

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

**Financial Statements and
Supplementary Information**

Year Ended June 30, 2018



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, 2018**

Emergency Communications District Management Staff

Raymond Chiozza, Director *
Carmen Tyler, Executive Assistant/Accounting Manager
Sue Robinson, Public Education Coordinator
Carlton Ray, IT Administrator
Harold Truebger, 911 Information Systems Lead
Timothy Zimmer, GIS Administrator

Emergency Communications District Board of Directors

Rebeka Anderson, Chair
Patrick Carter, Vice-Chair
Glen Kneeland, Secretary Treasurer
Clifton Dates, Member
Bruce Kramer, Member
Mary Balee, Member
Clarence Cash, Jr., Member

Note: Board of Directors has two vacant positions

* - 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, 2018, 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, 2018, 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.

Change in Accounting Principle

The District has adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

We draw attention to Note 12 to the financial statements, which describes a restatement decreasing the beginning net position by \$10,331 on the Statement of Revenue, Expenses, and Changes in Net Position. This restatement was necessary because of the transitional requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 5 – 7, schedule of changes in net pension liability and related ratios on page 26, schedule of pension contributions on page 27 and the schedule of changes in total OPEB liability and related ratios on page 28 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 December 12, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Mikusall, PLLC

Memphis, Tennessee
December 12, 2018

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Management's Discussion and Analysis
Year Ended June 30, 2018

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, 2018. 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>2018</u>	<u>2017</u>
Current assets	\$ 34,532,115	\$ 38,272,839
Capital assets, net	2,779,288	1,719,661
Total assets	<u>37,311,403</u>	<u>39,992,500</u>
Deferred outflows of resources	267,218	143,714
Current liabilities	339,803	1,593,013
Net pension liability	130,114	120,012
Total liabilities	<u>469,917</u>	<u>1,713,025</u>
Deferred inflows of resources	11,664	13,914
Investment in capital assets	2,779,288	1,719,661
Unrestricted net position	34,317,752	36,689,614
Total net position	<u>\$ 37,097,040</u>	<u>\$ 38,409,275</u>

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Management's Discussion and Analysis
Year Ended June 30, 2018**

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

	2018	2017
Operating revenues	\$ 9,853,400	\$ 10,502,125
Operating expenses	11,403,999	13,768,765
Operating income (loss)	(1,550,599)	(3,266,640)
Non-operating revenue	248,695	211,029
Change in net position	<u>\$ (1,301,904)</u>	<u>\$ (3,055,611)</u>

Operating and Non-Operating Revenues

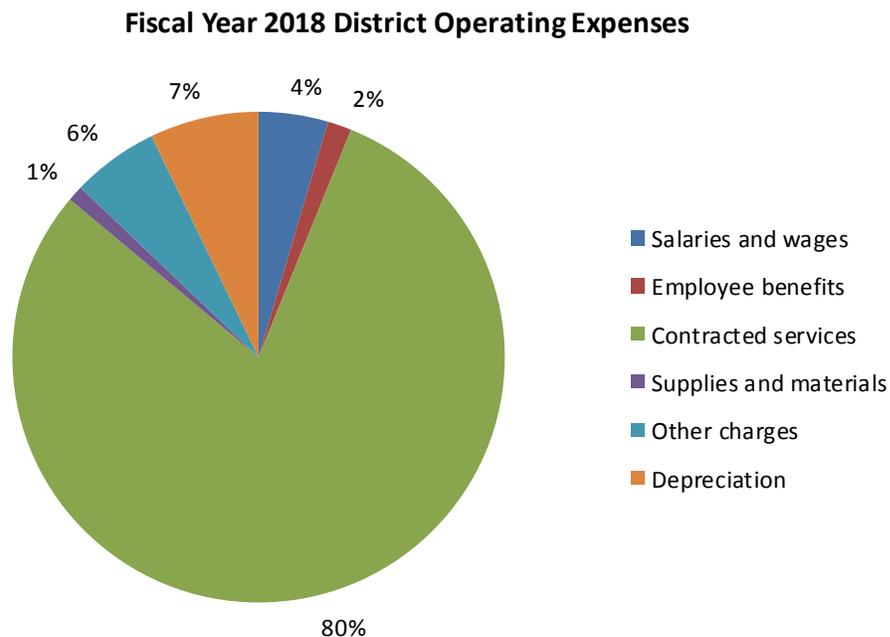
The District's total operating revenue was \$9,853,400 for the year ended June 30, 2018.

