

**EMERGENCY COMMUNICATIONS DISTRICT OF  
SHELBY COUNTY, TENNESSEE  
(A Component Unit of Shelby County, Tennessee)**

**FINANCIAL STATEMENTS  
JUNE 30, 2013**

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*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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## **ROSTER OF EMPLOYEES AND BOARD MEMBERS**

*Emergency Communications District of Shelby County, Tennessee  
June 30, 2013*

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<b><u>Employee</u></b>	<b><u>Title</u></b>	
Mr. Raymond Chiozza	Director	
Ms. Pat Evans	Office Manager	
Ms. Sue Robinson	Public Education Coordinator	
Mr. Harold Truebger	911 Information Systems Lead	
Mr. Carlton Ray	IT Network Technician	
Mr. Timothy Zimmer	GIS Administrator	

  

<b><u>Board Member</u></b>	<b><u>Officer Position (if applicable)</u></b>	<b><u>Committee</u></b>
Mr. Kevin Fields	Chairman	Executive, Personnel, Building
Mr. Jason Farmer	Vice Chairman	Executive, Personnel
Mr. Patrick Carter	Secretary/Treasurer	Executive, Public Education, Building
Ms. Beky Anderson		Personnel
Mr. Clifton Dates		Personnel
Mr. Glen Kneeland		Building
Mr. Bruce Kramer		Personnel
Ms. Rashana Lincoln		Public Education
Dr. Bianca Sweeten		Public Education

# SCOTT & POHLMAN P.C.

CERTIFIED PUBLIC ACCOUNTANTS \_\_\_\_\_

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Emergency Communications District of Shelby County, Tennessee  
Memphis, Tennessee

We have audited the accompanying financial statements of the Emergency Communications District of Shelby County, Tennessee ( a component unit of Shelby County, Tennessee) (the district), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Emergency Communications District of Shelby County, Tennessee as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MEMPHIS, TN 38137

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 24–25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emergency Communications District of Shelby County, Tennessee's basic financial statements. The Roster of Employees and Board Members, and other schedules are presented for the purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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.

The Emergency Communications District of Shelby County, Tennessee has not presented the management's discussion and analysis as required by GASB 34, "Basic Financial Statements- and Management's Discussion of Analysis – For State and Local Governments," that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statement.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Emergency Communications District of Shelby County, Tennessee'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 Emergency Communications District of Shelby County, Tennessee's internal control over financial reporting and compliance.

November 4, 2013

*Scott & Pohlman, P.C.*

## STATEMENT OF NET ASSETS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 5,215,137
Investments	31,160,092
Accrued interest receivable	119,857
Accounts receivable	599,263
Due from Tennessee Emergency Communications Board	568,956
Prepaid expenses	406,281
Total Current Assets	<u>38,069,586</u>

#### Noncurrent Assets

##### Capital assets

Communications equipment	10,843,323
Office equipment	98,402
Vehicles	65,066
Leasehold improvements	73,553
Total capital assets	<u>11,080,344</u>
Accumulated depreciation	<u>(8,083,576)</u>
Capital assets, net	<u>2,996,768</u>

Total Assets \$ 41,066,354

### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$ 641,676
Compensated absences payable	63,036
Other current liabilities	28,943
Total Current Liabilities	<u>733,655</u>

#### Net Assets

Invested in capital assets	2,996,584
Unrestricted net assets	<u>37,336,115</u>
Total Net Assets	<u>40,332,699</u>

Total Liabilities and Net Assets \$ 41,066,354

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

*Emergency Communications District of Shelby County, Tennessee*  
*For the year ended June 30, 2013*

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Operating Revenue	
Emergency telephone service charge	\$ 4,688,061
Tennessee emergency communications board - shared wireless charge	2,093,339
Tennessee emergency communications board - operational funding	1,154,952
Tennessee emergency communications board - grants and reimbursements	<u>283,586</u>
Total operating revenues	<u>8,219,938</u>
Operating Expenses	
Salaries and wages	
Director	88,571
Administrative personnel	315,767
Unused sick & vacation time	<u>8,497</u>
Total salaries and wages	<u>412,835</u>
Employee Benefits	
Social security	29,616
Life insurance - group	14,446
Medical/dental insurance - group	31,531
Unemployment compensation	408
Car allowance	1,518
Retirement contributions	<u>60,155</u>
Total employee benefits	<u>137,674</u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
(Continued)**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

