

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

FINANCIAL STATEMENTS

June 30, 2016



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

MANAGEMENT AND GOVERNMENT OFFICIALS

June 30, 2016

Emergency Communications District Management Staff

Raymond Chiozza, Director
Carmen Tyler, Bookkeeper
Sue Robinson, Public Education Coordinator
Carlton Ray, GIS-IT Coordinator
Harold Truebger, Info-Systems Lead
Timothy Zimmer, GIS Administrator

Emergency Communications District Board of Directors

Rebeka Anderson
Mary Balee
Patrick Carter
Clarence Cash, Jr.
Clifton Dates
Jason Farmer
Kevin Fields
Glen Kneeland
Bruce Kramer
Rashana Lincoln
Bianca Sweeten, M.D.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Emergency Communications District of Shelby County, Tennessee, (the "District"), a component unit of Shelby County, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5 – 8), schedule of changes in net pension liability and related ratios (page 24), and schedule of pension contributions (page 25) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The listing of management and government officials (page 1) and the budgetary comparison schedule (pages 27 – 28) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Emergency Communications District of Shelby County, Tennessee, are intended to present the net position, the changes in net position, and cash flows of only that portion of the business-type activities of Shelby County, Tennessee, that is attributable to the District. They do not purport to, and do not, present fairly the financial position of Shelby County, Tennessee, as of June 30, 2016, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Watkins Mikusall, PLLC

Memphis, Tennessee
November 22, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2016

Management's Discussion and Analysis

This section of the Emergency Communications District of Shelby County, Tennessee, (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The District is presented as a component unit of Shelby County Government, located in Shelby County, Tennessee. The District was authorized in November 1984, as provided for in Chapter 867, of the Public Acts of 1984. The District provides for the network, 9-1-1 Controller and Call Taking equipment for each Public Safety Answering Point within Shelby County, Tennessee. The costs of these are funded by monthly telephone subscriber service fees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The financial report includes financial statements, notes to the financial statements and required and other supplementary information. The statement of net position presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between these reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information on activities as well as other cash sources and cash payments such as investment income and capital additions.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2016

Financial Highlights

District's Net Position as of June 30

	<u>2016</u>	<u>2015</u>
Current assets	\$ 39,358,003	\$ 38,911,343
Capital assets, net	2,388,354	3,109,483
Total assets	<u>41,746,357</u>	<u>42,020,826</u>
Deferred outflows of resources	103,042	113,489
Current liabilities	266,627	634,479
Net pension liability	103,138	85,325
Total liabilities	<u>369,765</u>	<u>719,804</u>
Deferred inflows of resources	14,748	64,451
Investment in capital assets	2,388,354	3,109,483
Unrestricted net position	39,076,532	38,240,577
Total net position	<u>\$ 41,464,886</u>	<u>\$ 41,350,060</u>

District's Changes in Net Position for the Year Ended June 30

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 9,007,310	\$ 7,751,594
Operating expenses	9,246,508	7,672,844
Operating income (loss)	<u>(239,198)</u>	<u>78,750</u>
Non-operating revenue	<u>354,024</u>	<u>232,276</u>
Change in net position	<u>\$ 114,826</u>	<u>\$ 311,026</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2016

Operating and Non-Operating Revenues

The District's total operating revenue was \$9,007,310 for the year ended June 30, 2016.

