

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT**

**Dunlap, Tennessee**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL DATA**

**Year Ended June 30, 2015**

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

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**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
ROSTER OF MANAGEMENT AND BOARD MEMBERS  
JUNE 30, 2015**

**MANAGEMENT:**

Winfred Smith

Executive Director

**BOARD MEMBERS:**

Clint Huth

Chairman

Brian Harmon

Vice Chairman

Donald Rifkin

Secretary/Treasurer

Sharon Barker

Director

Kevin Snyder

Director

Cecil Nunley

Director

Randall Lockhart

Director

Jerry Hutchins

Director

Shane Garrison

Director

## MANAGEMENT’S DISCUSSION AND ANALYSIS

My discussion and analysis of Sequatchie County 911 Emergency Communication District’s financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2015. This should be read in conjunction with the District’s financial statements, which begin on page 9.

### USING THIS ANNUAL REPORT

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

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

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

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

	2015	2014
<b>NET POSITION:</b>		
Current and other assets	\$ 226,830	\$ 123,604
Deferred outflows related to pensions	10,000	11,395
Net pension asset	51,156	-
Capital assets	346,033	414,510
Total assets	634,019	549,509
Current liabilities	(7,670)	(7,670)
Net pension liability	-	(17,187)
Deferred inflows related to pensions	(53,965)	-
Net position	\$ 572,384	\$ 524,652
Summary of net position -		
Invested in capital assets	\$ 346,033	\$ 414,510
Unrestricted	226,351	110,142
	\$ 572,384	\$ 524,652

	<u>2015</u>	<u>2014</u>
<b>CHANGES IN NET POSITION:</b>		
Operating revenues	\$ 291,934	\$ 264,914
Operating expenses	<u>475,234</u>	<u>436,105</u>
Operating loss	(183,300)	(171,191)
Nonoperating revenues, net of expenses	<u>231,032</u>	<u>463,711</u>
Changes in net position	47,732	292,520
<b>NET POSITION:</b>		
Beginning	<u>524,652</u>	<u>232,132</u>
Ending	<u>\$ 572,384</u>	<u>\$ 524,652</u>

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

For the year ended June 30, 2015, the cost of its required operating activities exceeded the revenues generated, and net position increased by approximately \$48,000. Operating revenues increased by approximately \$27,000 and operating expenses increased \$39,000 when compared to the prior year. Telephone service charges, shared wireless charges and state operational funding decreased due to changes in TECB funding and telephone service charge collection processes. The changes resulted in the establishment of a 911 surcharge base amount that will be received in six equal installments. Changes in categories of expenses were approximately as follows: Salaries and benefits increased by approximately \$20,000, contracted services increased by approximately \$21,000, supplies and materials decreased by \$9,000, depreciation and amortization increased by \$22,000, and other operating expenses increased by \$1,000.

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

At June 30, 2015, net position consisted of investment in capital assets totaling \$346,033, and unrestricted net position of \$226,351.

### **BUDGETARY HIGHLIGHTS**

Actual revenues of \$522,966 were approximately \$75,000 more than the amount budgeted. Actual expenses of \$475,234 were approximately \$6,000 less than the budget of \$469,518. Approximate results of actual expenses compared to the final budget were as follows: salaries and benefits were over budget by \$500; contracted services were over budget by \$5,000; supplies and materials were under budget by \$2,000; other charges were over budget by \$1,000; depreciation and amortization were over budget by \$1,000.

**CAPITAL ASSETS**

At June 30, 2015, the District had \$346,033 invested in capital assets, including building and improvements, telecommunications and office equipment, and furniture and fixtures. The District has capital assets totaling \$861,616, with \$515,583 having been expensed through the provision for depreciation and amortization. The decrease in capital assets of approximately \$68,000 consists mainly of communications and office equipment purchases totaling \$20,973 and depreciation totaling \$89,450. Detailed information about the District's capital assets is presented in Note 4 to the financial statements.

**ECONOMIC FACTORS AND PLANNING FOR FUTURE NEEDS**

The District is making long-range plans for financial viability. In 2015 the District continued to experience an increase in net position despite the elimination of revenues received from land-line telephones and TCEB shared wireless revenue and the addition of the 911 surcharge base amount. Management will continue to monitor the District's expenses and will make necessary changes to prevent the District from incurring future decreases in net position.