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<b>Contracted Services</b>	
Addressing/mapping expenses	1,378,801
Audit services	10,500
Accounting services	11,538
Administrative fees - service charge	138,539
Contracts with private agencies	369,996
Data processing fees	6
Financial advisory services	45,468
Legal services	137,164
Maintenance agreements	655,947
Lease/rental - communications equipment	1,362,667
Lease/rental - building and facilities	107,481
Lease/rental - office equipment	3,498
Maintenance and repairs - communications	49,500
Maintenance and repairs - buildings and facilities	5,408
Maintenance and repairs - office equipment	1,238
Maintenance and repairs - vehicles	2,539
Language line	62,812
Buildings and Improvements	11,339
Other contractor services - PSAP equipment reimbursements	1,915,070
<b>Total contracted services</b>	<u><b>6,269,511</b></u>
<b>Supplies and Materials</b>	
Fuel - vehicle	3,715
Office supplies	3,750
Data processing supplies	7,013
Postage	1,152
Small equipment purchases	759
Uniforms - office staff	262
Utilities - general telephone	349
Utilities - cell phones	29,093
Printing	2,286
<b>Total supplies and materials</b>	<u><b>48,379</b></u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
(Continued)**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

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Other Charges	
Payroll processing fees	1,841
Bank charges	472
Board meeting expenses	6,733
Dues and memberships	5,334
Insurance - workers compensation	1,769
Insurance - buildings & contents	45,452
Insurance - vehicles	2,751
Legal notices	505
Premiums on surety bonds	20,425
Public education	219,274
Service awards	8,791
Training expenses	366,722
Travel expenses	115,001
Total other charges	<u>795,070</u>
Depreciation	<u>1,075,444</u>
Total operating expenses	<u>8,738,913</u>
Operating income (loss)	(518,975)
Non-operating revenues and (expenses)	
Investment income	296,698
Net increase (decrease) in the fair value of investments	<u>(236,570)</u>
	<u>60,128</u>
Change in net assets	(458,847)
Net Assets - Beginning of Year	<u>40,791,546</u>
Net Assets - End of Year	<u>\$ 40,332,699</u>

**STATEMENT OF CASH FLOWS**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from surcharges and other revenues	\$ 7,907,419
Cash payments to suppliers for goods and services	(6,600,466)
Cash payments for payroll, taxes, and related benefits	<u>(542,011)</u>
Net cash provided by operating activities	<u>764,942</u>

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

Purchase of capital assets	<u>(389,706)</u>
Net cash used for capital and related financing activities	<u>(389,706)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investment securities	(40,134,070)
Proceeds from the sale of investment securities	40,388,767
Investment income received	<u>237,168</u>
Net provided by investing activities	<u>491,865</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 867,101

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 4,348,036

**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$ 5,215,137

**STATEMENT OF CASH FLOWS (Continued)**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

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**RECONCILIATION OF NET OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ (518,975)
Adjustments to reconcile net operating income to net cash provided by operating activities	
Depreciation	1,075,444
(Increase) decrease in accounts receivable	(312,519)
(Increase) decrease in prepaids	64,061
Increase (decrease) in accounts payable	448,435
Increase (decrease) in accrued payroll	-
Increase (decrease) in compensated absence payable	8,496
Net cash provided by operating activities	<u>\$ 764,942</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Decrease in the fair value of investments	<u>\$ 236,570</u>
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## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization and Nature of Operations*

The Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) (the District) was established on November 21, 1984, pursuant to the provisions of Chapter 867 of the Public Acts of 1984 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County, Tennessee. The District is governed by a nine member board of directors, which is nominated by the Mayor of Shelby County, Tennessee, and approved by the Board of Commissioners of Shelby County, Tennessee. The Board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The financial statements present only the financial position and changes in financial position of the Emergency Communications District of Shelby County, Tennessee and are not intended to present fairly the financial position of Shelby County, Tennessee and the changes in its financial position in conformity of U.S. generally accepted accounting principles.