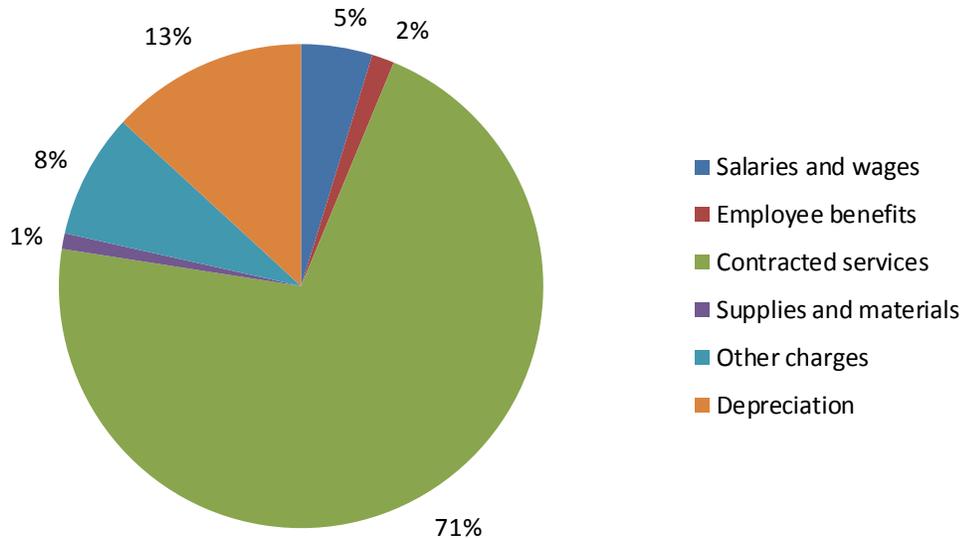
Subscriber fees – the emergency telephone service charge – for FY 2016 amounted to \$9,007,310, an increase of \$3,001,990 (50%) from the prior year's fees of \$6,005,320 associated with the implementation of the 9-1-1 Funding Modernization and IP Transition Act of 2014 effective January 1, 2015 (see "9-1-1 Service Fees" below).

During 2016 the District had non-operating revenue of \$354,024, an increase of \$121,748 (52%) from the prior year's non-operating revenue of \$232,276. Non-operating revenues consist of investment income and changes in the fair value of investments.

Operating Expenses

Operating expenses of the District increased to \$9,246,508 for FY 2016 compared with \$7,672,844 for FY 2015, primarily due to increased contracted services for PSAP equipment reimbursements.

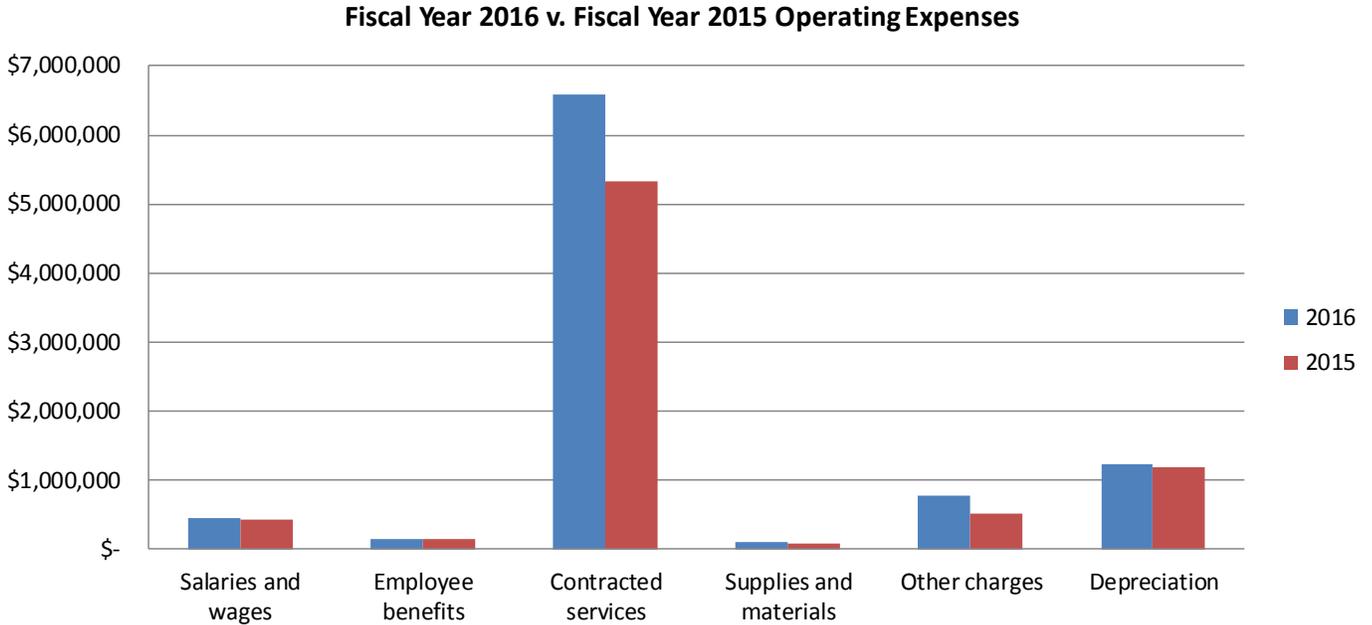
Fiscal Year 2016 District Operating Expenses