Subscriber fees – the emergency telephone service charge – for FY 2018 amounted to \$9,853,400, a decrease of \$648,725 (6%) from the prior year's fees of \$10,502,125 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 2018 the District had non-operating revenue of \$248,695, an increase of \$37,666 (18%) from the prior year's non-operating revenue of \$211,029. Non-operating revenues consist of investment income and changes in the fair value of investments.

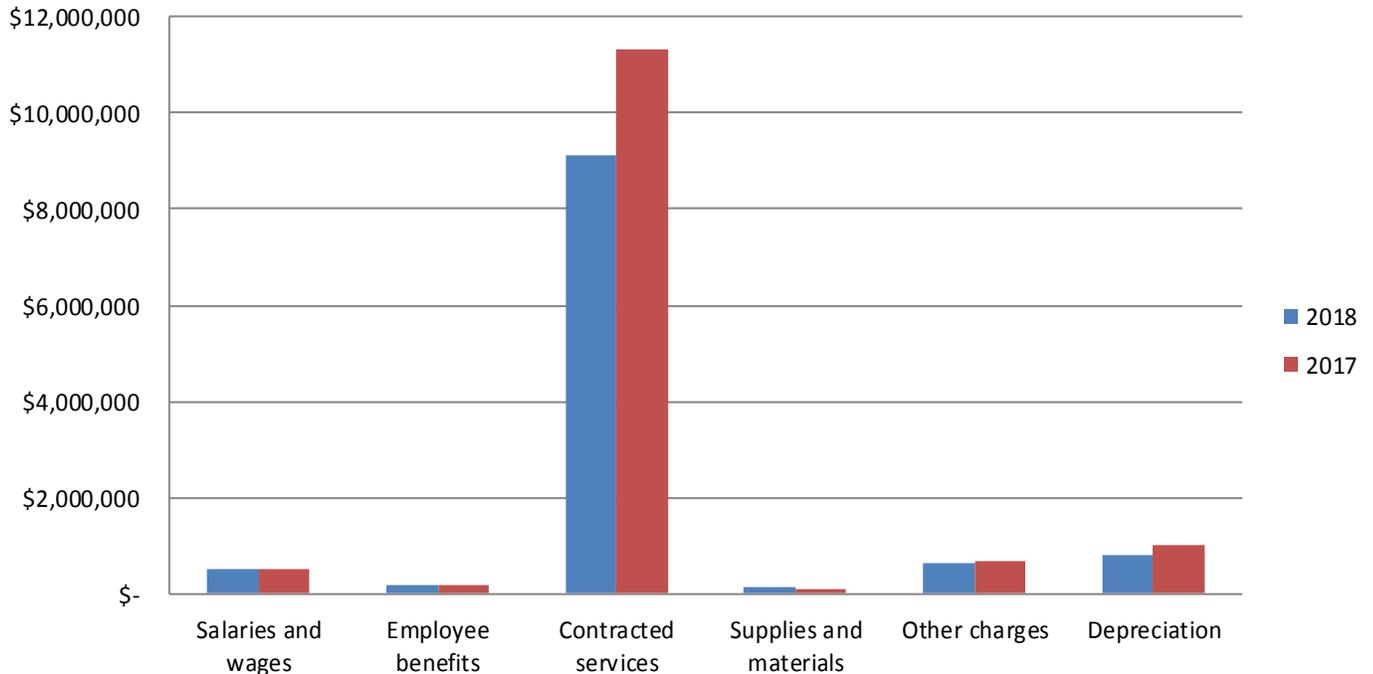
Operating Expenses

Operating expenses of the District decreased to \$11,403,999 for FY 2018 compared with \$13,768,765 for FY 2017, primarily due to increased contracted services for PSAP equipment reimbursements.



