

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

FINANCIAL STATEMENTS

June 30, 1999

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) as of and for the year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) as of June 30, 1999, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 1999, on our consideration of the District's compliance and on internal control over financial reporting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee). Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Memphis, Tennessee
August 13, 1999



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

BALANCE SHEET

June 30, 1999

Assets

Current Assets

Cash and cash equivalents (note 4)	\$	522,364
Investments (note 4)		3,357,293
Accounts receivable		181,576
Accrued interest income		54,792
Prepaid expenses		4,352
Total current assets		<u>4,120,377</u>

Property and Equipment

Equipment		458,261
Furniture		18,086
		<u>476,347</u>
Less: accumulated depreciation		<u>(159,678)</u>
		<u>316,669</u>

\$ 4,437,046

Liabilities and Fund Equity

Current Liabilities

Accounts payable	\$	164,077
Compensated absences (note 2)		7,990
Total current liabilities		<u>172,067</u>

Fund Equity

Retained earnings - unreserved		<u>4,264,979</u>
	\$	<u>4,437,046</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 REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS

For the Year Ended June 30, 1999

<hr/>	
Revenue	
Service fees	\$ 1,995,723
Expenses	
Salaries and benefits	133,656
Professional fees	28,757
Public education and awareness	6,610
Rent expense (note 6)	17,174
Depreciation	48,155
Reimbursement to municipalities (note 5)	399,909
Service fees - BellSouth	1,238,386
Outside contracts	5,733
General and administrative	73,704
	<hr/>
	1,952,084
	<hr/>
Income from operations	43,639
Other Income (Expense)	
Investment income	207,865
Unrealized loss on investments	(34,724)
Interest income	6,804
	<hr/>
Net income	223,584
Retained earnings - unreserved, July 1, 1998	4,137,181
Prior period adjustment (Note 9)	(95,786)
	<hr/>
Retained earnings - unreserved, July 1, 1998, as restated	4,041,395
	<hr/>
Retained earnings - unreserved, June 30, 1999	\$ 4,264,979
	<hr/> <hr/>

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

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 1999

Cash Flows From (Used For) Operating Activities	
Cash received from customers	\$ 1,988,565
Cash payments to suppliers	(1,745,522)
Cash payments to employees	<u>(133,615)</u>
Net cash provided by operating activities	109,428
 Cash Flows Used For Capital and Related Financing Activities	
Purchases of property and equipment	(28,948)
 Cash Flows From (Used For) Investing Activities	
Purchase of investments	(4,657,951)
Proceeds from sale of investments	2,008,787
Proceeds from maturities of investments	2,466,309
Investment interest received	<u>206,431</u>
Net cash from investing activities	<u>23,576</u>
 Increase in cash and cash equivalents	 104,056
 Cash and cash equivalents at beginning of the year	 <u>418,308</u>
 Cash and cash equivalents at end of the year	 <u>\$ 522,364</u>
 Reconciliation of Net Income to Net Cash Provided by Operating Activities:	
Cash Flows From (Used For) Operating Activities	
Income from operations	\$ 43,639
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities	
Depreciation	48,155
Accounts receivable	(7,158)
Accounts payable	24,752
Accrued expenses	<u>40</u>
Total adjustments	<u>65,789</u>
 Net Cash Provided By (Used For) Operating Activities	 <u>\$ 109,428</u>

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 1999

Note (1) - Summary of Significant Accounting Policies

The Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) (the District) was established on November 21, 1984, pursuant to the provisions of Chapter 867 of the Public Acts of 1984 of the State of Tennessee. The District is responsible for establishing local emergency telephone service and a primary emergency telephone number for the residents of Shelby County, Tennessee. The District is governed by a nine member board of directors, which is appointed by the Mayor of Shelby County, Tennessee, and approved by the Board of Commissioners of Shelby County, Tennessee. The District is subject to the will of the Board of Commissioners of Shelby County, Tennessee. The Board has the authority to levy an emergency telephone service charge to be used to fund the operation of the District.

