

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012 AND 2011

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

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AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012 AND 2011

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EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

BOARD OF DIRECTORS

Chair - Ms. Cleo Duckworth
5304 Hickory Park Drive
Antioch, TN 37013

1st Vice Chair - Ms. Susan Mattson
1718 Kingsbury Drive
Nashville, TN 37215

2nd Vice Chair - Mr. William Johnson
705 Rowan Drive
Nashville, TN 37207

Ms. Ruby Baker
3222 Leawood Drive
Nashville, TN 37218

Mr. Joe Sweat
3517 Central Avenue
Nashville, TN 37205

Mr. Wayne Tucker
2328 Cabin Hill Road
Nashville, TN 37214

Mr. Buford Tune
5324 Bell Crest Drive
Antioch, TN 37013

Mr. Eliud Trevino
2805 Foster Avenue #207
Nashville, TN 37210

Mr. Jim Graves
PO Box 25
Joelton, TN 37080

Legal Counsel
Mr. Joe Haynes
PO Box 527
Goodlettsville, TN 37072

Fiscal Officer
Mr. Mark Lynam
2060 15th Avenue South
Nashville, TN 37212



INDEPENDENT AUDITORS' REPORT

Board of Directors
Emergency Communications District of
Metropolitan Nashville and Davidson County
Nashville, Tennessee

We have audited the accompanying statements of net assets of the Emergency Communications District of Metropolitan Nashville and Davidson County (the "ECD"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the ECD's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ECD's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Metropolitan Nashville and Davidson County as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012 on our consideration of the ECD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis information on pages 3 and 4 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.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the ECD's financial statements. The accompanying Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) on pages 14 - 15, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) is fairly stated in all material respects in relation to the financial statements as a whole.

Grant CPAs PLLC

Nashville, Tennessee
October 11, 2012

Management's Discussion and Analysis

This section of the Emergency Communications District's ("ECD") annual financial report presents our discussion and analysis of ECD's financial performance during the fiscal year ended June 30, 2012. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The Emergency Communications District is a proprietary component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metropolitan Government"). ECD was authorized by the Metropolitan Council of the Metropolitan Government in 1988 pursuant to the Tennessee Emergency Communications District Law. ECD provides communication for emergency service to the appropriate public service agency. The costs of these services are funded by monthly telephone subscriber service fees.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ECD's financial statements. The financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared on the accrual basis of accounting. The Statements of Net Assets include all the assets and liabilities of ECD as of June 30, 2012 and 2011. The difference between the assets and liabilities is the net assets or equity of ECD. The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues and expenses during the years ended June 30, 2012 and 2011. The Statements of Cash Flows report the cash provided and used by operating activities as well as other cash sources and cash payments such as investment income and capital additions.

Financial Highlights

| | Net Assets | | |
|---------------------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2010 |
| Current Assets | \$ 7,081,980 | \$ 14,568,834 | \$ 9,352,475 |
| Capital Assets | 4,874,285 | 4,625,727 | 5,306,201 |
| Total Assets | <u>11,956,265</u> | <u>19,194,561</u> | <u>14,658,676</u> |
| Current Liabilities | <u>184,990</u> | <u>427,401</u> | <u>628,088</u> |
| Net Assets Invested in Capital Assets | 4,874,285 | 4,625,727 | 5,306,201 |
| Unrestricted Net Assets | <u>6,896,990</u> | <u>14,141,433</u> | <u>8,724,387</u> |
| Total Net Assets | <u>\$ 11,771,275</u> | <u>\$ 18,767,160</u> | <u>\$ 14,030,588</u> |

Changes in Net Assets

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------|-----------------------|---------------------|---------------------|
| Operating Revenues | \$ 6,337,275 | \$ 6,339,888 | \$ 6,368,080 |
| Operating Costs and Expenses | <u>14,180,464</u> | <u>4,306,848</u> | <u>3,681,672</u> |
| Net Operating Income | (7,843,189) | 2,033,040 | 2,686,408 |
| Other Income (Expense) | <u>847,304</u> | <u>35,663</u> | <u>(18,539)</u> |
| Change in Net Assets | <u>\$ (6,995,885)</u> | <u>\$ 2,068,703</u> | <u>\$ 2,667,869</u> |

Operating Revenues and Nonoperating Revenue

We saw no major change in operating revenues received during fiscal year 2012. Surcharge fee collections for land lines decreased by approximately \$59,000, wireless distributions decreased approximately \$31,000, and TECB operational funding revenue increased approximately \$87,000. This left us with an overall decrease in operating revenues of approximately \$3,000.

