

**Emergency
Communications District of
Shelby County, Tennessee**
(A Component Unit of Shelby County, Tennessee)

**Financial Statements and
Supplementary Information**

Year Ended June 30, 2017



Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
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Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Management and Government Officials
June 30, 2017

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
Clarence Cash, Jr.
Patrick Carter
Clifton Dates
Kevin Fields
Glen Kneeland
Bruce Kramer
Rashana Lincoln

* - Employee with financial oversight responsibility

INDEPENDENT AUDITOR'S REPORT

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

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, 2017, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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, 2017, 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 on pages 4 – 6, schedule of changes in net pension liability and related ratios on page 22, and schedule of pension contributions on page 23 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 and the budgetary comparison schedule 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 October 18, 2017, 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.

Watkins Wilkerson, PLLC

Memphis, Tennessee
October 18, 2017

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Management's Discussion and Analysis
Year Ended June 30, 2017

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, 2017. 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.

Financial Highlights

District's Net Position as of June 30

	<u>2017</u>	<u>2016</u>
Current assets	\$ 38,272,839	\$ 39,358,003
Capital assets, net	1,719,661	2,388,354
Total assets	<u>39,992,500</u>	<u>41,746,357</u>
Deferred outflows of resources	143,714	103,042
Current liabilities	1,593,013	266,627
Net pension liability	120,012	103,138
Total liabilities	<u>1,713,025</u>	<u>369,765</u>
Deferred inflows of resources	13,914	14,748
Investment in capital assets	1,719,661	2,388,354
Unrestricted net position	36,689,614	39,076,532
Total net position	<u>\$ 38,409,275</u>	<u>\$ 41,464,886</u>

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Management's Discussion and Analysis
Year Ended June 30, 2017**

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

	2017	2016
Operating revenues	\$ 10,502,125	\$ 9,007,310
Operating expenses	13,768,765	9,246,508
Operating income (loss)	(3,266,640)	(239,198)
Non-operating revenue	211,029	354,024
Change in net position	<u>\$ (3,055,611)</u>	<u>\$ 114,826</u>

Operating and Non-Operating Revenues

The District's total operating revenue was \$10,502,125 for the year ended June 30, 2017.

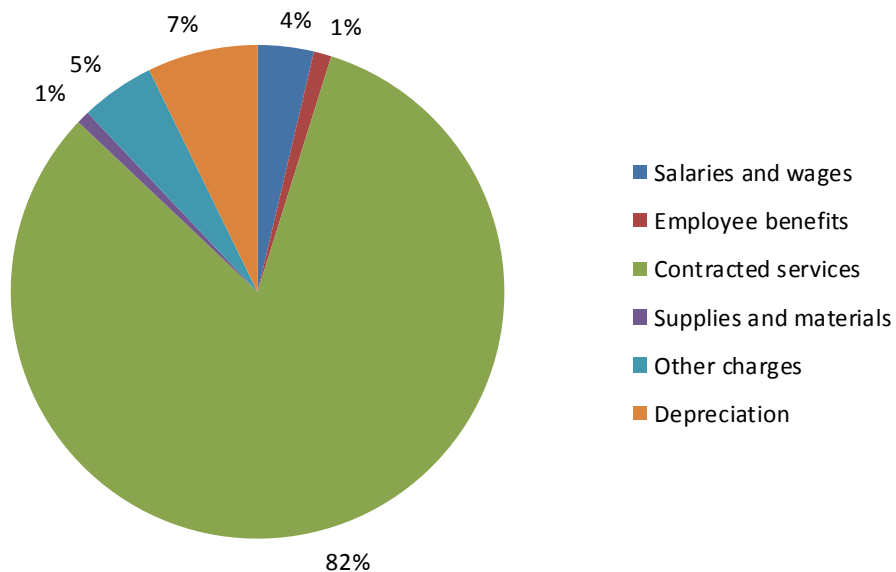
Subscriber fees – the emergency telephone service charge – for FY 2017 amounted to \$10,502,125, an increase of \$1,494,815 (17%) from the prior year's fees of \$9,007,310 associated with the implementation of the 9-1-1 Funding Modernization and IP Transition Act of 2014 effective January 1, 2015 (see "9-1-1 Service Fees" below).