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2016



9-1-1 Service Fees

9-1-1 adjusted service fee rates took effect January 1, 2015. The Tennessee General Assembly passed the 9-1-1 Funding Modernization and IP Transition Act of 2014 (“the Act”) on April 25, 2014. The Act, effective January 1, 2015, updates the existing model for funding the District to account for changes in technology and consumer choice by establishing a single, uniform 9-1-1 surcharge rate.

The new uniform rate accounts for advancements in technology needed to provide Tennesseans with prompt and accurate 911 services and it is intended to adequately fund local 911 services in light of the ongoing reduction of landline use across the State of Tennessee. Accordingly, Shelby County residential and business lines, previously charged at \$0.65 and \$2.00 per month, respectively, were adjusted to \$1.16 per month. The cellular 9-1-1 surcharge was also adjusted from \$1.00 to \$1.16 per month.

The Act also supports the state’s Next Generation 9-1-1 program. Next Generation 9-1-1 will provide better information and data to first responders, which allows local 9-1-1 operators to more quickly assess an emergency and ensure that the necessary equipment and personnel can promptly respond to the scene.

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

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,725,128
Investments	31,556,762
Accrued interest receivable	62,905
Accounts receivable	804
Prepaid expenses	12,404
Total current assets	<u>39,358,003</u>

Property and Equipment

Communications equipment	7,208,875
Vehicles	65,311
Furniture and fixtures	94,834
Leasehold Improvements	73,553
Total capital assets	<u>7,442,573</u>
Less accumulated depreciation	<u>(5,054,219)</u>
Capital assets, net	<u>2,388,354</u>
Total assets	<u>41,746,357</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension changes in experience	40,123
Pension contribution after measurement date	62,919
Total deferred outflows of resources	<u>103,042</u>

LIABILITIES

Current Liabilities

Accounts payable	133,248
Compensated absences payable	67,328
Other accrued expenses	66,051
Total current liabilities	<u>266,627</u>

Noncurrent Liabilities

Net pension liability	103,138
Total liabilities	<u>369,765</u>

DEFERRED INFLOWS OF RESOURCES

Pension changes in experience	3,989
Pension changes in investment earnings	10,759
Total deferred inflows of resources	<u>14,748</u>

NET POSITION

Investment in capital assets	2,388,354
Unrestricted	<u>39,076,532</u>
Total net position	<u><u>\$ 41,464,886</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2016

OPERATING REVENUES

Emergency telephone service charge \$ 9,007,310

OPERATING EXPENSES

Salaries and wages 439,971

Employee benefits 138,507

Contracted services 6,583,945

Supplies and materials 96,830

Other charges 770,594

Depreciation 1,216,661

Total operating expenses 9,246,508

Operating income (239,198)

NON-OPERATING REVENUES (EXPENSES)

Investment income 329,136

Net increase in the fair value of investments 24,888

Total non-operating revenue 354,024

Change in net position 114,826

Net position - beginning 41,350,060

Net position - ending \$ 41,464,886

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, 2016

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Cash received from customers	\$ 9,006,506
Cash payments to suppliers	(7,840,685)
Cash payments to employees	(574,678)
Net cash provided by operating activities	<u>591,143</u>