Other income was considerably higher from the previous fiscal year. During fiscal year 2011 we received other income of approximately \$35,000 mainly related to interest income and income from the sale of equipment. During 2012 we had other income of approximately \$847,000, resulting from interest income, gain on the sale of equipment, and miscellaneous income from legal settlements of approximately \$832,000. See Note 8 of the financial statements for additional information on the legal settlements.

Operating Expenses

Overall our operating expenses were up by approximately \$9,875,000 for fiscal year 2012. The majority of this increase is due to impact payments totaling \$9,170,000 to the Metropolitan Government in accordance with the Interlocal Agreement to provide funding to enhance the 800 MHz equipment. See Note 3 of the financial statements for additional information on the Interlocal Agreement. Other contract services increased by approximately \$506,000 due to increase maintenance costs on updated equipment put in service in the prior year. We also saw an increase in depreciation expense of approximately \$233,000.

Capital Expenditures

There were significant capital expenditures made in 2012. These projects included:

| <u>For the year ended June 30, 2012:</u> | |
|--|--------------|
| PBX Upgrade, Controller Upgrade, Servers, Printers | \$ 1,330,277 |
| Security Camera Equipment | 35,070 |
| Renovations to Dispatch Center and Computer Room | 138,150 |
| VMware Software | 352,382 |
| Other Office Equipment | 126,367 |

Contacting the Agency's Financial Management

The financial report is designed to provide a general overview of ECD's finances for all those with an interest in ECD's finances. If you have questions about this report or need additional financial information, contact the District Office c/o Mark Lynam, 2060 15th Avenue South, Nashville, TN 37212.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF NET ASSETS

JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 643,553 | \$ 974,274 |
| Investments | 5,789,216 | 12,877,125 |
| Accounts receivable | 299,211 | 321,692 |
| Due from Tennessee Emergency Communications Board: | | |
| Shared wireless charge | 241,378 | 247,161 |
| Prepaid expense | <u>108,622</u> | <u>148,582</u> |
| TOTAL CURRENT ASSETS | 7,081,980 | 14,568,834 |
| EQUIPMENT - net of accumulated depreciation | <u>4,874,285</u> | <u>4,625,727</u> |
| TOTAL ASSETS | <u>11,956,265</u> | <u>19,194,561</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | <u>184,990</u> | <u>427,401</u> |
| TOTAL CURRENT LIABILITIES | <u>184,990</u> | <u>427,401</u> |
| NET ASSETS | | |
| Invested in capital assets | 4,874,285 | 4,625,727 |
| Unrestricted net assets | <u>6,896,990</u> | <u>14,141,433</u> |
| TOTAL NET ASSETS | <u>\$ 11,771,275</u> | <u>\$ 18,767,160</u> |

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Emergency telephone service charges | \$ 3,346,923 | \$ 3,406,094 |
| Tennessee Emergency Communications Board - shared wireless charge | 1,458,708 | 1,489,875 |
| Tennessee Emergency Communications Board - operational funding | <u>1,531,644</u> | <u>1,443,919</u> |
| TOTAL OPERATING REVENUES | <u>6,337,275</u> | <u>6,339,888</u> |
| OPERATING COSTS AND EXPENSES | | |
| Contracted services | 11,881,160 | 2,204,823 |
| Supplies and materials | 93,923 | 130,799 |
| Other charges | 471,693 | 470,181 |
| Depreciation | <u>1,733,688</u> | <u>1,501,045</u> |
| TOTAL OPERATING COSTS AND EXPENSES | <u>14,180,464</u> | <u>4,306,848</u> |
| OPERATING (LOSS) INCOME | <u>(7,843,189)</u> | <u>2,033,040</u> |
| NONOPERATING REVENUE | | |
| Interest income | 13,100 | 24,987 |
| Gain on disposal of equipment | 2,373 | 10,676 |
| Miscellaneous income | <u>831,831</u> | <u>-</u> |
| TOTAL NONOPERATING REVENUE | <u>847,304</u> | <u>35,663</u> |
| CHANGE IN NET ASSETS | <u>(6,995,885)</u> | <u>2,068,703</u> |
| NET ASSETS - BEGINNING OF YEAR | <u>18,767,160</u> | <u>16,698,457</u> |
| NET ASSETS - END OF YEAR | <u>\$ 11,771,275</u> | <u>\$ 18,767,160</u> |