Winfred Smith  
Executive Director

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Sequatchie County 911 Emergency Communications District:

### Report on the Financial Statements

We have audited the accompanying financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the statement of net position, the related statement of revenue, expenses and change in net position and statement of cash flows.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Sequatchie County 911 Emergency Communications District as of June 30, 2015, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2015, Sequatchie County 911 Emergency Communications District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 5 and schedules relating to the public employee pension plan of TCRS on pages 26 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, on our consideration of Sequatchie County "911" Emergency Communications District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



December 7, 2015

## **FINANCIAL STATEMENTS**

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 216,451
Prepaid expenses	10,379
Net pension asset	<u>51,156</u>

Total current assets 277,986

**DEFERRED OUTFLOWS OF RESOURCES:**

Deferred outflows from pensions	<u>10,000</u>
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**CAPITAL ASSETS:**

Land	49,700
Buildings and improvements	120,599
Office equipment	9,644
Communications equipment	<u>681,673</u>

861,616  
Less accumulated depreciation 515,583

Capital assets, net 346,033

\$ 634,019

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

## LIABILITIES AND NET POSITION

### **CURRENT LIABILITIES:**

Accrued payroll and payroll withholdings	\$ 3,968
Accrued employee leave	<u>3,702</u>
 Total current liabilities	 <u>7,670</u>

### **DEFERRED INFLOW OF RESOURCES:**

Deferred inflows from pensions	<u>53,965</u>
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### **NET POSITION:**

Investment in capital assets	346,033
Unrestricted	<u>226,351</u>
 Total net position	 <u>572,384</u>

\$ 634,019

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

**REVENUES:**

Emergency telephone service charges	\$ 52,657
Tennessee Emergency Communications Board - 911 surcharge base amount	155,526
Shared wireless charge	19,335
Operational funding	62,091
Other income	<u>2,325</u>
	<u>291,934</u>

**EXPENSES:**

Salaries and benefits	263,716
Contracted services	90,158
Supplies and materials	16,338
Other expenses	15,572
Depreciation and amortization	<u>89,450</u>
	<u>475,234</u>

**OPERATING LOSS** (183,300)

**NONOPERATING REVENUES (EXPENSES):**

State grants and reimbursements	100,862
County and City funding	130,000
Interest income	<u>170</u>

**CHANGE IN NET POSITION** 47,732

**NET POSITION:**

Beginning, as previously reported	529,814
Prior period adjustment	<u>(5,162)</u>
Beginning, as restated	<u>524,652</u>
Ending	<u><u>\$ 572,384</u></u>

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts for emergency communication services	\$ 245,055
Receipts for operational funding	62,091
Other receipts	2,325
Payments to/for employees	(276,699)
Payments for goods and services	<u>(101,386)</u>
Net cash used by operating activities	<u>(68,614)</u>

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

Purchase of capital assets	<u>(20,973)</u>
Net cash used by capital and related financing activities	<u>(20,973)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Receipts from State grants and reimbursements	100,862
County and City funding	<u>130,000</u>
Net cash provided by noncapital financing activities	<u>230,862</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>170</u>
Net cash provided by investing activities	<u>170</u>

**NET INCREASE IN CASH** 141,445

**CASH:**

Beginning	<u>75,006</u>
Ending	<u><u>\$ 216,451</u></u>

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

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

Operating loss	\$ (183,300)
Adjustments to reconcile operating loss to net cash used by operating activities -	
Depreciation and amortization	89,450
(Increase) decrease in operating assets:	
Accounts receivable	17,537
Prepaid expenses	20,682
Net pension asset	(68,343)
Deferred outflows from pensions	1,395
Increase (decrease) in operating liabilities:	
Deferred inflows from pensions	<u>53,965</u>
Net cash used by operating activities	<u>\$ (68,614)</u>

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Organization -**

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

**Financial Reporting Entity -**

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

**Basis of Accounting -**

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

**Estimates -**

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

**Accounts Receivable -**

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**Capital Assets -**

The District capitalizes purchases of capital assets exceeding \$5,000, including software, which are recorded at cost. Depreciation is provided over the estimated useful lives of the individual assets by the straight-line method. Depreciation expense for the year ended June 30, 2015, was \$89,450.