During FY 2017 the District had non-operating revenue of \$211,029, a decrease of \$142,995 (40%) from the prior year's non-operating revenue of \$354,024. Non-operating revenues consist of investment income and changes in the fair value of investments.

Operating Expenses

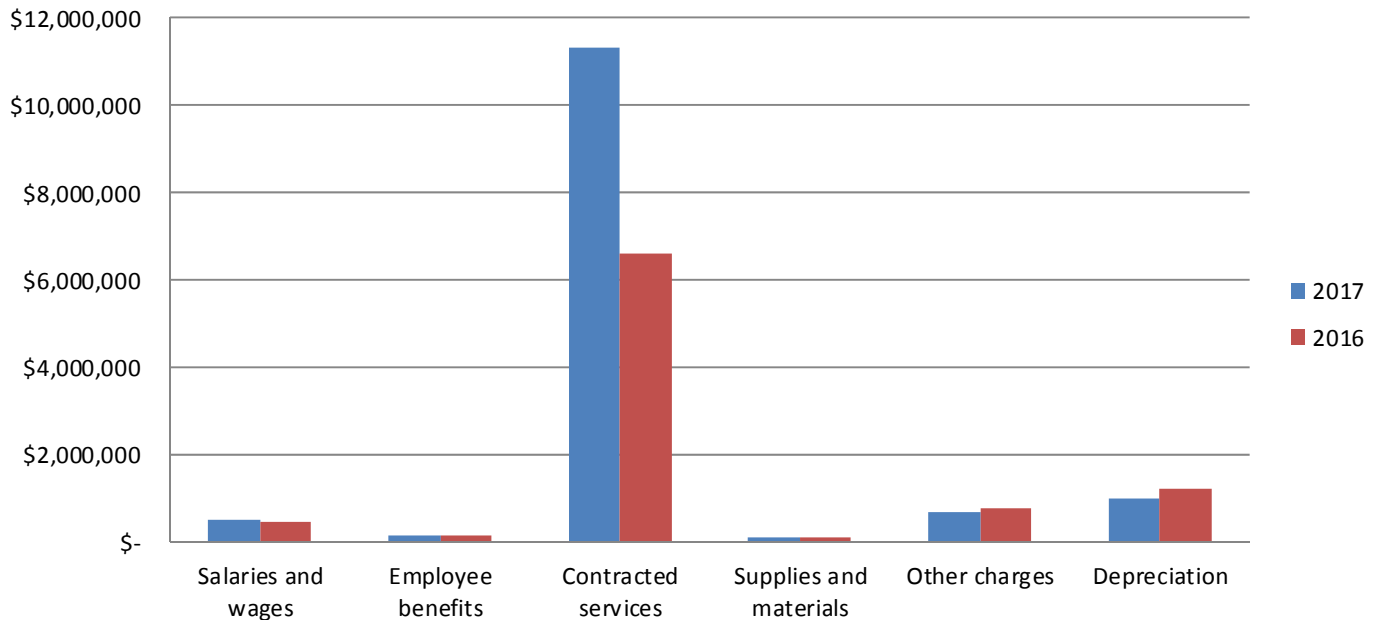
Operating expenses of the District increased to \$13,768,765 for FY 2017 compared with \$9,246,508 for FY 2016, primarily due to increased contracted services for PSAP equipment reimbursements.

