

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

**FINANCIAL STATEMENTS
JUNE 30, 2012**

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June 30, 2012

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ROSTER OF EMPLOYEES AND BOARD MEMBERS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

Employee	Title	
Mr. Raymond Chiozza	Director	
Ms. Pat Evans	Office Manager	
Ms. Sue Robinson	Public Education Coordinator	
Mr. Harold Truebger	Systems Technician	
Mr. Carlton Ray	GIS Coordinator	
Mr. Timothy Zimmer	GIS Administrator	

Board Member	Officer Position (if applicable)	Committee
Ms. Lois H. Stockton	Chairman	Executive, Personnel, Building
Mr. Samuel King	Vice Chairman	Executive, Personnel, Finance
Mr. Henry Brenner	Secretary/Treasurer	Executive, Public Education, Building
Ms. Sandra Richards		Nominating
Mr. Clifton Dates		Nominating
Mr. Kevin Fields		Nominating
Mr. Jason Farmer		Nominating
Mr. Mike Molder		Personnel, Nominating, Building
Dr. Bianca Sweeten		Public Education, Nominating

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, 2012, 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 the 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 only the Emergency Communications District of Shelby County as of June 30, 2012, and the results of operations 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 a report dated November 15, 2012 on our consideration of only the Emergency Communications District of Shelby County's internal control over financial reporting and on our tests of its compliance and certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the only the Emergency Communications District of Shelby County's basic financial statements. The Roster of Employees and Board Members, and other schedules are presented for 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 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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.

Scott & Pohlman, P.C.

November 15, 2012

STATEMENT OF NET ASSETS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,348,036
Investments	31,651,362
Accrued interest receivable	60,327
Accounts receivable	286,741
Due from Tennessee Emergency Communications Board	568,956
Prepaid expenses	470,341
Total Current Assets	<u>37,385,763</u>

Noncurrent Assets

Capital assets	
Communications equipment	10,453,619
Office equipment	98,402
Vehicles	65,066
Leasehold improvements	73,553
Total capital assets	10,690,640
Accumulated depreciation	<u>(7,008,132)</u>
Capital assets, net	<u>3,682,508</u>

Total Assets \$ 41,068,271

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 216,886
Compensated absences payable	54,540
Other current liabilities	5,299
Total Current Liabilities	<u>276,725</u>

Net Assets

Invested in capital assets	3,682,508
Unrestricted net assets	<u>37,109,038</u>
Total Net Assets	<u>40,791,546</u>

Total Liabilities and Net Assets \$ 41,068,271

See independent auditor's report and notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012

Operating Revenue	
Emergency telephone service charge	\$ 5,034,220
Tennessee emergency communications board - shared wireless charge	2,537,215
Tennessee emergency communications board - operational funding	<u>1,357,647</u>
Total operating revenues	<u>8,929,082</u>
Operating Expenses	
Salaries and wages	
Director	84,354
Administrative personnel	286,251
Unused sick & vacation time	<u>18,497</u>
Total salaries and wages	<u>389,102</u>
Employee Benefits	
Social security	28,351
Life insurance - group	13,004
Medical/dental insurance - group	28,717
Unemployment compensation	600
Retirement contributions	<u>54,838</u>
Total employee benefits	<u>125,510</u>
Contracted Services	
Addressing/mapping expenses	243,112
Audit services	12,516
Accounting services	11,167
Administrative fees - service charge	85,128
Architects	9,000
Contracts with private agencies	71,720
Financial advisory services	30,721
Legal services	67,036
Maintenance agreements	710,122
Lease/rental - communications equipment	1,268,228
Lease/rental - building and facilities	114,285
Lease/rental - office equipment	5,714
Maintenance and repairs - communications	89,211
Maintenance and repairs - vehicles	714
Mapping Database Consultants	518
Language line	50,802
Buildings and Improvements	15,867
Other contractor services - PSAP equipment reimbursements	<u>809,344</u>
Total contracted services	<u>3,595,205</u>

See independent auditor's report and notes to financial statements.

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

*Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012*

Supplies and Materials	
Fuel - vehicle	3,568
Office supplies	3,992
Custodial supplies	134
Data processing supplies	5,776
Postage	1,839
Small equipment purchases	8,941
Utilities - general telephone	1,846
Utilities - cell phones	33,547
Printing	812
Total supplies and materials	<u>60,455</u>
Other Charges	
Payroll processing fees	1,387
Bank charges	2,441
Board meeting expenses	8,690
Dues and memberships	5,145
Insurance - workers compensation	1,343
Insurance - buildings & contents	21,404
Insurance - vehicles	2,651
Legal notices	3,256
Premiums on surety bonds	15,626
Public education	507,519
Service awards	250
Training expenses	349,834
Travel expenses	149,281
Total other charges	<u>1,068,827</u>
Depreciation	<u>737,325</u>
Total operating expenses	<u>5,976,424</u>
Operating income	2,952,658

See independent auditor's report and notes to financial statements.