#### *Basis and Method of Accounting*

Enterprise funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Therefore, the financial statements of the Emergency Communication District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The proprietary fund of the District is accounted for using the “economic resources” measurement focus. Accordingly all assets and liabilities are included (whether current or non-current) on the statements of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues relate to charges to customers for services. Operating expenses for enterprise funds include the cost of providing those services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### *Basis and Method of Accounting (Continued)*

The District has applied all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before December 10, 1989, unless those pronouncements conflict or contradict GASB pronouncements:

FASB Statements and Interpretations  
Accounting Principles Board (APB) Opinions  
Accounting Research Bulletins of the Committee on Accounting Procedure

#### *Use of Estimates*

The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Revenue Recognition*

Emergency telephone service charge fees are recognized as revenue when earned. State Emergency Communication Board shared wireless charges and operational funding are recognized in the period ended.

#### *Cash and Cash Equivalents*

For purpose of the statement of cash flows, the District considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

#### *Investments*

Investments are stated at market value based on quoted market prices.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Capital Assets*

Property and equipment items are carried at cost. Expenditures, which materially increase values or extend useful lives are capitalized while replacements, maintenance and repairs, which do not improve or extend lives of respective assets are charged against income as incurred. Items purchased for the municipalities are also charged against income as incurred. A provision for depreciation is made on a basis considered adequate to amortize the costs over their estimated useful lives using the straight-line method. Useful lives are estimated at 5-10 years. Interest is capitalized during the period at which an asset is under construction if the interest charges are material and if the assets require a period of time to get them ready for their intended use. Depreciation expense for the year ended June 30, 2013 was \$1,075,444.

#### *Income Taxes*

The Districts have been classified by the Internal Revenue Service as being exempt from federal income tax under Section 115 of the Internal Revenue Code, and therefore, no allowance for federal income taxes is included in the financial statements.

#### *Net Assets*

Net assets are displayed in three components:

- a. Invested in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

### BUDGETARY INFORMATION

The Director prepares a preliminary annual budget compiled from revenue and expense projections. The Board of Directors must pass the preliminary budget on two readings before it is adopted and becomes the approved budget for the District. The first reading takes place during the April meeting, with a public hearing and second reading in the June meeting. The budget presents proposed budget amendments to the Board by line item during Board meetings. The amendments are discussed and then voted on during the meeting. When amendments are passed, the Director makes adjustments to his budget to include the newly approved amendments.

## **NOTES TO FINANCIAL STATEMENTS**

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### **COMPENSATED ABSENCES**

District employees are granted sick and annual leave in varying amounts in accordance with administrative policies. No more than twice the annual amount of vacation may be accumulated at any one time. Vacation may be accumulated in an excessive amount only if the vacation request has been denied based on the needs of the District office. Payment in lieu of vacation will only be allowed upon separation or other termination of employment. Remaining vacation will be paid to the designated beneficiary in the event of death of the employee. Generally, employees are reimbursed for accumulated sick leave, not to exceed 75 days, only upon retirement.

### **CONCENTRATION OF CREDIT RISK**

All fee revenue is derived from emergency telephone service charge fees collected and remitted by the various telephone companies. The District's existence is dependent upon these fees and the use of various telephone companies' telephone lines and equipment. The District's agreement with AT&T for use of its equipment is presently on a month-to-month basis. Approximately 35% of the District's service fees are derived from AT&T and approximately 45% are derived from the State of Tennessee from wireless fees and operational funding. The remaining 20% are derived from various other landline carriers. At June 30, 2013, the receivables balance was 22% from AT&T, 73% from the State of Tennessee and 5% various other landline carriers.