Fiscal Year 2017 District Operating Expenses



**Emergency Communications District of Shelby County, Tennessee
 (A Component Unit of Shelby County, Tennessee)
 Management's Discussion and Analysis
 Year Ended June 30, 2017**

Fiscal Year 2017 v. Fiscal Year 2016 Operating Expenses



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, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 1,592,093
Investments	35,826,351
Accrued interest receivable	62,905
Accounts receivable	916
Due from TECB	516,845
Prepaid expenses	273,729

Total current assets	38,272,839
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Capital Assets Being Depreciated

Communications equipment	6,710,129
Vehicles	65,311
Furniture and fixtures	94,834
Leasehold Improvements	73,553

Total capital assets being depreciated	6,943,827
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Less accumulated depreciation	(5,224,166)
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Net capital assets being depreciated	1,719,661
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Total assets	39,992,500
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Deferred Outflows Of Resources

Pension changes in experience	26,749
Pension contribution after measurement date	77,396
Pension changes in investment earnings	39,569

Total deferred outflows of resources	143,714
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Liabilities

Current Liabilities

Accounts payable	1,483,049
Compensated absences payable	74,022
Other accrued expenses	35,942

Total current liabilities	1,593,013
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Noncurrent Liabilities

Net pension liability	120,012
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Total liabilities	1,713,025
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Deferred Inflows Of Resources

Pension changes in experience	13,914
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Net Position

Net investment in capital assets	1,719,661
Unrestricted	36,689,614

Total net position	\$ 38,409,275
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Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017

Operating Revenues	
TECB distribution of 911 surcharges (base amount)	\$ 9,327,186
TECB distribution of excess revenue	<u>1,174,939</u>
Total operating revenues	10,502,125
Operating Expenses	
Salaries and wages	505,415
Employee benefits	160,134
Contracted services	11,322,422
Supplies and materials	116,919
Other charges	667,792
Depreciation	<u>996,083</u>
Total operating expenses	<u>13,768,765</u>
Operating income	(3,266,640)
Non-Operating Revenues (Expenses)	
Investment income	325,391
Net decrease in the fair value of investments	<u>(114,362)</u>
Total non-operating revenue	<u>211,029</u>
Change in net position	(3,055,611)
Net position - beginning	<u>41,464,886</u>
Net position - ending	<u><u>\$ 38,409,275</u></u>

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Statement of Cash Flows
Year Ended June 30, 2017

Cash Flows Provided By Operating Activities

Cash received from customers	\$ 9,985,168
Cash payments to suppliers	(11,073,398)
Cash payments to employees	<u>(658,855)</u>
Net cash provided by operating activities	(1,747,085)

Cash Flows Used For Capital and Related Financing Activities

Purchases of capital assets	(327,390)
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Cash Flows Used For Investing Activities

Purchase of investments	(32,253,138)
Proceeds from maturities of investments	27,870,101
Investment income received	<u>324,477</u>
Net cash from (used for) investing activities	<u>(4,058,560)</u>

Net increase in cash and cash equivalents (6,133,035)

Cash and cash equivalents at beginning of the year 7,725,128

Cash and cash equivalents at end of the year \$ 1,592,093

Reconciliation of Operating Income to Net Cash

Provided By Operating Activities

Operating income	\$ (3,266,640)
Adjustments to Reconcile Operating Income to Net Cash	
Provided By Operating Activities:	
Depreciation	996,083
Employer contributions in excess of pension expense	(24,632)
Changes in Assets and Liabilities:	
Accounts receivable	(112)
Due from TECB	(516,845)
Prepaid expense	(261,325)
Accounts payable	1,349,801
Compensated absences payable	6,694
Other accrued expenses	<u>(30,109)</u>
Total adjustments	<u>1,519,555</u>

Net cash provided by operating activities \$ (1,747,085)

Noncash Investing And Financing Activities

Increase (decrease) in fair value of investments	<u><u>\$ 114,362</u></u>
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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 (“TECB”) shared wireless charges and operational funding are recognized in the period earned.

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2017

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. The District defines capital assets as assets with an initial individual cost of at least \$10,000. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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.

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2017

Net Position

The District recognizes the difference between its assets plus deferred outflows of resources less liabilities and deferred inflows of resources as net position. Net position categories include:

Net investment in capital assets - consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and notes that are attributable to the acquisition, construction, or improvement of those assets. Applicable deferred outflows of resources and deferred inflows of resources, if any, are also included in this component of net position.

Restricted – 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, 2017.

Unrestricted – remaining balance of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 October 18, 2017, 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.

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.