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from subscribers, including TECB operational funding | \$ 6,365,539 | \$ 6,364,292 |
| Payments to suppliers | <u>(12,478,894)</u> | <u>(2,866,978)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>(6,113,355)</u> | <u>3,497,314</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Miscellaneous income received | <u>831,831</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of equipment | (1,931,974) | (736,370) |
| Proceeds from the sale of equipment | 2,373 | 14,915 |
| Payment of prior year accounts payable for equipment purchases | <u>(220,605)</u> | <u>-</u> |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(2,150,206)</u> | <u>(721,455)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (12,091) | (2,723,769) |
| Liquidation of investments | 7,100,000 | - |
| Interest income | <u>13,100</u> | <u>24,987</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>7,101,009</u> | <u>(2,698,782)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (330,721) | 77,077 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>974,274</u> | <u>897,197</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 643,553</u> | <u>\$ 974,274</u> |
| RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Operating (loss) income | <u>\$ (7,843,189)</u> | <u>\$ 2,033,040</u> |
| Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,733,688 | 1,501,045 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 22,481 | 26,853 |
| (Increase) decrease in Due from Tennessee Emergency Communications Board | 5,783 | (2,449) |
| Increase (decrease) in prepaid expenses | 39,960 | (148,582) |
| Increase (decrease) in accounts payable | <u>(72,078)</u> | <u>87,407</u> |
| TOTAL ADJUSTMENTS | <u>1,729,834</u> | <u>1,464,274</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (6,113,355)</u> | <u>\$ 3,497,314</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Accounts payable for equipment purchases | <u>\$ 50,272</u> | <u>\$ 220,605</u> |

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Emergency Communications District of Metropolitan Nashville and Davidson County (the "ECD") was authorized on December 20, 1988, by the Metropolitan Council of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government" or "Metro"), pursuant to the Tennessee Emergency Communications District Law. This authorization occurred after the citizens of the Metropolitan Government approved by a majority vote in November, 1988, the creation of an Emergency Communications District. The ECD began providing services to the general public on December 1, 1989, upon completion of the installation of the necessary equipment. Through the establishment of the uniform emergency telephone number, 911, the ECD operates to shorten the time required for a citizen to request and receive emergency aid. The ECD provides communication for emergency service to the appropriate public service agency: fire department, ambulatory, law enforcement, etc. The emergency telephone service charge is billed separately by telephone service suppliers to subscribers within the geographic area of the ECD.

The service suppliers for land lines retain a three percent (3%) administrative collection fee for billing and collecting the telephone service charges and remitting the receipts to the ECD. Subscriber fee revenues are reported net of these collection fees.

In addition, the ECD pays a communication service charge to the service suppliers at a flat monthly recurring rate for one-party residence and business exchange access service within the geographic area. The current monthly rate is based on a charge of \$100 per one thousand access lines. Such rate is subject to approval by the Tennessee Regulatory Authority.

Organization

The accompanying financial statements encompass the financial activities of the ECD, a proprietary component unit of the Metropolitan Government, which is the principal reporting entity and primary government. The ECD is governed by a Board of Directors whose members are appointed by the Mayor and approved by the Metropolitan Council of Nashville and Davidson County, Tennessee. The ECD furnishes the equipment for the Metropolitan Government's use in providing emergency services.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accompanying financial statements of the ECD have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is responsible for issuing pronouncements on accounting and reporting standards applicable to state and local governments. Governments are also required to follow pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. Although the ECD has the option to apply FASB pronouncements issued after that date, the ECD has elected not to do so.