### **CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Statutes authorize the District to invest in obligations of the United States Treasury, obligations guaranteed as to principal and interest by the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks, savings and loan associations, federal chartered banks, savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, banker's acceptances meeting specific rating criteria, commercial paper meeting specific rating criteria, and the state pooled investment fund.

Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool. State statutes provide for additional amounts to be assessed on a pro rata basis to financial institutions in the collateral pool in the event that the pool's funds would be insufficient to cover a loss. As of year-end, the carrying amount of the District's demand deposits was \$5,215,137 and the bank balances totaled \$5,512,432.

The District limits its exposure to interest rate risk by diversifying its investments.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

At year-end, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment and Maturities (in years)</u>		<u>Concentration</u>
		<u>Less than 1</u>	<u>More than 1</u>	
Federal Home Loan Bank	\$ 15,646,941	\$12,523,835	\$ 3,123,106	50%
Federal Home Mortgage Corporation	996,936	-	\$ 996,936	3%
Federal National Mortgage Association	8,065,616	1,309,794	\$ 6,755,822	26%
Federal Farm Credit Bank	999,817	999,817	\$ -	3%
Municipal Bonds	<u>5,450,782</u>	<u>3,424,752</u>	<u>2,026,030</u>	<u>17%</u>
	<u>\$ 31,160,092</u>	<u>\$18,258,198</u>	<u>\$ 12,901,894</u>	<u>100%</u>

Credit quality distribution for investments, with credit exposure as a percentage of total investments are as follows at year-end:

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage</u>
Federal Home Loan Bank	AA+	50%
Federal Home Mortgage Corporation	AA+	3%
Federal National Mortgage Association	AAA	26%
Federal Farm Credit Bank	AA+	3%

### REIMBURSEMENT TO MUNICIPALITIES

During the year ended June 30, 2010, the District began reimbursing the municipalities participating in the emergency telephone service system for certain equipment purchases. The District began reimbursing for equipment purchases if the equipment was purchased within the individual municipality's purchasing guidelines and if the District had budgeted for the equipment reimbursement. The District also pays for the municipalities' usage of a language line service that assists in translating non-English language speaking callers. Reimbursements for language line service are based on the number of minutes the service was utilized. Included in contracted services are total equipment reimbursement payments of \$1,362,667. Included in other charges are language line payments of \$62,812 for the year ended June 30, 2013.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee  
June 30, 2013*

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### COMMITMENTS

The District leases office space under a 3-year lease, expiring February 1, 2012. The lease was renewed for another 60 month term. Rent expense under the lease agreement, including common area maintenance agreements, totaled \$107,481. Future minimum lease requirement for the years ending June 30 are as follows:

	Fiscal Year <u>6/30/2014</u>	Fiscal Year <u>6/30/2015</u>	Fiscal Year <u>6/30/2016</u>	Fiscal Year <u>6/30/2017</u>	<u>Thereafter</u>
NNN Lenox	101,660	103,711	105,791	62,420	-

The District also entered into a lease agreement with Shelby County for fifteen acres of land in the event that the District constructs a facility on the property. The lease term will be 50 years renewable for three additional ten year terms. The rent expense is \$1 per year.

### RETIREMENT PLAN

#### *Plan Description*

Employees of Emergency Communications District of Shelby County, Tennessee are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Emergency Communications District of Shelby County, Tennessee participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.tn.gov/tcrs/PS/>.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee  
June 30, 2013*

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### **RETIREMENT PLAN (Continued)**

#### *Funding Policy*

Emergency Communications District of Shelby County, Tennessee has adopted a noncontributory retirement plan for its employee contributions up to 5.0 percent of annual covered payroll.

Emergency Communications district of Shelby County, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 14.88% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Emergency Communications District of Shelby County, Tennessee is established and may be amended by the TCRS Board of Trustees.

