other Agencies	175,960	(25,000)	150,960	148,287	2,673	98%
Space Rentals	300	-	300	-	300	0%
Employee, Travel, Educational Training	41,970	-	41,970	18,818	23,152	45%
Total Contracted Services	1,244,810	117,800	1,362,610	1,189,822	172,788	87%

continued...

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL (BUDGET BASIS)

For the Year Ended June 30, 2015

	Original Budget	Amendments	Amended Budget	Actual	Variance Under (Over)	YTD % of Budget
Operating Expenses (continued)						
<u>Supplies and Materials</u>						
Food	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ 2,000	0%
Utilities and Fuel	224,220	(20,500)	203,720	160,328	43,392	79%
Office Supplies and Minor Equipment	119,600	-	119,600	47,555	72,045	40%
Educational Materials	10,600	-	10,600	428	10,172	4%
Other Materials for Daily Operations	3,750	-	3,750	263	3,487	7%
Total Supplies and Materials	360,170	(20,500)	339,670	208,574	131,096	61%
<u>Other Charges</u>						
Insurance Related Charges	7,700	-	7,700	6,762	938	88%
Worker's Compensation Charges	30,000	-	30,000	13,796	16,204	46%
Liability Charges	13,200	-	13,200	11,744	1,456	89%
Space Costs	34,655	-	34,655	31,434	3,221	91%
Other	823,419	-	823,419	2,737	820,682	0%
Capital Outlay	-	1,920,977	1,920,977	293,394	1,627,583	15%
Total Other Charges	908,974	1,920,977	2,829,951	359,867	2,470,084	13%
Total Operating Expenses	8,433,938	1,920,977	10,354,915	6,793,853	3,561,062	66%
Operating Income (Loss)	(2,539,968)	(1,920,977)	(4,460,945)	(1,256,931)	3,918,110	28%
Nonoperating Revenues (Expenses)						
Contributions from Other Governments & Agencies	1,719,140	-	1,719,140	1,719,140	-	100%
Contributions from Primary Government	492,828	-	492,828	492,828	-	100%
Rental Income	159,000	-	159,000	164,000	(5,000)	103%
TECB - Grants and Reimbursements	-	-	-	15,202	(15,202)	100%
Radio Maintenance (Non Public Safety Agencies)	144,000	-	144,000	239,585	(95,585)	166%
Interest Income	25,000	-	25,000	16,496	8,504	66%
Appropriated from Fund Balance	-	1,920,977	1,920,977	-	1,920,977	0%
Total Nonoperating Revenues (Expenses)	2,539,968	1,920,977	4,460,945	2,647,251	1,813,694	59%
Net Increase (Decrease) in Net Position (Budget Basis)	\$ -	\$ -	\$ -	\$ 1,390,320	\$ 1,390,320	100%

**KNOXVILLE - KNOX COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Reconciliation of the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis)
To the Statement of Revenues, Expenses and Changes in Net Position**

For the Year Ended June 30, 2015

Amounts reported in the Schedule of Revenues and Expenses - Budget to Actual
(Budget Basis) are different because:

Net Increase (Decrease) in Net Position (Budget Basis) (page 26)	\$ 1,390,320
Capital outlays are reported as expenditures in the Schedule of Revenues and Expenses - Budget to Actual (Budget Basis). However, in the Statement of Revenues, Expenses and Changes in Net Position the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$(293,394) exceeds depreciation \$(183,064) in the current year.	<u>110,330</u>
Change in net position (page 12)	<u><u>\$ 1,500,650</u></u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

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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

Knoxville – Knox County Emergency Communications District
Knoxville, 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 Knoxville – Knox County Emergency Communications District (the "District"), a discretely presented component unit of Knox County, Tennessee, which comprise the statements of net position as of June 30, 2015 and June 30, 2014, and the related statements of revenues, expenses, and changes 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 December 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Knoxville – Knox County Emergency Communications District's internal control. Accordingly, we do not express an opinion on the effectiveness of Knoxville – Knox 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 control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 10, 2015