**Emergency Communications District of Shelby County, Tennessee
 (A Component Unit of Shelby County, Tennessee)
 Management's Discussion and Analysis
 Year Ended June 30, 2018**

Fiscal Year 2018 v. Fiscal Year 2017 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, 2018

Assets	
Current Assets	
Cash and cash equivalents	\$ 7,470,787
Investments	26,715,176
Accrued interest receivable	62,905
Prepaid expenses	283,247
Total current assets	<u>34,532,115</u>
Capital Assets Being Depreciated	
Communications equipment	8,586,683
Vehicles	65,311
Furniture and fixtures	94,834
Leasehold Improvements	73,553
Total capital assets being depreciated	<u>8,820,381</u>
Less accumulated depreciation	<u>(6,041,093)</u>
Net capital assets being depreciated	<u>2,779,288</u>
 Total assets	 37,311,403
Deferred Outflows Of Resources	
Pension changes in experience	82,292
Pension contribution after measurement date	184,678
OPEB contribution after measurement date	248
Total deferred outflows of resources	<u>267,218</u>
Liabilities	
Current Liabilities	
Accounts payable	188,973
Compensated absences payable	62,570
OPEB liability	11,483
Other accrued expenses	76,777
Total current liabilities	<u>339,803</u>
Noncurrent Liabilities	
Net pension liability	130,114
Total liabilities	<u>469,917</u>
Deferred Inflows Of Resources	
Pension changes in experience	10,186
Pension changes in investment earnings	1,140
OPEB changes in assumptions	338
Total deferred inflows of resources	<u>11,664</u>
Net Position	
Net investment in capital assets	2,779,288
Unrestricted	34,317,752
Total net position	<u><u>\$ 37,097,040</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
Year Ended June 30, 2018

Operating Revenues

TECB distribution of 911 surcharges (base amount)	\$ 9,327,186
TECB distribution of excess revenue	<u>526,214</u>
Total operating revenues	<u>9,853,400</u>

Operating Expenses

Salaries and wages	519,350
Employee benefits	180,060
Contracted services	9,120,038
Supplies and materials	117,584
Other charges	650,040
Depreciation	<u>816,927</u>
Total operating expenses	<u>11,403,999</u>

Operating income (1,550,599)

Non-Operating Revenues (Expenses)

Investment income	353,131
Net decrease in the fair value of investments	<u>(104,436)</u>
Total non-operating revenue	<u>248,695</u>

Change in net position (1,301,904)

Net position - beginning	38,409,275
Beginning OPEB adjustment	<u>(10,331)</u>
Net position - beginning, as restated	<u>38,398,944</u>
Net position - ending	<u><u>\$ 37,097,040</u></u>

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Statement of Cash Flows
Year Ended June 30, 2018

Cash Flows Provided By Operating Activities

Cash received from customers	\$ 10,371,161
Cash payments to suppliers	(11,264,924)
Cash payments to employees	(710,863)
Net cash provided by operating activities	<u>(1,604,626)</u>

Cash Flows Used For Capital and Related Financing Activities

Purchases of capital assets	(1,876,554)
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Cash Flows Used For Investing Activities

Purchase of investments	(5,216,249)
Proceeds from maturities of investments	14,222,989
Investment income received	353,134
Net cash from (used for) investing activities	<u>9,359,874</u>

Net increase in cash and cash equivalents

5,878,694

Cash and cash equivalents at beginning of the year

1,592,093

Cash and cash equivalents at end of the year

\$ 7,470,787

Reconciliation of Operating Income to Net Cash

Provided By Operating Activities

Operating income \$ (1,550,599)

Adjustments to Reconcile Operating Income to Net Cash

Provided By Operating Activities:

Depreciation	816,927
Employer contributions in excess of pension expense	(115,746)
Employer contributions in excess of OPEB expense	2,394

Changes in Assets and Liabilities:

Accounts receivable	916
Due from TECB	516,845
Prepaid expense	(9,518)
Accounts payable	(1,294,076)
OPEB liability	(1,152)
Compensated absences payable	(11,452)
Other accrued expenses	40,835

Total adjustments (54,027)

Net cash provided by operating activities \$ (1,604,626)

Noncash Investing And Financing Activities

Increase (decrease) in fair value of investments \$ 104,436

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, 2018

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, 2018

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, 2018.

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.

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 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.

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2018

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 \$7,470,787 and the bank balances totaled \$7,614,663. 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	
US Treasury Bonds	\$ 1,443,833	\$ 1,443,833	\$ -	5%
Federal Home Loan Mortgage Corp	8,096,736	5,470,670	2,626,066	30%
Federal Home Loan Bank	7,412,891	3,988,540	3,424,351	28%
Federal National Mortgage Association	2,725,694	1,397,510	1,328,184	10%
First Federal Community Bank	7,036,022	7,036,022	-	26%
	<u>\$ 26,715,176</u>	<u>\$ 19,336,575</u>	<u>\$ 7,378,601</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
US Treasury Bonds	Aaa	5%
Federal Home Loan Mortgage Corp	Aaa	30%
Federal Home Loan Bank	Aaa	28%
Federal National Mortgage Association	Aaa	10%
First Federal Community Bank	Aaa	26%

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.

