

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

FINANCIAL STATEMENTS

June 30, 2010



Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

TABLE OF CONTENTS

	Page
ROSTER OF EMPLOYEES AND BOARD MEMBERS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to the Financial Statements	8
SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule	17
Schedule of Information Required by the Tennessee Emergency Communications Board	20
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22
SCHEDULE OF FINDINGS AND RESPONSES	24

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

ROSTER OF EMPLOYEES AND BOARD MEMBERS

June 30, 2010

<u>Employee</u>	<u>Title</u>	
Mr. Raymond Chiozza	Director	
Ms. Pat Evans	Office Manager	
Ms. Sue Robbins	Public Education Coordinator	
Mr. Harold Truebger	Systems Technician	

<u>Board Member</u>	<u>Officer Position (if applicable)</u>	<u>Committee</u>
Ms. Lois Stockton	Chairman	Executive, Personnel, Finance, Building, Technical
Mr. Samuel King	Vice Chairman	Personnel, Finance
Ms. Sandra Richards	Secretary/Treasurer	Finance
Mr. Henry Brenner		Public Education, Building
Mr. Clifton Dates		Nominating
Dr. Barbara Duncan-Cody		Nominating
Mr. William Hughes		Nominating
Mr. Mike Molder		Personnel, Building
Dr. Bianca Sweeten		Public Education



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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, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) as of June 30, 2010, and the change in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, on our consideration of the District's internal control over financial reporting and our test 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The roster of employees and board members and the accompanying supplemental information listed in the table of contents is presented for the purposes of additional analysis, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken 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 and 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 statements.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 15, 2010

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

STATEMENT OF NET ASSETS

June 30, 2010

<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 5,781,937
Investments	25,388,676
Accounts receivable - telecommunication companies	1,024,835
Accrued interest income	154,372
Prepays	330,410
Total current assets	32,680,230
Capital Assets	
Capital assets, being depreciated, net	1,622,678
	\$ 34,302,908
 <u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable - trade	\$ 375,299
Compensated absences	40,832
Total current liabilities	416,131
Net Assets	
Invested in capital assets	1,622,678
Unrestricted	32,264,099
Total net assets	33,886,777
	\$ 34,302,908

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

Operating Revenues	
Emergency telephone service charge	\$ 5,011,784
State Emergency Communications Board - shared wireless charge	2,271,840
State Emergency Communications Board - operational funding	<u>1,560,405</u>
Total operating revenues	8,844,029
Operating Expenses	
Salaries and wages	239,180
Employee benefits	89,372
Contracted services	2,573,909
Supplies and materials	40,549
Other charges	907,343
Depreciation	<u>535,931</u>
Total operating expenses	<u>4,386,284</u>
Operating income	4,457,745
Non-Operating Revenue (Expense)	
Investment income	606,739
Net appreciation in the fair value of investments	93,543
Tennessee Emergency Communications Board - Reimbursements	182,240
Insurance Proceeds	<u>50,000</u>
Total non-operating revenue (expense)	<u>932,522</u>
Change in net assets	5,390,267
Net assets - beginning	<u>28,496,510</u>
Net assets - ending	<u><u>\$ 33,886,777</u></u>

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

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

Cash Flows Provided By (Used For) Operating Activities	
Cash received from customers	\$ 9,294,661
Cash payments to suppliers	(3,349,560)
Cash payments to employees	<u>(323,008)</u>
Net cash provided by operating activities	5,622,093
Cash Flows Used For Capital and Related Financing Activities	
Purchases of capital assets	(646,334)
Cash Flows From (Used For) Investing Activities	
Purchase of investments	(17,815,927)
Proceeds from maturities of investments	14,835,000
Investment income received	611,423
Insurance proceeds	<u>50,000</u>
Net cash used for investing activities	<u>(2,319,504)</u>
Increase in cash and cash equivalents	2,656,255
Cash and cash equivalents at beginning of the year	<u>3,125,682</u>
Cash and cash equivalents at end of the year	<u><u>\$ 5,781,937</u></u>