Revenue and Expense Recognition

Subscriber fee revenues and related direct costs are recognized in the period in which monthly subscriber fees are billed by the service supplier.

Wireless telephone service providers charge \$1.00 per line monthly, which is then paid to the Tennessee Emergency Communications Board (the "TECB"). In accordance with Tennessee Code Annotated §7-86-303(d), the TECB shall disburse 25% of the revenue generated on wireless surcharges to emergency communications districts based on the proportion of population of that district according to the most recent census. Shared wireless revenues are recognized by the ECD in the period the surcharge is assessed by the service provider.

In October 2006, the TECB approved the additional funding from wireless revenues that will be provided annually to the local emergency communications district. Such funds amounted to \$1,531,644 and \$1,443,919 for the years ended June 30, 2012 and 2011, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits held at financial institutions.

Accounts Receivable

Accounts receivable consist of subscriber fees due from service suppliers. Based on historical experience, an allowance for doubtful accounts is not provided. Any subscriber accounts subsequently determined to be uncollectible are charged against revenues at that time. In management's opinion, such reporting does not materially affect the financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of pooled funds in the State of Tennessee Local Government Investment Pool, which is maintained and operated by the State of Tennessee in accordance with applicable State laws and regulations. The reported value of the pool is the same as the estimated fair value of the pool shares.

Equipment and Depreciation

Equipment is reported at cost at the date of purchase. The ECD's policy is to capitalize purchases with a cost of \$1,000 or more and an expected useful life greater than one year. Depreciation is calculated by the straight-line method over estimated useful lives of five to ten years. When depreciable assets are sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized. Costs of maintenance and repairs are charged to expense as incurred.

Events Occurring After Reporting Date

The ECD has evaluated events and transactions that occurred between June 30, 2012 and October 11, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Statutes authorize the ECD to invest in: (1) U. S. Government securities and obligations guaranteed by the U. S. Government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; and (3) the Local Government Investment Pool of the State of Tennessee. During the current fiscal year, the ECD invested funds that were not immediately needed in the Local Government Investment Pool of the State of Tennessee. The ECD's cash and cash equivalents were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

Custodial risk is the risk that in the event of a bank failure, the ECD's deposits and investments may not be returned to it. The ECD does not have a formalized and written deposit policy for custodial risk. As of June 30, 2012 and 2011, the ECD's deposits and investments were insured or collateralized.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 3 - TRANSACTIONS WITH PRIMARY GOVERNMENT

In September 2011, the ECD's Board of Directors approved an Interlocal Agreement with the Metropolitan Government to assist in the partial funding of an upgrade to the 800 MHz simulcast trunk radio system for emergency dispatch and response. The ECD has agreed to assist in the financing of this upgrade in an amount not to exceed \$25,910,000. During the year ended June 30, 2012, the ECD paid a down-payment of \$7,000,000 along with the initial year financing payment of \$2,170,000 in May 2012. These payments are recorded as impact payments under the contracted services heading in the Statement of Revenues, Expenses and Changes in Net Assets. For non-GAAP budgetary purposes, these payments were included in capital expenditures by the ECD.

Payments under the agreement are payable on June 1 of the respective fiscal year. Commitments payable are as follows:

Year ending June 30:

| | | |
|-------------|----|-------------------|
| 2013 | \$ | 2,108,000 |
| 2014 | | 2,046,000 |
| 2015 | | 1,984,000 |
| 2016 | | 1,922,000 |
| 2017 | | 1,860,000 |
| 2018 - 2021 | | <u>6,820,000</u> |
| | \$ | <u>16,740,000</u> |

The ECD has contracted with the Metropolitan Government, by and through its Department of Public Works, for Master Street Address Guide update services at a cost of \$4,900 in 2012 and in 2011.