#### *Annual Pension Cost*

For the year ending June 30, 2013, Emergency Communications District of Shelby County, Tennessee's annual pension cost of \$60,155 to TCRS was equal to Emergency Communications District of Shelby County, Tennessee's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Emergency Communications District of Shelby County, Tennessee's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### RETIREMENT PLAN (Continued)

#### *Trend Information*

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2013	\$ 60,155	100%	\$0
June 30, 2012	\$ 54,838	100%	\$0
June 30, 2011	\$ 36,577	100%	\$0

#### *Funded Status and Funding Progress*

As of July 1, 2011, the most recent actuarial valuation date, the plan was 87.09 percent funded. The actuarial accrued liability for benefits was \$0.84 million, and the actuarial value of assets was \$0.73 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.11 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.25 million, and the ratio of the UAAL to the covered payroll was 44.03 percent.

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

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

### RETIREMENT PLAN (Continued)

(Dollar amounts in thousands)

Actuarial Valuation	Actuarial Value of Plan Assets	Actuarial Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Date	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2011	\$ 728	\$ 837	\$ 108	87.09%	\$ 245	44.03%

### *Required Supplementary Information*

Schedule of Funding Progress for Emergency Communications District of Shelby County, Tennessee 88400

(Dollar amounts in thousands)

Actuarial Valuation	Actuarial Value of Plan Assets	Actuarial Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Date	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2011	\$ 728	\$ 837	\$ 108	87.09%	\$ 245	44.03%
July 1, 2009	\$ 552	\$ 689	\$ 137	80.12%	\$ 227	60.40%
July 1, 2007	\$ 480	\$ 482	\$ 2	99.59%	\$ 194	1.03%

## NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### RISK MANAGEMENT

The District is exposed to potential loss including theft, property damage, public liability, or breach of contract. The District maintains commercial insurance policies in force to handle the above exposures.

### CAPITAL ASSETS

Capital asset activity is as follows (all capital assets are being depreciated):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets, Being Depreciated:</b>				
Equipment	\$ 10,453,617	\$ 389,706	\$ -	\$ 10,843,323
Vehicles	65,066	-	-	65,066
Furniture and fixtures	98,402	-	-	98,402
Leasehold improvements	<u>73,553</u>	<u>-</u>	<u>-</u>	<u>73,553</u>
<b>Total Capital Assets</b>	<u>10,690,638</u>	<u>389,706</u>	<u>-</u>	<u>11,080,344</u>
<b>Less Accumulated Depreciation For:</b>				
Equipment	6,925,580	1,057,008	-	7,982,588
Vehicles	41,702	6,838	-	48,540
Furniture and fixtures	35,667	9,736	-	45,403
Leasehold improvements	<u>5,183</u>	<u>1,862</u>	<u>-</u>	<u>7,045</u>
<b>Total accumulated depreciation</b>	<u>7,008,132</u>	<u>1,075,444</u>	<u>-</u>	<u>8,083,576</u>
<b>Net Capital Assets</b>	<u>\$ 3,682,506</u>	<u>\$ (685,738)</u>	<u>\$ -</u>	<u>\$ 2,996,768</u>

## **NOTES TO FINANCIAL STATEMENTS**

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### **OPERATIONAL FUNDING PROGRAM**

During 2010, the Tennessee Emergency Communications Board (TECB) unanimously voted to adopt the following operational funding program for the Emergency Communications Districts (ECDs):

The TECB will distribute \$21.6 million per year to the districts as a contribution to the districts' operating expenses, in furtherance of the statutory directive to distribute excess revenue "for the purposes of promoting uniform 911 services." Assuming fund availability, the annual distribution will not be reduced except by unanimous vote of the Board. The distribution may be increased by a simple majority vote.

The funds will be divided among the districts as follows: first, \$80,000 will be allocated to each of the 101 districts to help cover the minimum service costs incurred by all ECDs. Next, the remaining funds (\$13,520,000) will be divided among the districts based on seven (7) population groups. A set amount will be allocated to each group based on the average operating expenses of the ECDs in each group, determined from an analysis of 2004-2005 audited financial statements. Each ECD in a group will get the same dollar amount. The funding will be paid as a contribution to each ECD's operating expenses. Payments will be made every two months, at the same time the TECB makes the average operating expenses of the ECDs in each group, determined from an analysis of 2004-2005 audited financial statements. Each ECD in a group will get the same dollar amount. The funding will be paid as a contribution to each ECD's operating expenses. Payments will be made every two months, at the same time the TECB makes the statutory distribution to ECDs of 25% of the wireless revenue. Districts therefore will receive 1/6 of the allocation each August, October, December, February, April, and June. The District's portion of this funding was \$1,269,936 for the year ended June 30, 2013.