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

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2017

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 \$1,592,093 and the bank balances totaled \$2,882,903. 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 Mortgage Corp	\$ 16,990,763	\$ 7,177,548	\$ 9,813,215	47%
Federal Home Loan Bank	8,312,910	-	8,312,910	23%
Federal National Mortgage Association	5,633,796	-	5,633,796	16%
First Federal Community Bank	4,888,882	2,151,339	2,737,543	14%
	<u>\$ 35,826,351</u>	<u>\$ 9,328,887</u>	<u>\$ 26,497,464</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 Mortgage Corp	Aaa	47%
Federal Home Loan Bank	Aaa	23%
Federal National Mortgage Association	Aaa	16%
First Federal Community Bank	Aaa	14%

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.

Emergency Communications District of Shelby County, Tennessee
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Notes to Financial Statements
June 30, 2017

- 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, 2017:

Investment Type	Level 2
Federal Home Loan Mortgage Corp	\$ 16,990,763
Federal Home Loan Bank	8,312,910
Federal National Mortgage Association	5,633,796
First Federal Community Bank	<u>4,888,882</u>
	<u><u>\$ 35,826,351</u></u>

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is as follows (all capital assets are being depreciated):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Equipment	\$ 7,208,875	\$ 327,390	\$ 826,136	\$ 6,710,129
Vehicles	65,311	-	-	65,311
Furniture and fixtures	94,834	-	-	94,834
Leasehold improvements	<u>73,553</u>	<u>-</u>	<u>-</u>	<u>73,553</u>
Total capital assets being depreciated	7,442,573	327,390	826,136	6,943,827
Less Accumulated Depreciation for:				
Equipment	4,936,321	979,099	826,136	5,089,284
Vehicles	37,969	4,920	-	42,889
Furniture and fixtures	67,299	10,201	-	77,500
Leasehold improvements	<u>12,630</u>	<u>1,863</u>	<u>-</u>	<u>14,493</u>
Total accumulated depreciation	<u>5,054,219</u>	<u>996,083</u>	<u>826,136</u>	<u>5,224,166</u>
Total capital assets, net	<u><u>\$ 2,388,354</u></u>	<u><u>\$ (668,693)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,719,661</u></u>

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2017

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, 2016, 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, 2017, employer contributions for the District were \$77,396 based on a rate of 15.39 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

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Notes to Financial Statements
June 30, 2017

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, 2016, 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, 2016, 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, 2016 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%

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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 Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 1,212,513	\$ 1,109,375	\$ 103,138
Changes for the year:			
Service cost	30,779	-	30,779
Interest	92,039	-	92,039
Differences between expected and actual experience	(13,653)	-	(13,653)
Contributions - employer	-	62,919	(62,919)
Net investment income	-	29,826	(29,826)
Benefit payments, including refunds of employee contributions	(32,210)	(32,210)	-
Administrative expense	-	(454)	454
Net changes	<u>76,955</u>	<u>60,081</u>	<u>16,874</u>
Balance at June 30, 2017	<u>\$ 1,289,468</u>	<u>\$ 1,169,456</u>	<u>\$ 120,012</u>

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%)
District's net pension liability (asset)	\$ 279,735	\$ 120,012	\$ (14,572)

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

Pension expense. For the year ended June 30, 2017, the District recognized pension expense of \$52,764.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,749	\$ (13,914)
Net difference between projected and actual earnings on pension plan investments	39,569	-
Contributions subsequent to the measurement date of June 30, 2016	<u>77,396</u>	<u>-</u>
Total	<u>\$ 143,714</u>	<u>\$ (13,914)</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2016,” 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 for the years ending June 30 as follows:

2018	\$ 13,830
2019	13,830
2020	16,569
2021	8,171

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, 2017, the District did not report a payable for outstanding contributions to the pension plan required at the year ended June 30, 2017.

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

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June 30, 2017

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. The annual base funding for the District is \$9,327,186.

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.

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 \$4,048,021 for the year ended June 30, 2017.