In addition to the contracted services noted above, the ECD utilizes the Metropolitan Government's purchasing and procurement services for routine purchases such as uniforms, office supplies, small equipment, certain equipment maintenance and other charges. For the years ended June 30, 2012 and 2011, ECD remitted to the Metro Government approximately \$605,000 and \$600,000, respectively (excluding impact payments noted in the first paragraph), for these expenses.

NOTE 4 - TAX-EXEMPT STATUS

The ECD is exempt from federal and state taxation as it is deemed to be a government entity. Accordingly, no income taxes have been provided.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 5 - RISK MANAGEMENT

The ECD is exposed to various risks of loss related to theft of, damage to and destruction of assets. All equipment is covered under warranty agreements or maintenance service contracts when the warranty expires. The ECD carries fidelity bond insurance in the amount of \$208,300 for each staff and Board member, which the Board believes to be sufficient. The ECD has had no claims or settled claims in any of the past three fiscal years.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the ECD to concentrations of credit risk consist principally of accounts receivable and operational funding through TECB. Accounts receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources. Receivables consist of unremitted fees paid by telephone service subscribers to telephone service providers. Operational funding amounted to 24% and 23% of total operating revenue for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital assets activity for the years ended June 30, is as follows:

| | 2012 | | | End of the Year |
|--|--------------------------|-------------------|---------------------|---------------------|
| | Beginning of the Year | Increases | Decreases | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Construction in progress | \$ 210,468 | \$ - | \$ (210,468) | \$ - |
| <u>Capital assets being depreciated:</u> | | | | |
| Communications equipment | 8,277,023 | 1,892,359 | (121,984) | 10,047,398 |
| Office equipment | 18,845 | 2,753 | (5,880) | 15,718 |
| Furniture and fixtures | 534,519 | 297,602 | (1,600) | 830,521 |
| Total capital assets being depreciated | 8,830,387 | 2,192,714 | (129,464) | 10,893,637 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Communications equipment | (4,113,668) | (1,621,419) | 121,984 | (5,613,103) |
| Office equipment | (14,459) | (1,915) | 5,880 | (10,494) |
| Furniture and fixtures | (287,001) | (110,354) | 1,600 | (395,755) |
| Total accumulated depreciation | (4,415,128) | (1,733,688) | 129,464 | (6,019,352) |
| Capital assets, net | <u>\$ 4,625,727</u> | <u>\$ 459,026</u> | <u>\$ (210,468)</u> | <u>\$ 4,874,285</u> |

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 AND 2011

NOTE 7 - CHANGES IN CAPITAL ASSETS (CONTINUED)

| | 2011 | | | |
|--|--------------------------|-------------------|---------------------|---------------------|
| | Beginning of the Year | Increases | Decreases | End of the Year |
| <u>Capital assets not being depreciated:</u> | | | | |
| Construction in progress | \$ 960,018 | \$ 210,468 | \$ (960,018) | \$ 210,468 |
| <u>Capital assets being depreciated:</u> | | | | |
| Communications equipment | 6,607,781 | 1,704,600 | (35,358) | 8,277,023 |
| Office equipment | 18,845 | - | - | 18,845 |
| Furniture and fixtures | 532,594 | 1,925 | - | 534,519 |
| Total capital assets being depreciated | 7,159,220 | 1,706,525 | (35,358) | 8,830,387 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Communications equipment | (2,724,397) | (1,420,390) | 31,119 | (4,113,668) |
| Office equipment | (12,910) | (1,549) | - | (14,459) |
| Furniture and fixtures | (207,895) | (79,106) | - | (287,001) |
| Total accumulated depreciation | (2,945,202) | (1,501,045) | 31,119 | (4,415,128) |
| Capital assets, net | <u>\$ 5,174,036</u> | <u>\$ 415,948</u> | <u>\$ (964,257)</u> | <u>\$ 4,625,727</u> |

NOTE 8 - MISCELLANEOUS INCOME

During 2012, the ECD received settlement payments from service providers resulting from fees not properly charged to certain business subscribers. The settlement payments are reported as non-operating miscellaneous income net of the related legal and other expenses.