Enterprise funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Therefore, the financial statements of the Emergency Communication District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

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

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years. Depreciation expense for the year ended June 30, 1999 was \$48,155.

Emergency telephone service charge fees are recognized as revenue when collected by BellSouth, Millington, Nextlink, Global, Time Warner, WCOM, ICI, ITC, USLEC, and AT&T.

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

The District considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note (2) - Compensated Absences

District employees are granted sick and annual leave in varying amounts in accordance with administrative policies. Accumulated vacation days and compensatory time are required to be used annually but may be carried forward on written request or by executive direction. In the event of termination or retirement, the employees are reimbursed for accumulated vacation days and compensatory time. Generally, employees are reimbursed for accumulated sick leave, not to exceed 75 days, only upon retirement.

Note (3) - Concentration of Credit Risk

All fee revenue is derived from emergency telephone service charge fees collected and remitted by the various telephone companies. The District's existence is dependent upon these fees and the use of BellSouth's telephone lines and equipment. The District's agreement with BellSouth for use of its equipment is presently on a month-to-month basis.

Note (4) - Cash and Cash Equivalents and Investments

Statutes authorize the District to invest in obligations of the United States Treasury, obligations guaranteed as to principal and interest by the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federal chartered banks and 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.

Deposits are classified into three categories of credit risk based upon the following:

<u>Category</u>	<u>Description</u>
1	Insured or collateralized by securities held by the District or its agent in the District's name
2	Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name
3	Uncollateralized (which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District's name)

At June 30, 1999, the carrying amount of the District's deposits was \$522,364 and the bank balance was \$553,526. \$328,419 of the bank balance is classified as Category 1 credit risk and the remaining \$225,107 is invested in open-ended money market mutual funds, which are exempted

from credit risk classification. Statutes require that the securities pledged as collateral have a face value of 105% of the deposits being secured. At year end, the District was in compliance with this statute.

Investments are classified into three categories of credit risk based upon the following:

Category	Description
1	Insured or registered, or securities held by the entity or its agent in the District's name
2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
3	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

Investments at June 30, 1999 are categorized below to give an indication of the level of risk assumed by the entity at year end.

	Carrying Amount	Category 1
U.S. Government Securities	\$ 3,352,175	\$ 3,352,175
Collateralized Mortgage Obligations	5,118	5,118
	<u>\$ 3,357,293</u>	<u>\$ 3,357,293</u>

Note (5) - Reimbursement to Municipalities

The District has determined that the municipalities participating in the emergency telephone service system should be reimbursed for costs incurred in the ongoing operation of the system. The municipalities are reimbursed at a rate of \$.45 per citizen per year. The reimbursement is paid in monthly installments of \$.0375 per citizen based on the 1990 census. These payments totaled to \$399,909 for the year ended June 30, 1999.

Note (6) - Commitments

The District leases its office space under a 5-year lease, expiring August 31, 2000. Rent expense under this lease agreement was \$17,174 for the year ended June 30, 1999.

Future minimum lease requirements for the years ending June 30 are as follows:

2000	\$ 17,901
2001	<u>2,984</u>
	<u>\$ 20,885</u>

Note (7) - Retirement Plan

Plan Description

Employees of the Emergency Communications District of Shelby County, Tennessee are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Emergency Communications District of Shelby County, Tennessee participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

Funding Policy

The Emergency Communications District of Shelby County, Tennessee is noncontributory and has assumed employee contributions up to 5.0 percent of annual covered payroll. A small number of employees whose contribution rate was greater than 5.0 percent prior to the adoption of noncontributory still contribute the excess over 5.0 percent.

The Emergency Communications District of Shelby County, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 1999 was 2.67% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for the Emergency Communications District of Shelby County, Tennessee are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 1999, the Emergency Communications District of Shelby County, Tennessee's annual pension cost of \$2,908 to TCRS was equal to the Emergency Communications District of Shelby County, Tennessee's required and actual contributions.