8. COMMITMENTS

Lease 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 \$70,119. Future minimum lease requirements for the years ending June 30 are as follows:

2018	\$ 102,279
2019	104,329
2020	106,410
2021	108,534
Thereafter	101,696
	\$ 627,652

Construction Commitments

Total construction commitments outstanding for construction in process as of June 30, 2017 were \$1,397,620. It is anticipated that sufficient funds will be available for completion of the construction in process and other planned projects.

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.

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 Asset and Ratios
Based on Participation in the Public Employee Retirement Plan of TCRS
Fiscal Year Ending June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 30,779	\$ 29,164	\$ 34,503
Interest	92,039	86,054	75,524
Differences between actual & expected experience	(13,653)	(4,986)	66,871
Benefit payments, including refunds of employee contributions	<u>(32,210)</u>	<u>(31,891)</u>	<u>(30,412)</u>
Net change in total pension liability	76,955	78,341	146,486
Total pension liability - beginning	<u>1,212,513</u>	<u>1,134,172</u>	<u>987,686</u>
Total pension liability - ending (a)	<u><u>\$ 1,289,468</u></u>	<u><u>\$ 1,212,513</u></u>	<u><u>\$ 1,134,172</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 62,919	\$ 59,992	\$ 59,153
Net investment income	29,826	32,732	147,125
Benefit payments, including refunds of employee contributions	(32,210)	(31,891)	(30,412)
Administrative expense	<u>(454)</u>	<u>(305)</u>	<u>(264)</u>
Net change in plan fiduciary net position	60,081	60,528	175,602
Plan fiduciary net position - beginning	<u>1,109,375</u>	<u>1,048,847</u>	<u>873,245</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,169,456</u></u>	<u><u>\$ 1,109,375</u></u>	<u><u>\$ 1,048,847</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 120,012</u></u>	<u><u>\$ 103,138</u></u>	<u><u>\$ 85,325</u></u>
Plan Fiduciary Net Position As A Percentage Of Total Pension Liability	90.69%	91.49%	92.48%
Covered Payroll	\$ 437,243	\$ 416,900	\$ 397,532
Net Pension Liability As A Percentage Of Covered Payroll	27.45%	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.

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)**

Schedule of Contributions

**Based on Participation in the Public Employee Retirement Plan of TCRS
Fiscal Year Ending June 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 77,396	\$ 62,919	\$ 59,992	\$ 59,153
Contributions in relation to the actuarially determined contribution	<u>77,396</u>	<u>62,919</u>	<u>59,992</u>	<u>59,153</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 502,898	\$ 437,243	\$ 416,900	\$ 397,532
Contributions as a percentage of covered payroll	15.39%	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 2017 were calculated based on the June 30, 2015, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
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

OTHER SUPPLEMENTARY INFORMATION

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Budgetary Comparison Schedule
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating Revenues				
TECB distribution of 911 surcharges (base amount)	\$ 8,837,048	\$ 9,327,186	\$ 9,327,186	\$ -
TECB distribution of excess revenue	-	714,940	1,174,939	459,999
Total operating revenues	8,837,048	10,042,126	10,502,125	459,999
Operating Expenses				
Salaries and wages				
Director	125,000	125,000	125,000	-
Administrative personnel	377,898	377,898	372,921	4,977
Vacation and compensated expenses	20,764	20,764	7,494	13,270
Total salaries and wages	523,662	523,662	505,415	18,247
Employee benefits				
Social security	45,000	45,000	36,709	8,291
Life insurance	24,000	24,000	16,466	7,534
Medical and dental insurance	56,000	56,000	54,195	1,805
Unemployment	1,900	1,900	-	1,900
Retirement contributions	81,000	81,000	52,764	28,236
Total employee benefits	207,900	207,900	160,134	47,766
Contracted services				
Addressing / mapping & PSAP equipment reimbursements	13,834,500	13,834,500	2,539,474	11,295,026
Audit services	16,000	16,000	14,400	1,600
Accounting services	26,000	26,000	14,559	11,441
Architects	90,000	90,000	88,915	1,085
Contracts with private agencies	8,704,626	9,613,667	6,279,053	3,334,614
Financial advisory services	90,000	90,000	52,671	37,329
Legal services	193,000	198,000	197,274	726
Maintenance agreements	507,995	582,995	303,608	279,387
Lease/rental - communications equipment	1,874,247	1,874,247	1,586,540	287,707
Lease/rental - building and facilities	123,105	123,105	70,119	52,986
Lease/rental - office equipment	5,000	5,000	3,124	1,876
Maintenance and repairs - communications	332,000	332,000	156,032	175,968
Maintenance and repairs - building and facilities	30,000	30,000	15,744	14,256
Maintenance and repairs - office equipment	6,000	6,000	22	5,978
Maintenance and repairs - vehicles	7,100	7,100	887	6,213
Total contracted services	25,839,573	26,828,614	11,322,422	15,506,192
Supplies and materials				
Fuel	6,700	6,700	2,159	4,541
Office supplies	5,100	5,100	5,100	-
Custodial supplies	500	500	216	284
Data processing supplies	101,275	101,275	5,649	95,626
Postage	5,000	5,000	1,116	3,884
Small equipment purchases	2,725,750	2,720,500	84,449	2,636,051
Utilities - general telephone	600	600	5	595