NOTE 9 - SUBSEQUENT EVENT

During August and September 2012, the ECD received approval from TECB of requests for reimbursement submitted under the TECB Next Generation 911 (NG911) Controller and/or Adjunct Equipment program. The reimbursements were contingent upon TECB's approval of the specific equipment and, therefore revenue was recognized when approval was granted. Total reimbursements under the program amounted to \$1,710,179.

ADDITIONAL INFORMATION

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2012

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>FAVORABLE</u> |
|--|-------------------------|-----------------------|---------------------------------------|--|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> <u>(SEE NOTE A)</u> | <u>(UNFAVORABLE)</u> <u>WITH FINAL</u> <u>BUDGET</u> |
| OPERATING REVENUES | | | | |
| Emergency telephone service charges | \$ 3,088,300 | \$ 3,088,300 | \$ 3,369,404 | \$ 281,104 |
| Tennessee Emergency Communications Board - shared wireless charge | 1,310,900 | 1,310,900 | 1,464,491 | 153,591 |
| Tennessee Emergency Communications Board - operational funding | <u>2,854,100</u> | <u>2,854,100</u> | <u>1,531,644</u> | <u>(1,322,456)</u> |
| TOTAL OPERATING REVENUES | <u>7,253,300</u> | <u>7,253,300</u> | <u>6,365,539</u> | <u>(887,761)</u> |
| OPERATING COSTS AND EXPENSES | | | | |
| Contracted services: | | | | |
| Advertising | 2,300 | 2,300 | 375 | 1,925 |
| Audit services | 9,500 | 9,500 | 9,500 | - |
| Administrative services | 40,000 | 40,000 | 40,000 | - |
| Contracts with government agencies - primary government: | | | | |
| Metro - Public Works | 8,400 | 8,400 | 7,350 | 1,050 |
| Metro - CommCenter Training | 343,200 | 343,200 | 226,657 | 116,543 |
| Fees paid to service providers - telephones | 866,800 | 866,800 | 827,887 | 38,913 |
| Fees paid to service providers - lines | 54,000 | 54,000 | 34,010 | 19,990 |
| Legal services | 43,000 | 23,900 | 18,000 | 5,900 |
| Maintenance agreements | 1,390,700 | 1,390,700 | 1,326,810 | 63,890 |
| Communications equipment | 88,100 | 88,100 | 79,328 | 8,772 |
| Rental - office equipment | 5,400 | 5,400 | 5,341 | 59 |
| Rent at back-up facility | 72,900 | 73,900 | 73,645 | 255 |
| Vehicles | 12,000 | 12,000 | 8,797 | 3,203 |
| Other contracted services | <u>52,200</u> | <u>70,200</u> | <u>69,895</u> | <u>305</u> |
| Total contracted services | <u>2,988,500</u> | <u>2,988,400</u> | <u>2,727,595</u> | <u>260,805</u> |
| Supplies and materials: | | | | |
| Office supplies | 38,500 | 38,500 | 28,966 | 9,534 |
| Data processing supplies and materials | 14,000 | 14,000 | 12,253 | 1,747 |
| Postage | 2,800 | 2,800 | 396 | 2,404 |
| Uniforms | 58,000 | 58,000 | 52,257 | 5,743 |
| Small equipment items | <u>46,000</u> | <u>46,000</u> | <u>24,818</u> | <u>21,182</u> |
| Total supplies and materials | <u>159,300</u> | <u>159,300</u> | <u>118,690</u> | <u>40,610</u> |
| Other charges: | | | | |
| Dues and memberships | 10,000 | 10,000 | 5,775 | 4,225 |
| Premiums on surety bonds | 9,000 | 9,000 | 5,728 | 3,272 |
| Public education | 451,000 | 451,000 | 437,440 | 13,560 |
| Travel expenses | 10,000 | 10,000 | 5,340 | 4,660 |
| Service awards - employee recognition | 12,500 | 12,600 | 12,508 | 92 |
| Internet services | 3,000 | 3,000 | 2,968 | 32 |
| Miscellaneous and contingency | <u>5,000</u> | <u>5,000</u> | <u>790</u> | <u>4,210</u> |
| Total other charges | <u>500,500</u> | <u>500,600</u> | <u>470,549</u> | <u>30,051</u> |
| TOTAL OPERATING EXPENSES | <u>3,648,300</u> | <u>3,648,300</u> | <u>3,316,834</u> | <u>331,466</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 25,000 | 25,000 | 13,100 | (11,900) |
| Miscellaneous income | - | - | 831,831 | 831,831 |
| Capital improvements | <u>(11,895,300)</u> | <u>(11,895,300)</u> | <u>(11,312,266)</u> | <u>583,034</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>(11,870,300)</u> | <u>(11,870,300)</u> | <u>(10,467,335)</u> | <u>1,402,965</u> |
| (DEFICIT) EXCESS OF OPERATING REVENUES OVER OPERATING COSTS AND EXPENSES AND NONOPERATING REVENUES (EXPENSES) | <u>\$ (8,265,300)</u> | <u>\$ (8,265,300)</u> | <u>\$ (7,418,630)</u> | <u>\$ 846,670</u> |