The required contribution was determined as part of the June 30, 1995 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the

valuation include (a) rate of return on investment of present and future assets of 8.0 percent a year compounded annually, (b) projected salary increases of 7.0 percent annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 6.0 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. Amortized book value was used for fixed income securities. The Emergency Communications District of Shelby County, Tennessee's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 1995 was 23 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 2,908	100.0%	\$0.00
6/30/98	\$ 2,074	100.0%	\$0.00
6/30/97	\$ 1,994	100.0%	\$0.00

Note: This analysis is shown only for the years available. Additional years will be shown, as they become available.

Required Supplementary Information

Schedule of Funding Progress for The Emergency Communications District, 88400

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
6/30/97	\$209	\$209	\$0	100.00%	\$101	0.00%
6/30/95	\$160	\$160	\$0	100.00%	\$92	0.00%
6/30/93	\$125	\$125	\$0	100.00%	\$96	0.00%

Changes in Actuarial Assumptions

An actuarial valuation will be performed as of June 30, 1999, which will establish subsequent contribution rates. As a result of the June 30, 1996 experience study, significant actuarial assumptions used in the valuation will include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% annual rate (no explicit assumption is made regarding the portion attributable to the effect of inflation on salaries), (c) projected post retirement increases of 3.0 percent annually. The actuarial assumptions set out in (a), (b), and (c) above for the June 30, 1999 valuation differ from the assumptions used in the June 30,

1995 valuation. The June 30, 1999 valuation will also utilize a different methodology for the actuarial value of assets. The actuarial value of assets will be determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The amortization period for the June 30, 1997 valuation is 21 years.

Note (8) - 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. In the past three fiscal years, the District had no settlements in excess of insurance coverage.

Note (9) – Prior Period Adjustment

In FY 1999, an error was discovered in which telephone expenses related to FY 1998 were not previously recorded. This error was corrected in FY 1999 by restating the opening FY 1999 retained earnings. The effect of the error overstated income in 1998. The net restatement to retained earnings was a reduction of \$95,786.

Note (10) – Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the District's operations as early as fiscal year 1999.

The District has assessed its various types of electronic equipment and does not believe the year 2000 will pose significant operational problems.

Because of the unprecedented nature of the year 2000 issues, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be year 2000 ready, that the District's remediation efforts will be successful in whole or part, or that the parties with whom the District does business will be year 2000 ready.

The final impact on the District, if any, cannot be determined.

SUPPLEMENTAL INFORMATION

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

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 1999

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenue			
Service fees	\$ 1,995,723	\$ 1,995,723	\$ 0
Expenses			
Salaries and benefits	133,656	133,656	0
Professional fees	28,757	28,757	0
Public education and awareness	6,610	6,610	0
Rent expense	17,174	17,174	0
Depreciation	48,155	48,155	0
Reimbursement to municipalities	399,909	399,909	0
Service fees – BellSouth	1,238,386	1,238,386	0
Outside contracts	5,733	5,733	0
General and administrative	73,704	73,704	0
	<u>1,952,084</u>	<u>1,952,084</u>	<u>0</u>
 Income from operations	 43,639	 43,639	 0
 Other Income (Expense)			
Investment income	207,865	207,865	0
Unrealized loss on investments	(34,724)	(34,724)	0
Interest income	6,804	6,804	0
	<u>293,032</u>	<u>293,032</u>	<u>0</u>
 Net income	 <u>\$ 293,032</u>	 <u>293,032</u>	 <u>\$ 0</u>
 Retained earnings - unreserved, July 1, 1998		4,137,181	
Prior period adjustment		95,786	
Retained earnings - unreserved, July 1, 1998, as restated		<u>4,041,395</u>	
 Retained earnings - unreserved, June 30, 1999		 <u>\$ 4,334,427</u>	

See independent auditor's report.



CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the Emergency Communications District of Shelby County, Tennessee (a component unit of Shelby County, Tennessee) as of and for the year ended June 30, 1999, and have issued our report thereon dated August 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

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

Memphis, Tennessee
August 13, 1999

Walters, Walters & Keenan