**Deferred outflows/inflows of resources -**

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

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

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

As of June 30, 2015, the District had deferred outflows of resources totaling \$10,000 and deferred inflows of resources totaling \$53,965.

**Pensions -**

During the year, the District adopted the provisions of GASB Statement Number 68, Accounting and Financial Reporting for Pensions. For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the District's 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.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(2) BUDGETARY CONTROL:**

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

**(3) COMPENSATED ABSENCES:**

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

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

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

Changes in capital assets for the year ended June 30, 2015, are as follows -

	<u>Beginning</u>	<u>Additions</u>	<u>Reclasses &amp; Retirements</u>	<u>Ending</u>
<b>Non-depreciable Assets:</b>				
Land	\$ 49,700	\$ -	\$ -	\$ 49,700
<b>Depreciable Assets:</b>				
Buildings and improvements	120,599	-	-	120,599
Office equipment	5,116	4,528	-	9,644
Communications equipment	<u>665,228</u>	<u>16,445</u>	<u>-</u>	<u>681,673</u>
	<u>840,643</u>	<u>20,973</u>	<u>-</u>	<u>861,616</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	82,532	6,544	-	89,076
Office equipment	5,116	151	-	5,267
Communications equipment	<u>338,485</u>	<u>82,755</u>	<u>-</u>	<u>421,240</u>
	<u>426,133</u>	<u>89,450</u>	<u>-</u>	<u>515,583</u>
<b>Net capital assets</b>	<u>\$ 414,510</u>	<u>\$ (68,477)</u>	<u>\$ -</u>	<u>\$ 346,033</u>

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(5) CASH AND INVESTMENTS:**

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

At June 30, 2015, the District's cash and investments consist of the following -

	<u>Weighted Average Maturity (Years)</u>	<u>Cost Basis</u>
Cash in demand deposit accounts	<u>0.00</u>	<u>\$ 216,451</u>

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

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

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(6) OPERATING LEASES:**

The District leases office equipment from MSA, Inc., for \$97 per month, under an operating lease of 60 months through August 2015. Lease expense totaled \$3,874 for the 2015 year.

**(7) RETIREMENT PLAN:**

**Plan description -**

Employees of Sequatchie 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](http://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.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN (Continued):**

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 2<sup>nd</sup> 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 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:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>6</u>
	<u>18</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 their salary. The 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 the District were \$10,000 and based on a rate of 5.45 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the 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.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN** (Continued):

**Net Pension Liability (Asset) -**

The 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 period included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges 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 pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

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.

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN** (Continued):

**Actuarial Assumptions** (continued) -

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market intl. equity	6.26%	17%
Emerging market intl. 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%
		<hr/> 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.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN** (Continued):

**Discount Rate -**

The discount rate used to measure the total pension liability was 7.5 percent. The projection on cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial evaluation 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.

**Changes in the Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability(Asset) (a-b)
<b>Balance at 6/30/2013</b>	\$ 168,989	\$ 152,432	\$ 16,557
<b>Changes for the year:</b>			
Service cost	16,064	-	16,064
Interest	12,297	-	12,297
Differences between expected and actual experience	(50,926)	-	(50,926)
Contributions-employer	-	11,395	(11,395)
Contributions-employee	-	10,474	(10,474)
Net investment income	-	23,552	(23,552)
Benefit payments, including refunds of employee contributions	(42,194)	(42,194)	-
Administrative expense	-	(273)	273
<b>Net changes</b>	<u>(64,759)</u>	<u>2,954</u>	<u>(67,713)</u>
<b>Balance at 6/30/2014</b>	<u>\$ 104,230</u>	<u>\$ 155,386</u>	<u>\$ (51,156)</u>

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN** (Continued):

**Sensitivity of the net pension liability (asset) to changes in the discount rate -**

The following presents the net pension liability (asset) of the 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 one-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net pension liability (asset)	\$ <u>(35,937)</u>	\$ <u>(51,156)</u>	\$ <u>(63,252)</u>

**Pension income -**

For the year ended June 30, 2015, the District recognized pension income of \$2,353.