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

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

STATEMENT OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2010

Cash Flows Provided By (Used For) Operating Activities	
Operating income	\$ 4,457,745
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	535,931
Changes in Assets and Liabilities	
Accounts receivable - telecommunication companies	450,632
Accounts payable - trade	220,845
Compensated absences	5,544
Prepays	(48,604)
Total adjustments	<u>1,164,348</u>
Net cash provided by operating activities	<u><u>\$ 5,622,093</u></u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 1 - 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 appointed by the Mayor of Shelby County, Tennessee, and approved by the Board of Commissioners of Shelby County, Tennessee. The District is subject to the will of 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.

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.

Proprietary funds distinguish operating revenues 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.

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Use of Estimates

The preparation of financial statements 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 earned.

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.

Capital Assets

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 39.5 years. Depreciation expense for the year ended June 30, 2010 was \$535,931.

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.”

NOTE 2 - 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 can be amended during the year as the Director deems necessary. The Director 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.

NOTE 3 - 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.

NOTE 4 - 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 36% of the District's service fees are derived from AT&T and approximately 50% are derived from the State of Tennessee from wireless fees and operational funding. The remaining 14% are derived from various other landline carriers. At June 30, 2010, the receivables balance was 25% from AT&T, 59% from the State of Tennessee and 16% various other landline carriers.

NOTE 5 - 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 City'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 \$5,781,937 and the bank balances totaled \$5,840,083.

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

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

Investment Type	Fair Value	Investments and Maturities (in years)		Concentration
		Less than 1	More than 1	
Federal Home Loan Bank	\$ 11,783,477	\$ 582,476	\$ 11,201,001	46%
Federal Home Loan Mortgage Corporation	5,679,838	985,294	4,694,544	22%
Federal National Mortgage Association	6,990,142	-	6,990,142	28%
Federal Farm Credit Bank	460,219	-	460,219	2%
Farmer Mac	475,000	-	475,000	2%
	<u>\$ 25,388,676</u>	<u>\$ 1,567,770</u>	<u>\$ 23,820,906</u>	<u>100%</u>

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

Investment Type	Rating	Percentage
Federal Home Loan Bank	AAA	46%
Federal Home Loan Mortgage Corporation	AAA	22%
Federal National Mortgage Association	AAA	28%
Federal Farm Credit Bank	AAA	2%
Farmer Mac	AAA	2%

NOTE 6 - 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 foreign language speaking callers. Reimbursements for language line service are based on the number of minutes the service has utilized. Included in contracted services are total equipment reimbursement payments of \$605,902 and language line payments of \$68,598 for the year ended June 30, 2010.

NOTE 7 - COMMITMENTS

The District leases office space under a 3-year lease, expiring February 1, 2012. The lease is renewable for additional one-year terms. Rent expense under the lease agreement, including common area maintenance agreements, totaled \$118,519. Future minimum lease requirements for the years ending June 30 are as follows:

	2011	2012
NNN Lenox	\$ 123,975	\$ 73,311

The District has 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.

NOTE 8 - 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 5 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS>.

Funding Policy

Emergency Communications District of Shelby County, Tennessee has adopted a noncontributory retirement plan for its employees by assuming 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, 2010 was 15.96% 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, 2010, Emergency Communications District of Shelby County, Tennessee's annual pension cost of \$37,288 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, 2007 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 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), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 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, 2007 was 11 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 37,288	100.00%	\$0
June 30, 2009	\$ 36,202	100.00%	\$0
June 30, 2008	\$ 33,363	100.00%	\$0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 80.12% percent funded. The actuarial accrued liability for benefits was \$0.69 million, and the actuarial value of assets was \$0.55 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.14 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.23 million, and the ratio of the UAAL to the covered payroll was 60.4% percent.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$552	\$689	\$137	80.12%	\$227	60.40%
July 1, 2007	\$480	\$553	\$73	86.80%	\$194	37.63%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

NOTE 9 - 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.