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2018

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, 2018:

Investment Type	Level 2
US Treasury Bonds	\$ 1,443,833
Federal Home Loan Mortgage Corp	8,096,736
Federal Home Loan Bank	7,412,891
Federal National Mortgage Association	2,725,694
First Federal Community Bank	7,036,022
	<u>\$ 26,715,176</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, is as follows (all capital assets are being depreciated):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Equipment	\$ 6,710,129	\$ 1,876,554	\$ -	\$ 8,586,683
Vehicles	65,311	-	-	65,311
Furniture and fixtures	94,834	-	-	94,834
Leasehold improvements	73,553	-	-	73,553
Total capital assets being depreciated	<u>6,943,827</u>	<u>1,876,554</u>	<u>-</u>	<u>8,820,381</u>
Less Accumulated Depreciation for:				
Equipment	5,089,284	799,783	-	5,889,067
Vehicles	41,974	6,224	-	48,198
Furniture and fixtures	78,415	9,058	-	87,473
Leasehold improvements	14,493	1,862	-	16,355
Total accumulated depreciation	<u>5,224,166</u>	<u>816,927</u>	<u>-</u>	<u>6,041,093</u>
Total capital assets, net	<u>\$ 1,719,661</u>	<u>\$ 1,059,627</u>	<u>\$ -</u>	<u>\$ 2,779,288</u>

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Notes to Financial Statements
June 30, 2018

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, 2017, 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, 2018, employer contributions for the District were \$90,240 based on a rate of 17 percent of covered payroll. By law, employer contributions are required to be paid. The District also contributed an excess contribution totaling \$94,438 during the year ended June 30, 2018. 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

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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, 2017, 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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.46 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5 percent. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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	\$ 1,289,468	\$ 1,169,456	\$ 120,012
Changes for the year:			
Service cost	32,222	-	32,222
Interest	97,907	-	97,907
Differences between expected and actual experience	55,751	-	55,751
Changes in assumptions	36,138	-	36,138
Contributions - employer	-	77,396	(77,396)
Contributions - employees	-	-	-
Net investment income	-	135,029	(135,029)
Benefit payments, including refunds of employee contributions	(32,532)	(32,532)	-
Administrative expense	-	(509)	509
Other changes	-	-	-
Net changes	<u>189,486</u>	<u>179,384</u>	<u>10,102</u>
Balance at June 30, 2017	<u>\$ 1,478,954</u>	<u>\$ 1,348,840</u>	<u>\$ 130,114</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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

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	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's net pension liability (asset)	\$ 315,109	\$ 130,114	\$ (25,317)

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

Pension expense. For the year ended June 30, 2018, the District recognized pension expense of \$68,933.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, 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	\$ 55,188	\$ 10,186
Net difference between projected and actual earnings on pension plan investments	-	1,140
Changes in assumptions	27,103	-
Contributions subsequent to the measurement date of June 30, 2017	184,678	-
Total	<u>\$ 266,969</u>	<u>\$ 11,326</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," 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:

2019	\$ 27,672
2020	30,411
2021	22,013
2022	(9,131)

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, 2018, the District did not report a payable for outstanding contributions to the pension plan required at the year ended June 30, 2018.

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6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description. The employer provides certain retiree health insurance benefits in a single employer defined benefit OPEB Plan through the LGOP which is administered by the State of Tennessee. All employees covered by the LGOP and hired prior to July 1, 2015 are covered by the OPEB Plan. According to State law in effect on the measurement date, employees first hired on or after July 1, 2015 are not eligible to continue health insurance coverage under the OPEB Plan after retiring. Any changes to the law will be recognized in future measurements. For eligible employees, some employers provide a direct subsidy toward the premium for certain employees; all employers provide an implicit subsidy; and the retiree pays any balance of the required premium remaining.

Funding policy. There are no assets or trust fund accumulating to pre-fund the OPEB obligation. The funding policy is to pay the OPEB obligation as it comes due each month on a pay-as-you-go basis. The total premium rate structure required for LGOP coverage is established by and may be amended by the Benefits Administration unit of the State and the State Insurance Committee. The local employer sets its own level of subsidy for the designated classification of members.