## **NOTES TO FINANCIAL STATEMENTS**

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### **JOINT CALL TAKING FACILITY**

On April 1, 2010, the District passed a resolution to commit \$21,000,000 to the construction of a Joint Call-Taking Facility that would be owned, operated and managed by the County and/or local municipalities for the purpose of co-locating and housing all of the 9-1-1 call takers of the participants. Under the resolution, the District will segregate the funds and will retain ownership until the funds are disbursed during the construction of the facility. In addition to the \$21,000,000 commitment, the District agreed to contribute accrued interest earned on the funds up to and including a total contribution of \$23,000,000.

On October 6, 2011, the Board of Directors rescinded the resolution to commit funds to a Joint Call-Taking Facility and maintain its fiscal viability and health until it completes the creation of the Base Map, implements Next Generation 9-1-1 across Shelby County and assists the various PSAPs with the purchase or modification of their CAD and mapping systems.

### **INTERLOCAL COOPERATION AGREEMENTS**

During 2010, the District as recommended by the TCB entered into Interlocal Cooperation Agreements with local municipalities agreed to, at no cost to the District, supply a reasonable space at their PSAPs and/or dispatch centers for the District to place and install their equipment that is necessary for its purpose in providing emergency communication. The District agreed to maintain, repair and replace the equipment as necessary. The District may also provide funds for the training of the municipalities' personnel for 911 purposes. The District may also contribute funds towards the cost of equipment used by the municipalities for 911 purposes, assist in funding the cost of replacing or relocating the PSAPs, or other similar actions.

The agreements became effective July 1, 2010 and range from 1 to 4 year agreements, with an optional 1 year extension each year.

### **RELATED PARTY**

There was approximately \$2.2 million in related party transactions during the fiscal year. Such disbursements to employees and board members were related to company related travel and conferences. Disbursements to the PSAPs (and employees) were related to equipment purchases, training, and company related travel/conferences. Such transactions appeared to be in the normal course of business.

## **NOTES TO FINANCIAL STATEMENTS**

*Emergency Communications District of Shelby County, Tennessee  
June 30, 2013*

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### **SUBSEQUENT EVENTS**

The district has completed the installation of the Cassidian Sentinel Patriot 9-1-1 Controller systems at the following PSAPs: Bartlett Primary and Backup PSAPs, Collierville Primary and Backup PSAPs, Germantown Primary and Backup PSAPs, and Millington Police and Naval Support PSAPs. This positions these PSAPS to connect to the State NG911 network. The 9-1-1 District will now start working on replacing the 9-1-1 controllers at the Memphis Police Primary and Backup PSAPs, Memphis Fire Primary PSAP and the SCSO Primary and Backup PSAPs. The District is currently under contract for a GSI Base Map Creation with expected completion before March 2014. Other than these events, Emergency Communications District of Shelby County, Tennessee did not have any other subsequent events through November 4, 2013, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2013.