(continued on following page)

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (NON-GAAP) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

NOTE A - BUDGETARY BASIS OF ACCOUNTING

The ECD budgets its revenues and expenses on the cash basis of accounting which reports the inflows and outflows of cash.

NOTE B - RECONCILIATION OF BUDGET TO ACTUAL

| | | |
|---|--------------|-----------------------|
| Excess of revenues over expenses (Non-GAAP) | | \$ (7,418,630) |
| Add: Current year accounts receivable | \$ 299,211 | |
| Receivable from Tennessee Emergency Communications Board | 241,378 | |
| Current year prepaid expenses | 108,622 | |
| Prior year accounts payable | 427,401 | |
| Equipment purchases capitalized | 1,982,246 | |
| Gain on disposals of equipment | <u>2,373</u> | |
| | | 3,061,231 |
| Less: Current year accounts payable | 184,990 | |
| Prior year accounts receivable | 321,692 | |
| Prior year prepaid expenses | 148,582 | |
| Prior year receivable from Tennessee Emergency Communications Board | 247,161 | |
| Depreciation expense | 1,733,688 | |
| Cash received on sale of equipment used to offset capital expenditures | <u>2,373</u> | |
| | | <u>(2,638,486)</u> |
| Change in net assets (GAAP basis) per Financial Statements - per page 6 | | <u>\$ (6,995,885)</u> |

OTHER REPORT



INDEPENDENT AUDITORS' 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

Board of Directors
Emergency Communications District of
Metropolitan Nashville and Davidson County
Nashville, Tennessee

We have audited the financial statements of the Emergency Communications District of Metropolitan Nashville and Davidson County (the "ECD"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. 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.

Internal Control Over Financial Reporting

Management of ECD is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the ECD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ECD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ECD's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operations of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses and identified as 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ECD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The ECD's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit ECD's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, the Metropolitan Government of Nashville and Davidson County, Tennessee and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Grant CPA's PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
October 11, 2012

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2012 AND 2011

PRIOR YEAR FINDINGS

2010-01 - Internal Control Over Identifying Asset Additions

This finding has been resolved.

2007-01 - Internal Control Over Financial Statement Reporting

Criteria:

Management is responsible for establishing and maintaining effective internal control over reporting its financial statements in accordance with generally accepted accounting principles ("GAAP").

Condition:

The ECD's management and accounting staff do not have the inherent resources of time, accounting knowledge, skill and experience to prepare its own financial statements and related disclosures in accordance with GAAP necessary to prevent, detect or correct material misstatements.

Effect:

The ECD requests that the auditors provide accounting assistance during the audit process to propose adjustments required to convert its accounting records from the cash basis to the accrual basis of accounting and to prepare its GAAP-based financial statements and related disclosures at year end. Management does assist in the identification of the necessary year-end accruals, provides oversight and approval for all such GAAP-conversion adjustments.

Recommendation:

We continue to recommend that management consider annually the cost effectiveness of obtaining the services of someone that has the skills and competencies necessary to prepare its financial statements and related disclosures such that any misstatements would be prevented, detected and corrected.

Management's response:

We will continue to monitor our resources to determine the most cost effective solution to this control deficiency.