Eligibility. Eligibility to commence OPEB coverage is the same as eligibility for retirement under the Tennessee Consolidated Retirement System (TCRS), with the added conditions of (a) having being at least age 55 with at least 10 years of employment with the employer and three continuous years of insurance coverage in the LGOP immediately prior to final termination for retirement (or age 55 with at least 20 years of such employment if only one year of such coverage) and (b) receiving a monthly pension from TCRS. Additional rules apply for OPEB coverage for TCRS-approved disabilities. Alternative conditions are made for any locally sponsored public safety retirement plan or utility board member.

With the exception of a small group of grandfathered individuals, retirees are required to discontinue coverage under the LGOP and this OPEB Plan upon attaining eligibility for Medicare benefits. In addition to subsidies that may be provided by the local employers for retiree premiums, the OPEB benefits include access to coverage for the retiree and dependents under the Medical, Prescription, Dental, Vision, and Long Term Care (LTC access for retirees was discontinued effective January 1, 2018).

Benefits. The employer may provide a flat dollar or percent subsidy depending on years of service, job classification, health plan option and tier selected. The State does not provide a subsidy for local government participants.

Employees covered by benefit terms - At July 1, 2017, the following employees of the District were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	6
	<u>6</u>
	<u>6</u>

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The components of the District's net OPEB liability at June 30, 2017, were as follows:

Total OPEB Liability		
Service cost	\$	1,197
Interest		337
Changes of benefit items		-
Differences between expected and actual experience		-
Changes in assumptions		(382)
Benefit payments, including refunds		-
Net change in total OPEB liability		<u>1,152</u>
Total OPEB liability - beginning		<u>10,331</u>
Total OPEB liability - ending	\$	<u><u>11,483</u></u>
Estimated Covered-Employee Payroll	\$	502,898
Total OPEB Liability as a Percentage of Covered-Employee Payroll		2.28%

Methods and Assumptions Used to Determine Total OPEB Liability:

Actuarial Cost Method	Entry Age Normal
Inflation	2.25%
Discount Rate	3.56%
Salary Increases	Salary increase rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS); 3.44% - 8.72%, including inflation.
Retirement Age	Retirement rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Mortality	Mortality tables used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Healthcare Cost Trend Rates	Based on the Getzen Model, with trend starting at 7.50% for 2018 calendar year, and gradually decreasing 33-year period to an ultimate trend rate of 3.53% with 0.18% added to approximate

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the effect of the excise tax.

Aging factors Based on the 2013 SOA Study "Health Care Costs - From Birth to Death".

Expenses Administrative expenses are included in the per capita health costs.

The components for OPEB expenses are as follows:

OPEB Expense		
Service cost	\$	1,197
Interest		337
Outflow (Inflow) of resources due to liabilities		(44)
Total OPEB Expense	\$	<u>1,490</u>

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the average of the expected remaining service lives for purposes of recognizing the applicable combined deferred outflows and inflows of resources established in the current measurement period is 8.7 years.

Outflows and Inflows of Resources by Source to be Recognized in Current OPEB Expense

Net outflows of resources and changes in assumptions totaled \$44 and \$338, respectively as of June 30, 2018. Future OPEB expenses will total \$44 per year through 2028. Contributions after the measurement date totaled \$248.

Sensitivity of Total OPEB Liability to the Discount Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the plan's total OPEB liability, calculated using a discount rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	1% Decrease 2.56%	Current Discount Rate Assumption 3.56%	1% Increase 4.56%
Net OPEB liability (asset)	\$ 12,044	\$ 11,483	\$ 10,919

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Discount Rate: For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this actuarial roll-forward, the municipal bond rate is 3.56% (based on the daily rate of Fidelity's "20-Year Municipal GO AA Index" closest to but not later than the measurement date). The discount rate was 2.92% as of the beginning of the measurement year.

Plan assets: There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

7. 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. 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.

8. 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 \$6,577,295 for the year ended June 30, 2018.

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June 30, 2018

9. 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 \$97,259. Future minimum lease requirements for the years ending June 30 are as follows:

2019	\$ 104,335
2020	106,416
2021	108,540
2022	101,391
	<u>\$ 420,682</u>

Construction Commitments

Total construction commitments outstanding for construction in process as of June 30, 2018 were \$4,473,908. It is anticipated that sufficient funds will be available for completion of the construction in process and other planned projects.