On May 1, 2010, a flood damaged the Navy Base PSAP and completely destroyed the PSAP's controller equipment. The District received \$50,000 in insurance proceeds, which will go towards the purchase of a new controller. The Navy Base PSAP is currently using an old controller that wasn't being used by any other PSAPs. The District will assist in purchasing a new controller once the Navy Base PSAP is relocated back to its permanent location. The cost of the new controller will exceed the \$50,000 insurance proceeds; however the exact cost of the new equipment has not yet been determined.

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Equipment	\$ 6,761,392	\$ 646,334	\$ 188,771	\$ 7,218,955
Vehicles	30,873	-	-	30,873
Furniture and fixtures	98,402	-	-	98,402
Leasehold improvements	61,436	-	-	61,436
Total capital assets being depreciated	6,952,103	646,334	188,771	7,409,666
Less Accumulated Depreciation For:				
Equipment	5,418,443	518,465	188,771	5,748,137
Vehicles	14,408	6,175	-	20,583
Furniture and fixtures	6,459	9,736	-	16,195
Leasehold improvements	518	1,555	-	2,073
Total accumulated depreciation	5,439,828	535,931	188,771	5,786,988
Total capital assets being depreciated, net	<u>\$ 1,512,275</u>	<u>\$ 110,403</u>	<u>\$ -</u>	<u>\$ 1,622,678</u>

NOTE 11 - OPERATIONAL FUNDING PROGRAM

During the previous year, 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 \$14 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, \$40,000 will be allocated to each of the 101 districts to help cover the minimum service costs incurred by all ECDs. Next, the remaining funds (\$9,960,000) 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 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 Districts' portion of this funding was \$918,618 for the year ended June 30, 2010.

During 2010, the TECB distributed an additional \$7.6 million to the ECDs out of excess Cost Recovery funds. The amount distributed to each ECD was allocated based on the same formula that the original \$14 million was distributed. The District's portion of this additional funding totaled \$234,200 for the four additional payments received for the year ending June 30, 2010.

NOTE 12 - 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.

As of June 30, 2010, the total value of the funds and accrued interest was \$21,158,086.

NOTE 13 - INTERLOCAL COOPERATION AGREEMENTS

During 2010, the District as recommended by the TECB entered into Interlocal Cooperation Agreements with local municipalities. The 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 communications. 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.

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

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2010

		<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
Operating Revenues		\$ 8,183,565	\$ 8,844,029	\$ 660,464
Operating Expenses				
4000	<u>Salaries and Wages</u>			
4001	Director	76,511	76,511	-
4002	Administrative personnel	157,125	157,125	-
4009	Other salary and wages - vacation accrual adjustments	-	5,544	(5,544)
		<u>233,636</u>	<u>239,180</u>	<u>(5,544)</u>
4100	<u>Employee Benefits</u>			
4101	Social security	22,205	18,120	4,085
4103	Life insurance	9,319	9,317	2
4104, 4105	Medical/dental insurance	25,950	21,229	4,721
4107	Unemployment compensation	1,300	192	1,108
4108	Retirement contributions	38,109	37,288	821
4099	Car Allowance	4,100	3,226	874
		<u>100,983</u>	<u>89,372</u>	<u>11,611</u>
4200	<u>Contracted Services</u>			
4201	Addressing/mapping expenses	63,500	20,089	43,411
4203	Audit Services	13,750	11,500	2,250
4204	Accounting services	16,500	11,699	4,801
4205	Administrative Fees - Service Charge	168,804	128,165	40,639
4206	Architects	4,646	689	3,957
4208	Contracts with private agencies	70,000	20,813	49,187
4211	Facility Relocation Expense	190	-	190
4217	Legal services	75,000	37,286	37,714
4218	Maintenance agreements	1,032,636	562,984	469,652
4227	Lease/rental - communications equipment	1,231,347	951,756	279,591
4228	Lease/rental - buildings and facilities	125,637	118,519	7,118
4230	Lease/rental - office equipment	5,100	5,053	47
4232	Maintenance and repairs - communications	101,535	30,285	71,250
4235	Maintenance and repairs - vehicles	3,100	571	2,529
4237	Language line	99,900	68,598	31,302
4299	Other Contractor Services - PSAP equipment reimbursements	3,637,499	605,902	3,031,597
		<u>6,649,144</u>	<u>2,573,909</u>	<u>4,075,235</u>

See independent auditor's report.