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Budgetary Comparison Schedule
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Utilities - cell phones	\$ 54,800	\$ 54,800	\$ 16,373	\$ 38,427
Printing	6,325	6,325	1,852	4,473
Total supplies and materials	<u>2,906,050</u>	<u>2,900,800</u>	<u>116,919</u>	<u>2,783,881</u>
Other charges				
Board meeting expenses	12,050	12,050	4,304	7,746
Dues and memberships	8,950	8,950	8,149	801
Insurance - workers compensation	2,600	2,600	276	2,324
Insurance - building and contents	45,000	45,000	29,349	15,651
Insurance - vehicles	3,400	3,400	-	3,400
Legal notices	3,000	3,000	650	2,350
Premiums on surety bonds	26,500	26,500	5,270	21,230
Public education	678,200	603,200	91,380	511,820
Service awards	23,000	23,000	11,204	11,796
Training expenses	1,328,076	1,328,326	493,432	834,894
Travel expenses	171,700	171,700	23,778	147,922
Total other charges	<u>2,302,476</u>	<u>2,227,726</u>	<u>667,792</u>	<u>1,559,934</u>
Depreciation	1,202,722	1,202,722	996,083	206,639
Total operating expenses	<u>32,982,383</u>	<u>33,891,424</u>	<u>13,768,765</u>	<u>20,122,659</u>
Operating income (loss)	(24,145,335)	(23,849,298)	(3,266,640)	20,582,658
Non-Operating Revenues (Expenses)				
Investment income	250,000	250,000	325,391	75,391
Net decrease in the fair value of investments	-	-	(114,362)	(114,362)
Total non-operating revenue	<u>250,000</u>	<u>250,000</u>	<u>211,029</u>	<u>(38,971)</u>
Change in net position	<u>\$ (23,895,335)</u>	<u>\$ (23,599,298)</u>	<u>\$ (3,055,611)</u>	<u>\$ 20,543,687</u>

**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

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2017.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies in internal control may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, described in the accompanying schedule of findings and responses as item 2017-001, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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*.

District's Responses to Findings

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

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 Mikusall, PLLC

Memphis, Tennessee
October 18, 2017

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Schedule of Findings and Responses
Year Ended June 30, 2017**

Material Weakness

2017-001: *Condition:* Significant audit adjustments were proposed and recorded by management to correct certain account balances, such as contracted services (\$1,101,080), equipment (\$264,077), and prepaid expense (\$261,549).

Criteria: Generally accepted accounting principles require expenses to be recorded when incurred and capital assets be capitalized and depreciated over the useful life of the asset.

Effect: As a result of these errors, the District had materially understated contracted services, equipment, and prepaid expense prior to correction.

Recommendation: We recommend that procedures be implemented to review significant purchases to determine that the activity was recorded to the correct account and review any invoices received after year end to determine if the activity relates to the previous year.

Management's Response: The District agrees with the adjustment and will implement the necessary procedures to ensure that activity is properly recorded.

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

None