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

Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012

Non-operating revenues and (expenses)	
Investment income	302,841
Net increase (decrease) in the fair value of investments	<u>(118,128)</u>
	<u>184,713</u>
Change in net assets	3,137,371
Net Assets - Beginning of Year	<u>37,654,175</u>
Net Assets - End of Year	<u>\$ 40,791,546</u>

STATEMENT OF CASH FLOWS

Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from surcharges and other revenues	\$ 9,049,033
Cash payments to suppliers for goods and services	(5,254,920)
Cash payments for payroll, taxes, and related benefits	<u>(496,709)</u>
Net cash provided by operating activities	<u>3,297,404</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	<u>(3,246,778)</u>
Net cash used for capital and related financing activities	<u>(3,246,778)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investment securities	(34,062,800)
Proceeds from the sale of investment securities	32,645,933
Investment income received	<u>314,467</u>
Net cash used for investing activities	<u>(1,102,400)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (1,051,774)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 5,399,810

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 4,348,036

STATEMENT OF CASH FLOWS (Continued)

*Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012*

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

Operating income	\$ 2,952,658
Adjustments to reconcile net operating income to net cash provided by operating activities	
Depreciation	737,325
(Increase) decrease in accounts receivable	119,951
Increase (decrease) in prepaids	(96,620)
Increase (decrease) in accounts payable	(434,312)
Increase (decrease) in accrued payroll	(95)
Increase (decrease) in compensated absence payable	<u>18,497</u>
Net cash provided by operating activities	<u>\$ 3,297,404</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Decrease in the fair value of investments	<u>\$ 118,128</u>
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NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 8-10 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, 2012 was \$737,325 .

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.

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee
June 30, 2012*

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, 2012, the receivables balance was 20% from AT&T, 66% from the State of Tennessee and 14% 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 \$4,348,036 and the bank balances totaled \$4,517,878.

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, 2012

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>Less than 1</u>	<u>More than 1</u>	<u>Concentration</u>
Federal Home Loan Bank	\$ 3,959,553	\$ 3,304,506	\$ 655,047	13%
Federal Home Mortgage Corporation	7,549,957	-	7,549,957	24%
Federal National Mortgage Association	2,626,094	-	2,626,094	8%
Federal Farm Credit Bank	16,026,987	1,179,697	14,847,290	51%
US Treasury Note	<u>1,488,771</u>	<u>1,488,771</u>	<u>-</u>	5%
	<u>\$ 31,651,362</u>	<u>\$ 5,972,974</u>	<u>\$ 25,678,388</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+	13%
Federal Home Mortgage Corporation	AA+	24%
Federal National Mortgage Association	AAA	8%
Federal Farm Credit Bank	AA+	51%
US Treasury Note	AAA	30%

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 \$1,268,228. Included in other charges are language line payments of \$50,802 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

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 \$114,285. Future minimum lease requirement for the years ending June 30 are as follows:

	Fiscal Year <u>6/30/2013</u>	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	99,662	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, 10th 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, 2012*

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, 2012 was 14.91% 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, 2012, Emergency Communications District of Shelby County, Tennessee's annual pension cost of \$54,838 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, 2012*

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, 2012	\$ 54,838	100%	\$0
June 30, 2011	\$ 37,288	100%	\$0
June 30, 2010	\$ 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.

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 progress of the plan.

NOTES TO FINANCIAL STATEMENTS

*Emergency Communications District of Shelby County, Tennessee
June 30, 2012*

RETIREMENT PLAN (Continued)

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets - (a)	Actuarial Liability (AAL) - Entry Age (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, 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%

Required Supplementary Information

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets - (a)	Actuarial Liability (AAL) - Entry Age (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, 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%

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 2009 actuarial valuation, therefore only the two most recent valuations are presented.

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

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>
Capital Assets, Being Depreciated:				
Equipment	\$ 7,218,958	\$ 3,234,661	\$ -	\$ 10,453,619
Vehicles	65,066	-	-	65,066
Furniture and fixtures	98,402	-	-	98,402
Leasehold improvements	<u>61,436</u>	<u>12,117</u>	<u>-</u>	<u>73,553</u>
Total Capital Assets	<u>7,443,862</u>	<u>3,246,778</u>	<u>-</u>	<u>10,690,640</u>
Less Accumulated Depreciation For:				
Equipment	6,210,500	715,080	-	6,925,580
Vehicles	30,747	10,955	-	41,702
Furniture and fixtures	25,931	9,736	-	35,667
Leasehold improvements	<u>3,628</u>	<u>1,555</u>	<u>-</u>	<u>5,183</u>
Total accumulated depreciation	<u>6,270,806</u>	<u>737,326</u>	<u>-</u>	<u>7,008,132</u>
Net Capital Assets	<u>\$ 1,173,056</u>	<u>\$ 2,509,452</u>	<u>\$ -</u>	<u>\$ 3,682,508</u>

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

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 Districts' portion of this funding was \$1,269,927 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

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 it's 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.