**Deferred outflows of resources and deferred inflows of resources -**

For the year ended June 30, 2015, the 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	\$ -	\$ 43,651
Net difference between projected and actual earnings on pension plan investments	-	10,314
Contributions subsequent to the measurement date of June 30, 2014 *	<u>10,000</u>	<u>-</u>
Total	<u>\$ 10,000</u>	<u>\$ 53,965</u>

\* This amount will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(7) RETIREMENT PLAN (Continued):**

**Deferred outflows of resources and deferred inflows of resources**  
(continued) -

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

Year ended June 30, 2016	\$ (9,853)
2017	(9,853)
2018	(9,853)
2019	(9,853)
2020	(7,275)
Thereafter	(7,275)

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

**(8) RISK MANAGEMENT:**

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

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

**(9) PRIOR PERIOD ADJUSTMENT:**

The District's financial activities have been restated to record the effects of implementing GASB 68 and GASB 71 for the year ended June 30, 2014. The prior period restatement resulted in the initial establishment of a net pension liability of \$16,557 and the recording of a deferred outflow from pensions of \$11,395. The net effect of the restatement was a decrease in prior year unrestricted net position of \$5,162.

**(10) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through December 7, 2015, the date which these financial statements were available for issue.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEQUATCHIE COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
(ASSET) AND RELATED RATIOS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
LAST FISCAL YEAR ENDING JUNE 30**

	<b>2014</b>
<b>TOTAL PENSION LIABILITY:</b>	
Service cost	\$ 16,064
Interest	12,297
Difference between expected and actual experience	(50,926)
Benefit payments	(42,194)
Net change in total pension liability	(64,759)
Total pension liability - beginning	168,989
Total pension liability - ending (a)	\$ 104,230
 <b>PLAN FIDUCIARY NET POSITION:</b>	
Contributions - employer	\$ 11,395
Contributions - employee	10,474
Net investment income	23,552
Benefit payments	(42,194)
Administrative expense	(273)
Net change in plan fiduciary net position	2,954
Plan fiduciary net position - beginning	152,432
Plan fiduciary net position - ending (b)	\$ 155,386
 <b>NET PENSION LIABILITY (ASSET) (a) - (b)</b>	 <b>\$ (51,156)</b>
Plan fiduciary net position as a percentage of total pension liability	149.08%
Covered employee payroll	\$ 209,481
Net pension liability (asset) as a percentage of covered-employee payroll	24.42%

*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.*

**SEQUATCHIE COUNTY "911" EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
LAST FISCAL YEAR ENDING JUNE 30**

	<b>2014</b>	<b>2015</b>
Actuarially determined contribution	\$ 11,395	\$ 10,000
Contributions in relation to the actuarially determined contribution	11,395	10,000
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 209,481	\$ 183,824
Contributions as a percentage of covered-employee payroll	5.44%	5.44%

**NOTES TO SCHEDULE:**

**Valuation date -**

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

**Methods and assumptions used to determine contribution rates -**

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	2 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 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	Customizable table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustment	2.5 percent