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

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
4300 <u>Supplies and Materials</u>			
4229 Furniture and fixtures	450	-	450
4233 Building and facilities	7,000	4,092	2,908
4234 Office equipment	9,350	7,460	1,890
4236 Fuel	7,200	942	6,258
4301 Office supplies	3,600	3,382	218
4302 Custodial supplies	300	76	224
4303 Data processing supplies	26,600	4,249	22,351
4304 Postage	3,700	1,349	2,351
4305 Small equipment purchases	7,750	230	7,520
4310 Utilities - general telephone	14,651	1,031	13,620
4311 Utilities - cell phones and pagers	26,812	17,405	9,407
4312 Printing	2,575	333	2,242
	<u>109,988</u>	<u>40,549</u>	<u>69,439</u>
4400 <u>Other Charges</u>			
4005 Data processing personnel	1,805	1,804	1
4205 Administrative fees	300	-	300
4214 Financial advisory services	60,000	49,759	10,241
4401 Bank charges	11,571	9,005	2,566
4402 Board meeting expenses	4,845	4,844	1
4405 Dues and memberships	5,476	4,179	1,297
4407 Insurance - workers compensation	3,333	1,386	1,947
4409 Insurance - buildings and contents	24,500	17,218	7,282
4411 Insurance - vehicles	1,695	1,339	356
4412 Legal notices	7,000	500	6,500
4414 Premiums on surety bonds	19,000	17,150	1,850
4415 Public education	704,850	655,408	49,442
4417 Service awards	750	217	533
4418 Training expenses	395,777	88,989	306,788
4419 Travel expenses	108,836	55,388	53,448
4499 Miscellaneous charges	200	157	43
	<u>1,349,938</u>	<u>907,343</u>	<u>442,595</u>
4500 <u>Depreciation</u>	<u>1,250,000</u>	<u>535,931</u>	<u>714,069</u>
Total operating expenses	<u>9,693,689</u>	<u>4,386,284</u>	<u>5,307,405</u>
Operating income	(1,510,124)	4,457,745	5,967,869

See independent auditor's report.

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

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Non-Operating Revenue (Expense)			
Investment income	676,000	606,739	(69,261)
Net increase in the fair value of investments	-	93,543	93,543
TECB - Reimbursements	(7,760)	182,240	190,000
Insurance Proceeds	-	50,000	50,000
Total non-operating revenue	<u>668,240</u>	<u>932,522</u>	<u>264,282</u>
 Change in net assets	 <u>\$ (841,884)</u>	 <u>\$ 5,390,267</u>	 <u>\$ 6,232,151</u>

See independent auditor's report.

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

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

June 30, 2010

There are fourteen public safety answering points (PSAPs) as listed below:

	<u>PSAPs</u>	<u>Address</u>	<u>Phone No.</u>	<u>Fax No.</u>
1	Bartlett Police Department	3730 Appling Road Bartlett, TN 38133	901-385-5510	901-385-5513
2	Collierville Police Department	478 Keough Collierville, TN 38017	901-853-3207	901-853-3241
3	Germantown Police Department	1930 S. Germantown Road Germantown, TN 38138	901-757-7338	901-757-7211
4	Memphis Fire Department	79 S. Flicker Street Memphis, TN 38104	901-320-5300	901-458-8379
5	Memphis Police Communications	201 Poplar Ave. Room 12-25 Memphis, TN 38103	901-543-2710	901-576-2635
6	Shelby County Fire Department	1075 Mullins Station Road Memphis, TN 38134	901-379-7070	901-379-7057
7	Shelby County Sheriff	1075 Mullins Station Road Memphis, TN 38134	901-379-7625	901 379-7041
8	Millington Police Department	7950 Memphis Millington, TN 38053	901-872-3333	901-873-2161
9	Naval Support Activities	5557 Orinskany Street (Building 750) Room 148 Millington, TN 38054	901-874-5522	901-874-5649
10	Collierville Backup	2823 Houston Levee Road Collierville, TN 38017	-	-
11	Memphis Fire Backup	333 E. Parkway-N Memphis, TN 38104	-	-
12	Memphis Police Backup	79 S. Flicker Street Memphis, TN 38104	-	-