RELATED PARTY

There was approximately \$540,000 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, 2012*

SUBSEQUENT EVENTS

The State of Tennessee is moving forward with work on the new State 9-1-1 Network. This network will be the foundation for Next Generation in several years. The 9-1-1 District installed new Cassidian Patriot controllers at the current Pallas controller PSAPs. The cost of these controllers was \$2,308,455.30. The District also installed a Metro-E Network replacing the Frame Network. The new design will accommodate the new Patriot controllers and give real time backup to each primary PSAP that has a backup PSAP. The district also issued a Request for Proposal during the fiscal year for the creation of a Base Map for the District which is estimated to cost between \$3,000,000-\$5,000,000.

SUPPLEMENTAL DATA

SUPPLEMENTAL DATA – BUDGETARY COMPARISON SCHEDULE

*Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012*

	Budget	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Emergency telephone service charge	\$ 4,438,889	\$ 5,034,220	\$ 595,331
Tennessee emergency communications board - shared wireless charge	2,264,450	2,537,215	272,765
Tennessee emergency communications board - operational funding	<u>1,276,203</u>	<u>1,357,647</u>	<u>81,444</u>
Total Operating Revenues	<u>7,979,542</u>	<u>8,929,082</u>	<u>949,540</u>
Operating Expenses			
Salaries and wages			
Director	84,354	84,354	-
Administrative personnel	313,317	286,251	27,066
Unused sick & vacation time	<u>19,338</u>	<u>18,497</u>	<u>841</u>
Total salaries and wages	<u>417,009</u>	<u>389,102</u>	<u>27,907</u>
Employee benefits			
Car allowance	4,000	-	4,000
Social security	29,608	28,351	1,257
Life insurance - group	16,990	13,004	3,986
Medical/dental insurance - group	39,310	28,717	10,593
Unemployment compensation	1,900	600	1,300
Retirement contributions	<u>62,246</u>	<u>54,838</u>	<u>7,408</u>
Total employee benefits	<u>154,054</u>	<u>125,510</u>	<u>28,544</u>
Contracted services			
Addressing/mapping expenses	2,094,000	243,112	1,850,888
Audit services	14,750	12,516	2,234
Accounting services	25,000	11,167	13,833
Administrative fees - telephone	133,300	85,128	48,172
Architects	15,000	9,000	6,000
Contracts with private agencies	100,000	72,238	27,762
Financial advisory services	65,000	30,721	34,279
Legal services	150,000	67,036	82,964
Maintenance agreements	1,303,864	710,122	593,742
Lease/rental - communications equipment	1,771,315	1,268,228	503,087
Lease/rental - building and facilities	147,674	114,285	33,389
Lease/rental - office equipment	7,600	5,714	1,886
Maintenance and repairs - communications	154,585	89,211	65,374
Maintenance and repairs - vehicles	5,100	714	4,386
Language line	90,000	50,802	39,198
Other contractor services - PSAP equipment reimbursements	<u>13,408,482</u>	<u>825,211</u>	<u>12,583,271</u>
Total contracted services	<u>19,485,670</u>	<u>3,595,205</u>	<u>15,890,465</u>

See notes to financial statements.

SUPPLEMENTAL DATA – BUDGETARY COMPARISON SCHEDULE (Continued)

*Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012*

Supplies and materials			
Fuel - vehicle	11,500	3,568	7,932
Furniture and fixtures	380,602	-	380,602
Building and facilities	789,343	-	789,343
Office equipment	10,000	-	10,000
Office supplies	4,100	3,992	108
Custodial supplies	500	134	366
Data processing supplies	17,200	5,776	11,424
Postage	4,500	1,839	2,661
Small equipment purchases	28,570	8,021	20,549
Uniforms - office staff	600	-	600
Utilities - general telephone	14,651	1,846	12,805
Utilities - cell phones	43,420	33,547	9,873
Printing	<u>2,375</u>	<u>1,732</u>	<u>643</u>
Total supplies and materials	<u>1,307,361</u>	<u>60,455</u>	<u>1,246,906</u>
Other charges			
Payroll processing fees	2,300	1,387	913
Bank charges	11,571	2,441	9,130
Board meeting expenses	8,800	8,690	110
Dues and memberships	7,075	5,145	1,930
Insurance - workers compensation	4,333	1,343	2,990
Insurance - buildings & contents	26,500	21,404	5,096
Insurance - vehicles	4,100	2,651	1,449
Legal notices	4,200	3,256	944
Premiums on surety bonds	<u>224,500</u>	15,626	208,874
Public education	683,700	507,519	176,181
Service awards	1,500	250	1,250
Training expenses	1,000,621	349,834	650,787
Travel expenses	<u>142,800</u>	<u>149,281</u>	<u>(6,481)</u>
Total other charges	<u>2,122,000</u>	<u>1,068,827</u>	<u>1,053,173</u>
Depreciation			
Depreciation expense	<u>1,250,000</u>	<u>737,325</u>	<u>512,675</u>
Total depreciation	<u>1,250,000</u>	<u>737,325</u>	<u>512,675</u>
Total Operating Expenses	<u>24,736,094</u>	<u>5,976,424</u>	<u>18,759,670</u>
Operating Income (Loss)	<u>(16,756,552)</u>	<u>2,952,658</u>	<u>19,709,210</u>
Non-operating Revenues and (Expenses)			
Investment income	205,000	302,841	97,841
Net increase (decrease) in the fair value of investments	-	(118,128)	(118,128)
Total Non-operating Revenues and (Expenses)	<u>205,000</u>	<u>184,713</u>	<u>(20,287)</u>
Change in Net Assets	<u>\$ (16,551,552)</u>	<u>\$ 3,137,371</u>	<u>\$ 19,688,923</u>

Should have been
24,500.

SCHEDULE OF INFORMATION REQUIRED BY THE TENNESSEE EMERGENCY COMMUNICATIONS BOARD

*Emergency Communications District of Shelby County, Tennessee
For the year ended June 30, 2012*

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
14 Bartlett Police Department Backup (not manned)		-	-
15 Germantown Backup PSAP (not manned)		-	-

SCOTT & POHLMAN p.c.

CERTIFIED PUBLIC ACCOUNTANTS _____

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
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

We have audited the financial statements of Emergency Communications District of Shelby County, Tennessee, as of and for the year ended June 30, 2012 and have issued our report thereon dated November 15, 2012. We have 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.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of considered 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 organization'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, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings (2012-1) that we consider to be a significant deficiency in internal control over financial reporting. 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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Compliance and Other Matters

As part of obtaining reasonable assurance about whether considered Emergency Communications District of Shelby County, Tennessee'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*.

Emergency Communications District of Shelby County, Tennessee's response to audit findings identified in our prior year's audit is described in the accompanying schedule of findings. We did not audit Emergency Communications District of Shelby County, Tennessee's response and, accordingly we express no opinion on it.

We noted a certain matter that we reported to management of Emergency Communications District of Shelby County, Tennessee in a separate letter dated November 15, 2012.

Emergency Communications District of Shelby County, Tennessee's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit Emergency Communications District of Shelby County, Tennessee's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 15, 2012

Scott & Pohlman, P.C.

SCHEDULE OF FINDINGS

Emergency Communications District of Shelby County, Tennessee
June 30, 2012

A. 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.

Response: During the fiscal year ended June 30, 2013, the outside bookkeeper will compare and agree revenue accounts to supporting remittances and documentation as part of its monthly closing procedures.

B. Prior Audit Findings - Financial Statements Audit

SIGNIFICANT DEFICIENCIES

2011-1 Absence of employee files

Condition: Absence of employee files

Criteria: Supporting documents for all transaction should be readily available.

Effect: There is limited documentation to support the employee pay or terms of contract.

Recommendation: Each employee should have a file on-site with key documents including but not limited to employee contract, I-9, and W-4. Government documents should be periodically updated.

Current status: During the fiscal year ended June 30, 2012, employee files remained onsite and the District's office manager had all employees update their I-9 and W-4 information. The District's outside bookkeeper reviewed monthly to ensure no new employees have been hired. Once per quarter the outside bookkeeper checked a sample of existing employee files to ensure the documentation is updated annually.

SCHEDULE OF FINDINGS

Emergency Communications District of Shelby County, Tennessee

June 30, 2012

B. Prior Audit Findings - Financial Statements Audit (continued)

SIGNIFICANT DEFICIENCIES

2011-2 Absence of voided checks physically and in the general ledger

Condition: During our audit, management was unable to provide all voided checks. We also noted that not all voided checks were actually entered into the general ledger as voided, resulting in a listing of unaccounted/missing checks.

Criteria: Supporting documentation for all transactions should be readily available. All transactions should be recorded in the general ledger.

Effect: Without the physically voided check, there is a risk that the checks could be used for future unapproved and unknown disbursements. The absence of the voided checks in the general ledger results in an incomplete check listing.

Recommendation: We recommend all voided checks are properly recorded in the general ledger and retained in the voided check file.

Response: The District's outside bookkeeper produced a missing check report monthly and ensured that voided checks within the accounting software agreed to the voided check documentation. The District's office manager included copies of voided checks and/or any supporting documentation related to the voided check in the onsite files.