CASH FLOWS USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(495,531)
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CASH FLOWS USED FOR INVESTING ACTIVITIES

Purchase of investments	(44,685,178)
Proceeds from maturities of investments	46,823,600
Investment income received	315,302
Net cash from (used for) investing activities	<u>2,453,724</u>

Net increase in cash and cash equivalents	2,549,336
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Cash and cash equivalents at beginning of the year	<u>5,175,792</u>
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Cash and cash equivalents at end of the year	<u><u>\$ 7,725,128</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ (239,198)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:	
Depreciation	1,216,661
Employer contributions in excess of pension expense	(21,443)
Changes in Assets and Liabilities:	
Accounts receivable	(804)
Prepays	3,779
Accounts payable	(433,485)
Compensated absences payable	3,800
Other accrued expenses	61,833
Total adjustments	<u>830,341</u>

Net cash provided by operating activities	<u><u>\$ 591,143</u></u>
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NONCASH INVESTING AND FINANCING ACTIVITIES

Decrease in fair value of investments	<u><u>\$ (24,888)</u></u>
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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 FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Emergency Communications District 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 State of Tennessee has the authority to levy an emergency telephone service charge to be used to fund the operation of the District. The District's financial statements are reported as a component unit of Shelby County, Tennessee.

Measurement Focus, Basis, and Method of Accounting

The District is accounted for as a proprietary fund. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. Proprietary funds are accounted for using the economic resources measurement and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues in the proprietary fund are those revenues that are generated from the principal ongoing operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District, and include administrative expenses and depreciation on capital assets. All other expenses are reported as non-operating expenses.

When expenditures are incurred for purposes for which both restricted and unrestricted amounts are available, the District's policy is to consider restricted amounts to have been reduced first.

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 reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue 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. The State of Tennessee Emergency Communication Board shared wireless charges and operational funding are recognized in the period earned.

Cash and Cash Equivalents

For statement of cash flow purposes, the District considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

Investments

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

Capital Assets

Capital assets are stated at acquisition cost, if purchased, and estimated fair value at the date of the contribution, if contributed. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 10 years.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Net Position

Net position may be displayed in three components:

Invested in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any notes payable that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of net position 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. There were no restrictions on net position for the year ended June 30, 2016.

Unrestricted net position – any other net position that does not meet the definition of "restricted" or "invested in capital assets."

Income Tax Exemption

The District is 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.

Concentration of Revenues

The District is primarily funded by fees collected through the Tennessee Emergency Communications Board.

Date of Management's Review

Management has evaluated subsequent events through November 22, 2016, the date the financial statements were available to be issued, and is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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 the second reading is during 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 upon during the meetings. When amendments are passed, the Director makes adjustments to his budget to include the newly approved amendments.

NOTE 3 – CASH AND CASH EQUIVALENTS, FAIR VALUE MEASUREMENTS 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 deposit insurance corporation (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 \$7,725,128 and the bank balances totaled \$7,921,506.

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	\$ 9,161,044	\$ 550,374	\$ 8,610,670	29%
Federal Home Loan Mortgage Corporation	11,350,215	2,000,860	9,349,355	36%
Federal National Mortgage Association	250,730	-	250,730	1%
First Federal Community Bank	10,572,122	2,075,062	8,497,060	34%
Municipal Bonds	222,651	207,368	15,283	1%
	<u>\$ 31,556,762</u>	<u>\$ 4,833,664</u>	<u>\$ 26,723,098</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	29%
Federal Home Loan Mortgage Corporation	Aaa	36%
Federal National Mortgage Association	Aaa	1%
First Federal Community Bank	Aaa	34%
Municipal Bonds	Ba1	1%