**SUPPLEMENTAL DATA**

**SUPPLEMENTAL DATA – BUDGETARY COMPARISON SCHEDULE**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

	Budget	Actual	Favorable (Unfavorable) Variance
<b>Operating Revenues</b>			
Emergency telephone service charge	\$ 4,284,700	\$ 4,688,061	\$ 403,361
Tennessee emergency communications board - shared wireless charge	2,346,229	2,093,339	(252,890)
Tennessee emergency communications board - operational funding	1,658,203	1,154,952	(503,251)
Tennessee emergency communications board - grants and reimbursements	-	283,586	283,586
<b>Total Operating Revenues</b>	<b>8,289,132</b>	<b>8,219,938</b>	<b>(69,194)</b>
<b>Operating Expenses</b>			
<b>Salaries and wages</b>			
Director	88,571	88,571	-
Administrative personnel	315,767	315,767	-
Unused sick & vacation time	23,977	8,497	15,480
<b>Total salaries and wages</b>	<b>428,315</b>	<b>412,835</b>	<b>15,480</b>
<b>Employee benefits</b>			
Car allowance	1,525	1,518	7
Social security	33,108	29,616	3,492
Life insurance - group	16,990	14,446	2,544
Medical/dental insurance - group	39,310	31,531	7,779
Unemployment compensation	1,900	408	1,492
Retirement contributions	62,246	60,155	2,091
<b>Total employee benefits</b>	<b>155,079</b>	<b>137,674</b>	<b>17,405</b>
<b>Contracted services</b>			
Addressing/mapping expenses	5,604,000	1,378,801	4,225,199
Audit services	14,750	10,500	4,250
Accounting services	25,000	11,538	13,462
Administrative fees - telephone	150,000	138,539	11,461
Contracts with private agencies	580,000	369,996	210,004
Data Processing Fees	-	6	(6)
Financial advisory services	58,822	45,468	13,354
Legal services	150,000	137,164	12,836
Maintenance agreements	675,448	655,947	19,501
Lease/rental - communications equipment	1,840,584	1,362,667	477,917
Rent	109,830	107,481	2,349
Lease/rental - building and facilities	775	-	-
Lease/rental - office equipment	6,900	3,498	3,402
Maintenance and repairs - communications	177,000	49,500	127,500
Maintenance and repairs - buildings and facilities	15,000	5,408	-
Maintenance and repairs - office equipment	10,000	1,238	-
Maintenance and repairs - vehicles	5,100	2,539	2,561
Language line	85,000	62,812	22,188
Other contractor services - PSAP equipment reimbursements	16,220,491	1,926,409	14,294,082
<b>Total contracted services</b>	<b>25,728,700</b>	<b>6,269,511</b>	<b>19,440,060</b>

**SUPPLEMENTAL DATA – BUDGETARY COMPARISON SCHEDULE (Continued)**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

<b>Supplies and materials</b>			
Fuel - vehicle	11,500	3,715	7,785
Furniture and fixtures	493,972	-	493,972
Building and facilities	788,740	-	788,740
Office equipment	-	-	-
Office supplies	4,200	3,750	450
Custodial supplies	500	-	500
Data processing supplies	17,200	7,013	10,187
Postage	5,500	1,152	4,348
Small equipment purchases	12,250	759	11,491
Uniforms - office staff	600	262	338
Utilities - general telephone	14,072	349	13,723
Utilities - cell phones	51,800	29,093	22,707
Printing	2,425	2,286	139
<b>Total supplies and materials</b>	<b>1,402,759</b>	<b>48,379</b>	<b>1,354,380</b>
<b>Other charges</b>			
Payroll processing fees	2,400	1,841	559
Bank charges	3,000	472	2,528
Board meeting expenses	12,875	6,733	6,142
Dues and memberships	8,000	5,334	2,666
Insurance - workers compensation	2,600	1,769	831
Insurance - buildings & contents	26,500	45,452	(18,952)
Insurance - vehicles	3,100	2,751	349
Legal notices	4,200	505	3,695
Premiums on surety bonds	24,500	20,425	4,075
Public education	775,700	219,274	556,426
Service awards	11,500	8,791	2,709
Training expenses	1,320,998	366,722	954,276
Travel expenses	168,700	115,001	53,699
<b>Total other charges</b>	<b>2,364,073</b>	<b>795,070</b>	<b>1,569,003</b>
<b>Depreciation</b>			
Depreciation expense	945,621	1,075,444	(129,823)
<b>Total depreciation</b>	<b>945,621</b>	<b>1,075,444</b>	<b>(129,823)</b>
<b>Total Operating Expenses</b>	<b>31,024,547</b>	<b>8,738,913</b>	<b>22,266,505</b>
<b>Operating Income (Loss)</b>	<b>(22,735,415)</b>	<b>(518,975)</b>	<b>22,197,311</b>
<b>Non-operating Revenues and (Expenses)</b>			
Investment income	310,000	296,698	(13,302)
Net increase (decrease) in the fair value of investments	-	(236,570)	(236,570)
<b>Total Non-operating Revenues and (Expenses)</b>	<b>310,000</b>	<b>60,128</b>	<b>(249,872)</b>
<b>Change in Net Assets</b>	<b>\$ (22,425,415)</b>	<b>\$ (458,847)</b>	<b>\$ 21,947,439</b>