See independent auditor's report.

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

**SCHEDULE OF INFORMATION REQUIRED BY THE TENNESSEE EMERGENCY
COMMUNICATIONS BOARD (CONTINUED)**

June 30, 2010

PSAPs	Address	Phone No.	Fax No.
13 SCSO Backup	11670 Memphis Arlington Arlington, TN 38002	-	-
14 Shelby County 911 District Offices	3150 Lenox Park Blvd, Ste. 108 Memphis, TN 38115	901-380-3911	901-380-4707

All PSAPs within the Emergency Communications District of Shelby County use Plant Equipment, Inc., Vesta M1 or Pallas 9-1-1 controller equipment which is owned by the Emergency Communications District of Shelby County. There is no on-site database, rather the 9-1-1 database is owned by AT&T and managed by the District. The cost of the database is included with the monthly fee paid to AT&T. That database resides in both Nashville and Birmingham in AT&T facilities.

Director

Raymond Chiozza
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Memphis, TN 38115
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Fax: 901-380-4707

Chairman

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See independent auditor's report.



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

The Board of Directors
Emergency Communications District of Shelby County, Tennessee
Memphis, Tennessee

We have audited the financial statements of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emergency Communications District of Shelby County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Emergency Communications District of Shelby County, Tennessee's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, that we consider to be significant

deficiencies or material weaknesses in internal control over financial reporting. We consider the deficiencies in the accompanying schedule of findings and responses as 2010-01 and 2010-02 to be either significant deficiencies or material weaknesses. 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 to those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted another matter that we reported to management of the Emergency Communications District of Shelby County, Tennessee, in a separate letter dated December 15, 2010.

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Mikusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 15, 2010

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

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

Finding 2010-01

Significant Deficiency: During our audit, we noted that a check written to the City of Memphis Fire Department had been voided subsequent to year end and a new check then issued. At June 30, 2010, a journal entry was posted to void the check, which increased the cash balance; however the entry also reduced the expenditures for the year then ended. A material adjustment was made to the financial statements to correct the expenditure balance and record a payable.

Recommendation: We recommend that all journal entries be reviewed and approved by a supervisory level employee at the outside bookkeeper before posting to the general ledger. The purpose and effect of each journal entry should be considered to ensure that items are properly recorded in the correct period.

Response: As of June 30, 2010, there was no formal policy consistently inputting items for payment into accounts payable before the item was paid. The District will implement a policy whereby all items that are input into the system are to be placed into accounts payable then paid out to the vendor.

Finding 2010-02

Significant Deficiency: During our audit, several journal entries were required to correct balance sheet, revenue and expense accounts. The entries included adjusting subledger listings, the removal of duplicate items, the proper recording of insurance proceeds received or properly recording transactions that were not completed until after year end.

Recommendation: We recommend that account reconciliations be reviewed and approved by a supervisory level employee at the outside bookkeeper at the end of each reporting period. A thorough review of the reconciliations and account balances should be performed to ensure that account balances are accurate and transactions are properly recorded.

Response: The District contracts with an outside bookkeeper to complete the reconciliation of all accounts and the recording of journal entries as needed. The outside bookkeeper will maintain a monthly account reconciliation binder to be maintained by the District's office manager and the outside staff accountant and will be reviewed by a supervisor at the outside bookkeeper.