10. 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.

11. 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.

12. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required for fiscal periods beginning after June 15, 2018, in fiscal year 2018. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The implementation has been accounted for as a change in accounting principle with a prior year adjustment as determined by an actuary. The effect of this adjustment decreased the beginning net position balance by \$10,331.

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 Ratios
Based on Participation in the Public Employee Retirement Plan of TCRS
Fiscal Year Ending June 30, 2018

	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 32,222	\$ 30,779	\$ 29,164	\$ 34,503
Interest	97,907	92,039	86,054	75,524
Changes in benefit terms	-	-	-	-
Differences between actual & expected experience	55,751	(13,653)	(4,986)	66,871
Changes of assumptions	36,138	-	-	-
Benefit payments, including refunds of employee contributions	(32,532)	(32,210)	(31,891)	(30,412)
Net change in total pension liability	189,486	76,955	78,341	146,486
Total pension liability - beginning	1,289,468	1,212,513	1,134,172	987,686
Total pension liability - ending (a)	<u>\$ 1,478,954</u>	<u>\$ 1,289,468</u>	<u>\$ 1,212,513</u>	<u>\$ 1,134,172</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 77,396	\$ 62,919	\$ 59,992	\$ 59,153
Contributions - employee	-	-	-	-
Net investment income	135,029	29,826	32,732	147,125
Benefit payments, including refunds of employee contributions	(32,532)	(32,210)	(31,891)	(30,412)
Administrative expense	(509)	(454)	(305)	(264)
Net change in plan fiduciary net position	179,384	60,081	60,528	175,602
Plan fiduciary net position - beginning	1,169,456	1,109,375	1,048,847	873,245
Plan fiduciary net position - ending (b)	<u>\$ 1,348,840</u>	<u>\$ 1,169,456</u>	<u>\$ 1,109,375</u>	<u>\$ 1,048,847</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 130,114</u>	<u>\$ 120,012</u>	<u>\$ 103,138</u>	<u>\$ 85,325</u>
Plan Fiduciary Net Position As A Percentage Of Total Pension Liability	91.20%	90.69%	91.49%	92.48%
Covered Payroll	\$ 502,898	\$ 437,243	\$ 416,900	\$ 397,532
Net Pension Liability As A Percentage Of Covered Payroll	25.87%	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
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Schedule of Contributions

**Based on Participation in the Public Employee Retirement Plan of TCRS
Fiscal Year Ending June 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 90,240	\$ 72,367	\$ 62,919	\$ 59,992	\$ 59,153
Contributions in relation to the actuarially determined contribution	<u>184,678</u>	<u>77,396</u>	<u>62,919</u>	<u>59,992</u>	<u>59,153</u>
Contribution deficiency (excess)	<u>\$ (94,438)</u>	<u>\$ (5,029)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 530,802	\$ 502,898	\$ 437,243	\$ 416,900	\$ 397,532
Contributions as a percentage of covered payroll	15.40%	15.40%	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 2018 were calculated based on the June 30, 2017, 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

**Emergency Communications District of Shelby County, Tennessee
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Schedule of Changes in Total OPEB Liability and Related Ratios
Measurement Year Ended June 30, 2017
Fiscal Year Ending June 30, 2018**

	<u>2017</u>
Total OPEB Liability:	
Service cost	\$ 1,197
Interest	337
Changes in benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	(382)
Benefit payments, including refunds	-
Net change in total OPEB liability (asset)	<u>1,152</u>
Total OPEB liability-beginning	<u>10,331</u>
Total OPEB liability-ending	<u><u>\$ 11,483</u></u>
Covered payroll	\$502,898
Net OPEB liability as a percentage of covered payroll	2.28%

* 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.