**SCHEDULE OF INFORMATION REQUIRED BY THE TENNESSEE EMERGENCY COMMUNICATIONS BOARD**

*Emergency Communications District of Shelby County, Tennessee  
For the year ended June 30, 2013*

There are fifteen public safety answering points (PSAPs) as listed below:  
The physical addresses of our PSAPs are not listed for security reasons.

PSAPs	Address	Phone No.	Fax No.
1 Bartlett Police Department		901-385-5510	901-385-5513
2 Collierville Police Department		901-853-3207	901-853-3241
3 Germantown Police Department		901-757-7338	901-757-7211
4 Memphis Fire Department		901-320-5300	901-458-8379
5 Memphis Police Communications		901-543-2710	90-576-2635
6 Shelby County Fire Department		901-379-7070	901-379-7057
7 Shelby County Sheriff		901-379-7625	901-379-7041
8 Millington Police Department		901-872-3333	901-873-2161
9 Naval Support Activities		901-874-5522	901-874-5649
10 Collierville Backup		-	-
11 Memphis Police Backup		-	-
12 SCSO Backup		-	-
13 Shelby County 911 District Offices		901-380-3911	901-380-4707
Bartlett Police Department Backup		-	-
14 (not manned)			
Germantown Backup PSAP (not		-	-
15 manned)			

**SCOTT &  
POHLMAN P.C.**

**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**

To the Board of Directors  
Emergency Communications District of Shelby County, 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 the Emergency Communications District of Shelby County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Emergency Communications District of Shelby County, Tennessee's basic financial statements and have issued our report thereon dated November 4, 2013.

**Internal Control Over Financial Reporting**

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

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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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs (2013-1) that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Emergency Communications District of Shelby County, Tennessee'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 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* and which are described in the accompanying schedule of findings and questioned costs as items

### **The Emergency Communications District of Shelby County, Tennessee's Response to Findings**

The Emergency Communications District of Shelby County, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Emergency Communications District of Shelby County, Tennessee'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 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.

November 4, 2013

*Scott & Pohlman, P.C.*

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*Emergency Communications District of Shelby County, Tennessee*  
*June 30, 2013*

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### **A. Findings – Financial Statements Audit**

#### **SIGNIFICANT DEFICIENCIES**

2013-1            Improper timing of salary payments to employee.

**Condition:**

**Criteria:**            At various times during the fiscal year ended June 30, 2013, an employee making payroll transfers received salary payments a day before other employees received the regularly scheduled salary payments.

**Effect:**              The early payment of salary could strain operational cash flow, impair the budget process, and could impede payroll tax reporting.

**Recommendation:** As part of the payroll process, the Director should review and approve payroll transactions before their submission.

**Response:**            During the fiscal year ended June 30, 2014, the Director will perform the payroll approval process as part of his responsibilities.

### **B. Prior Audit Findings - Financial Statements Audit**

#### **SIGNIFICANT DEFICIENCIES**

2012-1            Improper classification of revenues

**Condition:**

**Criteria:**            Various revenue transactions were classified into incorrect accounts.

**Effect:**              The revenues as classified on the financial statements would not agree to various funding agreements and contracts.

**Recommendation:** As part of monthly closing procedures, the revenue accounts should be analyzed and adjusted to agree to supporting remittances and documentation.

**Current status:**      During the fiscal year ended June 30, 2013, the outside bookkeeper compared and agreed revenue accounts to supporting remittances and documentation as part of its monthly closing procedures.