Generally accepted accounting principles establish a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels, as described below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities the District has the ability to access.
- Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, the District utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The District's investments are all valued using inputs that can be corroborated by observable market data. The following table sets forth by level within the fair value hierarchy, the District's investments at fair value as of June 30, 2016:

Investment Type	Level 2
Federal Home Loan Bank	\$ 9,161,044
Federal Home Loan Mortgage Corporation	11,350,215
Federal National Mortgage Association	250,730
First Federal Community Bank	10,572,122
Municipal Bonds	222,651
	<u>\$ 31,556,762</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is as follows (all capital assets are being depreciated):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Equipment	\$ 11,706,771	\$ 464,413	\$ 4,962,309	\$ 7,208,875
Vehicles	65,066	31,118	30,873	65,311
Furniture and fixtures	94,834	-	-	94,834
Leasehold improvements	73,553	-	-	73,553
Total capital assets being depreciated	11,940,224	495,531	4,993,182	7,442,573
Less Accumulated Depreciation for:				
Equipment	8,697,294	1,201,336	4,962,309	4,936,321
Vehicles	64,437	4,405	30,873	37,969
Furniture and fixtures	58,241	9,058	-	67,299
Leasehold improvements	10,769	1,861	-	12,630
Total accumulated depreciation	8,830,741	1,216,660	4,993,182	5,054,219
Total capital assets, net	<u>\$ 3,109,483</u>	<u>\$ (721,129)</u>	<u>\$ -</u>	<u>\$ 2,388,354</u>

NOTE 5 – PENSION

General Information about the Pension Plan

Plan description. Employees of the District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operations and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index ("CPI") during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	-
Active employees	6
	11

The plan is not closed to new entrants.

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees of the District are non-contributory. The District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions for the District were \$62,919 based on a rate of 14.39 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the District's state shared taxes, as applicable, if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent

Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques; 1) the 25-year historical return of the TCRS at June 30, 2012, 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fibuciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2014	\$ 1,134,172	\$ 1,048,847	\$ 85,325
Changes for the year:			
Service cost	29,164	-	29,164
Interest	86,054	-	86,054
Differences between expected and actual experience	(4,986)	-	(4,986)
Contributions - employer	-	59,992	(59,992)
Net investment income	-	32,732	(32,732)
Benefit payments, including refunds of employee contributions	(31,891)	(31,891)	-
Administrative expense	-	(305)	305
Net changes	78,341	60,528	17,813
Balance at June 30, 2015	\$ 1,212,513	\$ 1,109,375	\$ 103,138

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Shelby County Emergency Communications District's net pension liability (asset)	\$255,378	\$103,138	(\$24,932)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2016, the District recognized pension expense of \$41,476.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 40,123	\$ 3,989
Net difference between projected and actual earnings on pension plan investments	-	10,759
Contributions subsequent to the measurement date of June 30, 2015	<u>62,919</u>	<u>-</u>
Total	<u>\$ 103,042</u>	<u>\$ 14,748</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2015,” will be recognized as a reduction to net pension liability in the following measurement period.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 5,659
2018	5,659
2019	5,659
2020	8,398

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

Payable to the Pension Plan

At June 30, 2016, the District did not report a payable for outstanding contributions to the pension plan required at the year ended June 30, 2016.

NOTE 6 – OPERATIONAL FUNDING PROGRAM

The Tennessee General Assembly passed the 9-1-1 Funding Modernization and IP Transition Act of 2014 (“the Act”) on April 25, 2014. The Act, effective January 1, 2015, updates the existing model for funding the District to account for changes in technology and consumer choice by establishing a single, uniform 9-1-1 surcharge rate. The new single surcharge rate is \$1.16 per line per month. The surcharge is remitted to the TECB directly. The TECB funds each emergency communications district in the State of Tennessee in accordance with Tennessee Code Annotated, Section 7-86-303, which establishes a base funding amount to each district based upon their pro-rata share of 9-1-1 funding surcharges for fiscal years 2010, 2011, and

2012, provided that the funding amount shall not be less than the amount the District received in fiscal year 2012. The TECB has published the base amount for each emergency communications district, such base amount to be paid to each district in 6 equal installments on a bi-monthly basis, beginning in February 2015. The annual base funding for the District is \$8,837,052.