*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.*

## **OTHER SUPPLEMENTARY INFORMATION**

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF BUDGET TO ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>REVENUES:</b>				
Emergency telephone service charges	\$ 108,000	\$ 51,036	\$ 52,657	\$ 1,621
State Emergency Communications Board -				
Shared wireless charge	33,000	18,075	19,335	1,260
Operational funding	124,000	62,091	62,091	-
Grants and reimbursements	41,856	31,232	100,862	69,630
Base Funds	-	155,524	155,526	2
County and City funding	130,000	130,000	130,000	-
Other income	-	-	2,325	2,325
Interest income	-	-	170	170
	<u>436,856</u>	<u>447,958</u>	<u>522,966</u>	<u>75,008</u>
<b>EXPENSES:</b>				
<b>Salaries and Benefits -</b>				
Salaries	221,602	207,702	228,000	(20,298)
Payroll taxes	21,000	20,530	19,966	564
Group insurance	21,000	21,000	15,750	5,250
Retirement	15,000	14,000	-	14,000
	<u>278,602</u>	<u>263,232</u>	<u>263,716</u>	<u>(484)</u>
<b>Contracted Services -</b>				
Addressing and mapping	18,280	18,280	18,280	-
Advertising	500	500	-	500
Audit services	4,800	5,200	5,200	-
Accounting services	2,300	2,900	2,703	197
Language line	6,000	6,000	8,250	(2,250)
911 service provider fees	1,600	1,600	1,560	40
Legal services	4,800	4,800	4,800	-
Maintenance agreements	4,600	27,734	33,001	(5,267)
Mapping/database consultants	5,400	4,000	-	4,000
NCIC/TBI/TIES	5,000	5,000	2,280	2,720
Pest control	600	600	420	180
Office equipment rental	-	1,800	3,874	(2,074)
Maintenance and repairs -				
Communications equipment	1,000	1,000	1,636	(636)
Office equipment	1,000	1,000	240	760
Facilities	1,700	1,000	5,446	(4,446)
Vehicle	2,500	2,500	1,638	862
Fuel - vehicle	700	790	830	(40)
	<u>60,780</u>	<u>84,704</u>	<u>90,158</u>	<u>(5,454)</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget To Actual Variance</u>
<b>Supplies and Materials -</b>				
Office supplies	\$ 3,000	\$ 3,000	\$ 3,209	\$ (209)
Custodial supplies	1,000	1,000	672	328
Data processing supplies	500	500	-	500
Postage	500	300	151	149
Other supplies and materials	500	-	-	-
Uniforms and shirts	1,500	1,000	476	524
Utilities	8,500	8,500	7,778	722
Telephone	4,975	4,510	4,052	458
	<u>20,475</u>	<u>18,810</u>	<u>16,338</u>	<u>2,472</u>
<b>Other -</b>				
Dues and memberships	600	600	726	(126)
Employee testing	600	-	-	-
Insurance and surety bonds	11,661	8,620	8,509	111
Legal notices	250	250	216	34
Licenses and fees	50	-	100	(100)
Training and travel	4,300	3,200	4,840	(1,640)
Miscellaneous	500	1,650	1,181	469
	<u>17,961</u>	<u>14,320</u>	<u>15,572</u>	<u>(1,252)</u>
<b>Depreciation and amortization</b>	<u>-</u>	<u>88,452</u>	<u>89,450</u>	<u>(998)</u>
<b>Total expenses</b>	<u>377,818</u>	<u>469,518</u>	<u>475,234</u>	<u>(5,716)</u>
<b>NET INCOME</b>	<u>\$ 59,038</u>	<u>\$ (21,560)</u>	<u>\$ 47,732</u>	<u>\$ 69,292</u>

**INTERNAL CONTROL AND COMPLIANCE SECTION**

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

**To the Board of Directors of**

**Sequatchie County 911 Emergency Communications District:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Sequatchie County 911 Emergency Communications District, a component unit of Sequatchie County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

accompanying schedule of findings and responses as 2010-1a, 2010-1b and 2015-1 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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

*Johnson, Wiley & Meacham, P.C.*

December 7, 2015

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

**CURRENT YEAR FINDINGS:**

**2015-1 Controls Over the Budget Process:**

**Condition:**

For the 2015 year, several expense line items, as well as total expenses, exceeded the amount budgeted, with no budget amendments to allow expenses to remain within budget.

**Criteria:**

Failure to adhere to the adopted or amended budget is a violation of *Tennessee Code Annotated*.

**Effect:**

Because of this significant deficiency, controls do not exist that allow the District to operate and report within its budget.

**Recommendation:**

Management should monitor its actual amounts expended to the amount budgeted, and amend, as necessary, if it appears that a line item will exceed the amount budgeted.

**Management's Response:**

Management agrees with the deficiency and will monitor the budget on a timely basis and amend the budget as necessary to operate within the adopted budget.

**PRIOR YEAR FINDINGS NOT CORRECTED:**

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

**Condition:**

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to prepare the financial statements and the related footnotes in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2015 year.

**Criteria:**

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

**Effect:**

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

**Recommendation:**

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

**SEQUATCHIE COUNTY 911 EMERGENCY  
COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

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

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

**Management's Response:**

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

**Auditor Response:**

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

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

**Condition:**

For the 2010 year, our consideration of the internal control structure disclosed that the District had no employee with the qualifications and skills to record the end of year adjustments necessary for preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. There was no change for the 2015 year.

**Criteria:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

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