OTHER SUPPLEMENTARY INFORMATION

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating Revenues				
TECB distribution of 911 surcharges (base amount)	\$ 9,327,186	\$ 9,327,186	\$ 9,327,186	\$ -
TECB distribution of excess revenue	-	458,282	526,214	67,932
Total operating revenues	9,327,186	9,785,468	9,853,400	67,932
Operating Expenses				
Salaries and wages				
Director	132,500	132,500	132,500	-
Administrative personnel	398,302	398,304	398,302	2
Vacation and compensated expenses	41,971	41,971	(11,452)	53,423
Total salaries and wages	572,773	572,775	519,350	53,425
Employee benefits				
Social security	51,000	51,000	40,636	10,364
Life insurance	24,000	24,000	17,098	6,902
Medical and dental insurance	59,000	59,000	52,151	6,849
Unemployment	1,900	1,900	-	1,900
OPEB expense	-	-	1,242	(1,242)
Retirement contributions	188,500	188,500	68,933	119,567
Total employee benefits	324,400	324,400	180,060	144,340
Contracted services				
Addressing / mapping & PSAP equipment reimbursements	18,473,000	18,473,000	3,589,951	14,883,049
Audit services	16,000	16,000	15,000	1,000
Accounting services	26,000	26,000	13,973	12,027
Administrative Fees - Telephone	300	300	91	209
Architects	94,000	94,000	81,356	12,644
Contracts with private agencies	9,538,900	9,538,900	3,293,864	6,245,036
Financial advisory services	96,000	96,000	62,601	33,399
Legal services	241,000	241,000	97,503	143,497
Maintenance agreements	808,645	808,645	462,160	346,485
Lease/rental - communications equipment	2,222,768	2,222,768	1,349,439	873,329
Lease/rental - building and facilities	117,600	117,600	97,259	20,341
Lease/rental - office equipment	6,600	6,600	2,923	3,677
Maintenance and repairs - communications	357,000	357,000	47,552	309,448
Maintenance and repairs - building and facilities	30,000	30,000	1,392	28,608
Maintenance and repairs - office equipment	6,000	6,000	4,524	1,476
Maintenance and repairs - vehicles	7,100	7,100	450	6,650
Total contracted services	32,040,913	32,040,913	9,120,038	22,920,875
Supplies and materials				
Fuel	6,700	6,700	1,894	4,806
Office supplies	6,500	6,500	2,495	4,005
Custodial supplies	500	500	178	322
Data processing supplies	26,375	26,375	589	25,786
Postage	5,400	5,400	1,275	4,125
Small equipment purchases	1,539,280	1,514,680	93,580	1,421,100
Utilities - general telephone	-	-	-	-

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Utilities - cell phones	\$ 51,100	\$ 51,100	\$ 17,463	\$ 33,637
Printing	6,325	6,325	110	6,215
Total supplies and materials	<u>1,642,180</u>	<u>1,617,580</u>	<u>117,584</u>	<u>1,499,996</u>
Other charges				
Board meeting expenses	12,050	12,050	5,286	6,764
Dues and memberships	7,450	7,450	3,622	3,828
Insurance - workers compensation	2,600	2,600	1,873	727
Insurance - building and contents	45,000	45,000	4,247	40,753
Insurance - vehicles	3,400	3,400	2,911	489
Legal notices	3,000	3,000	1,070	1,930
Premiums on surety bonds	26,500	26,500	14,343	12,157
Public education	896,100	919,100	89,075	830,025
Service awards	-	23,000	687	22,313
Training expenses	1,723,901	1,727,101	451,097	1,276,004
Travel expenses	171,700	171,700	75,829	95,871
Total other charges	<u>2,891,701</u>	<u>2,940,901</u>	<u>650,040</u>	<u>2,290,861</u>
Depreciation	1,202,722	1,202,722	816,927	385,795
Total operating expenses	<u>38,674,689</u>	<u>38,699,291</u>	<u>11,403,999</u>	<u>27,295,292</u>
Operating income (loss)	(29,347,503)	(28,913,823)	(1,550,599)	27,363,224
Non-Operating Revenues (Expenses)				
Investment income	250,000	250,000	353,131	103,131
Net decrease in the fair value of investments	-	-	(104,436)	(104,436)
Total non-operating revenue	<u>250,000</u>	<u>250,000</u>	<u>248,695</u>	<u>(1,305)</u>
Change in net position	<u>\$ (29,097,503)</u>	<u>\$ (28,663,823)</u>	<u>\$ (1,301,904)</u>	<u>\$ 27,361,919</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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 12, 2018.

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 District'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 Mikusall, PLLC

Memphis, Tennessee
December 12, 2018

**Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Schedule of Findings and Responses
Year Ended June 30, 2018**

None noted.

Emergency Communications District of Shelby County, Tennessee
(A Component Unit of Shelby County, Tennessee)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

2017-001: *Current status:* The District put controls in place to ensure that all adjustments are properly recorded and corrected this finding.