In addition to the funding noted above, Tennessee Code Annotated section 7-86-130 stipulates that any 9-1-1 surcharge revenue collected in excess of the annual fiscal requirements of the TECB and the mandatory bi-monthly payments to emergency communications districts shall not revert to the general fund of the State, but rather the TECB shall distribute a minimum of 50% of this excess to the emergency communications districts in accordance with TECB policies.

NOTE 7 – REIMBURSEMENT TO MUNICIPALITIES

The District reimburses the municipalities participating in the emergency telephone service system for certain equipment purchases. The District reimburses 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 \$4,661,969 for the year ended June 30, 2016.

NOTE 8 – COMMITMENTS

The District leases office space under a 5-year lease, expiring May 31, 2022. Rent expense under the lease agreement, including common area maintenance agreements, totaled \$114,356. Future minimum lease requirements for the years ending June 30 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$104,404
2018	102,279
2019	104,329
2020	106,410
2021	108,534
Thereafter	101,696
Total	<u>\$627,652</u>

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.

NOTE 10 – 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 9-1-1 purposes. The District may also contribute funds towards the cost of equipment used by the municipalities for 9-1-1 purposes, assist in funding the cost of replacing or relocating the PSAPs, or other similar actions.

The original agreements became effective July 1, 2010 and ranged from 1 to 4 year agreements, with an optional 1 year for each year thereafter.

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS BASED ON
PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS**

Last Fiscal Year Ended June 30

	2015	2014
TOTAL PENSION LIABILITY		
Service cost	\$ 29,164	\$ 34,503
Interest	86,054	75,524
Differences between actual & expected experience	(4,986)	66,871
Benefit payments, including refunds of employee contributions	(31,891)	(30,412)
Net change in total pension liability	78,341	146,486
 Total pension liability - beginning	 1,134,172	 987,686
Total pension liability - ending (a)	\$ 1,212,513	\$ 1,134,172
 PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$ 59,992	\$ 59,153
Net investment income	32,732	147,125
Benefit payments, including refunds of employee contributions	(31,891)	(30,412)
Administrative expense	(305)	(264)
Net change in plan fiduciary net position	60,528	175,602
 Plan fiduciary net position - beginning	 1,048,847	 873,245
Plan fiduciary net position - ending (b)	\$ 1,109,375	\$ 1,048,847
 NET PENSION LIABILITY - ENDING (a) - (b)	 \$ 103,138	 \$ 85,325
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	 91.49%	 92.48%
 COVERED-EMPLOYEE PAYROLL	 \$ 416,900	 \$ 397,532
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED- EMPLOYEE PAYROLL	 24.74%	 21.46%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report.

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

**SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION
PLAN OF TCRS**

Last Fiscal Year Ended June 30

	2016	2015	2014
Actuarially determined contribution	\$ 62,919	\$ 59,992	\$ 59,153
Contributions in relation to the actuarially determined contribution	<u>62,919</u>	<u>59,992</u>	<u>59,153</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 437,241	\$ 416,900	\$ 397,532
Contributions as a percentage of covered-employee payroll	14.39%	14.39%	14.88%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

NOTES TO SCHEDULE

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	6 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

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

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Emergency telephone service charge	\$ 8,837,048	\$ 8,837,048	\$ 9,007,310	\$ 170,262
Total operating revenues	8,837,048	8,837,048	9,007,310	170,262
OPERATING EXPENSES				
Salaries and wages				
Director	98,700	98,700	98,700	-
Administrative personnel	338,543	338,543	337,471	1,072
Vacation and compensated expenses	30,315	30,315	3,800	26,515
Total salaries and wages	467,558	467,558	439,971	27,587
Employee benefits				
Social security	40,000	40,000	33,737	6,263
Life insurance	17,000	17,000	16,065	935
Medical and dental insurance	55,000	55,000	47,229	7,771
Unemployment	1,900	1,900	-	1,900
Retirement contributions	68,649	68,649	41,476	27,173
Total employee benefits	182,549	182,549	138,507	44,042
Contracted services				
Addressing / mapping & PSAP equipment reimbursements	1,563,000	1,563,000	3,392,305	(1,829,305)
Audit services	12,750	14,750	14,000	750
Accounting services	26,000	26,000	10,101	15,899
Architects	60,000	60,000	71,393	(11,393)
Contracts with private agencies	640,000	640,000	950,549	(310,549)
Financial advisory services	80,000	80,000	67,161	12,839
Legal services	165,000	165,000	117,830	47,170
Maintenance agreements	500,865	500,865	405,245	95,620
Lease/rental - communications equipment	1,596,526	1,596,526	1,357,163	239,363
Lease/rental - building and facilities	117,501	117,501	114,356	3,145
Lease/rental - office equipment	5,000	5,000	3,238	1,762
Maintenance and repairs - communications	197,000	197,000	72,207	124,793
Maintenance and repairs - building and facilities	30,000	30,000	6,595	23,405
Maintenance and repairs - office equipment	6,000	6,000	596	5,404
Maintenance and repairs - vehicles	7,100	7,100	1,206	5,894
Lanuage line	85,000	85,000	-	85,000
Total contracted services	5,091,742	5,093,742	6,583,945	(1,490,203)
Supplies and materials				
Fuel	9,525	9,525	1,809	7,716
Office supplies	5,100	5,100	3,018	2,082
Custodial supplies	500	500	185	315
Data processing supplies	192,200	192,200	9,509	182,691
Postage	5,000	5,000	1,279	3,721
Small equipment purchases	163,750	163,750	58,889	104,861
Utilities - general telephone	3,400	3,400	277	3,123
Utilities - cell phones	51,800	51,800	21,466	30,334
Printing	2,425	2,425	398	2,027
Total supplies and materials	433,700	433,700	96,830	336,870

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Other charges				
Payroll processing fees	2,500	2,500	-	2,500
Board meeting expenses	12,050	12,050	7,397	4,653
Dues and memberships	8,600	8,600	4,240	4,360
Insurance - workers compensation	2,600	2,600	1,352	1,248
Insurance - building and contents	45,000	45,000	24,086	20,914
Insurance - vehicles	3,400	3,400	2,829	571
Legal notices	4,200	4,200	765	3,435
Premiums on surety bonds	26,500	26,500	11,360	15,140
Public education	648,700	641,700	119,192	522,508
Service awards	11,500	16,500	13,768	2,732
Training expenses	1,319,015	1,319,015	528,108	790,907
Travel expenses	171,700	171,700	57,497	114,203
Total other charges	<u>2,255,765</u>	<u>2,253,765</u>	<u>770,594</u>	<u>1,483,171</u>
Depreciation	1,202,722	1,202,722	1,216,661	(13,939)
Total operating expenses	<u>9,634,036</u>	<u>9,634,036</u>	<u>9,246,508</u>	<u>387,528</u>
Operating income (loss)	(796,988)	(796,988)	(239,198)	557,790
NON-OPERATING REVENUES (EXPENSES)				
Investment income	329,000	329,000	329,136	136
Net decrease in the fair value of investments	-	-	24,888	24,888
Total non-operating revenue	<u>329,000</u>	<u>329,000</u>	<u>354,024</u>	<u>25,024</u>
Change in net position	<u>\$ (467,988)</u>	<u>\$ (467,988)</u>	<u>\$ 114,826</u>	<u>\$ 582,814</u>

See independent auditor's report.

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 22, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

Purpose of this Report

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

Watkins Wilkerson, PLLC

Memphis, Tennessee
November 22, 2016

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2016

None