

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013 AND 2012

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013 AND 2012

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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

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

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

Ms. Ruby Baker  
3222 Leawood Drive  
Nashville, TN 37218

Mr. David Gleason  
7720 Saddle Ridge Court  
Nashville, TN 37221

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. Grady McNeal  
546 Moncrief Avenue  
Goodlettsville, TN 37072

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

Fiscal Officer  
Mr. Mark Lynam  
2060 15<sup>th</sup> Avenue South  
Nashville, TN 37212



## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Emergency Communications District of Metropolitan Nashville and Davidson County, Tennessee (the "District"), as of and for the years ended June 30, 2013 and 2012, which comprise the statements of net position, the statements of revenues, expenses and changes in net position and cash flows and the related notes to the financial statements, which collectively comprise the District's basic financial statements for the years then ended 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Emergency Communications District of Metropolitan Nashville and Davidson County, Tennessee, as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

### *Required Supplementary Information*

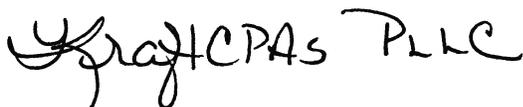
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) 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 Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Nashville, Tennessee  
October 17, 2013

## 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, 2013. 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 Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. The financial statements are prepared on the accrual basis of accounting. The Statements of Net Position include all the assets and liabilities of ECD as of June 30, 2013 and 2012. The difference between the assets and liabilities is the net position or equity of ECD. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the years ended June 30, 2013 and 2012. 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 Position		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current Assets	\$ 9,453,029	\$ 7,081,980	\$ 14,568,834
Capital Assets	<u>3,704,079</u>	<u>4,874,285</u>	<u>4,625,727</u>
Total Assets	<u>13,157,108</u>	<u>11,956,265</u>	<u>19,194,561</u>
Current Liabilities	<u>129,676</u>	<u>184,990</u>	<u>427,401</u>
Net Investment in Capital Assets	3,704,079	4,874,285	4,625,727
Unrestricted Net Position	<u>9,323,353</u>	<u>6,896,990</u>	<u>14,141,433</u>
Total Net Position	<u>\$ 13,027,432</u>	<u>\$ 11,771,275</u>	<u>\$ 18,767,160</u>

## Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 6,600,369	\$ 6,337,275	\$ 6,339,888
Operating Costs and Expenses	<u>7,067,013</u>	<u>14,180,464</u>	<u>4,306,848</u>
Net Operating Income	(466,644)	(7,843,189)	2,033,040
Other Income (Expense)	<u>1,722,801</u>	<u>847,304</u>	<u>35,663</u>
Change in Net Position	<u>\$ 1,256,157</u>	<u>\$ (6,995,885)</u>	<u>\$ 2,068,703</u>

### **Operating Revenues and Nonoperating Revenue**

During fiscal year 2013 we saw surcharge fee collections for land lines decrease by \$261,000 from the previous year. During that same period we saw wireless distributions increase by \$82,000 and TECB operational funding increase by \$443,000. This left us with an overall increase in operating revenues of approximately \$263,000 for fiscal year 2013.

Non-operating revenue for fiscal year 2013 was considerably higher than the previous fiscal year. During 2012 we had other income of approximately \$847,000 which came primarily from legal settlements involving non-payment of 911 surcharge fees. In 2013, we had other income of approximately \$1.7 million which came in the form of an equipment reimbursement from the Tennessee Emergency Communications Board. This was the result of us making our PSAP compatible with the NG911 digital network that is being rolled out across the state of Tennessee.

### **Operating Expenses**

Overall our operating expenses for fiscal year 2013 were down by approximately \$7,113,000 from the previous fiscal year. The majority of the decrease was due to a one-time payment of \$7,000,000 that was owed to the Metropolitan Government in 2012 as an initial payment toward the purchase of the 800 MHz radio system upgrade (See Note 3). While we did see an increase of \$248,000 in supplies and materials during fiscal 2013, we saw expenses decrease in other areas. In addition to the \$7,000,000 mentioned above, we saw contracted services decrease by \$75,000. We also saw decreases of \$256,000 in depreciation and \$30,000 in other charges.

### **Capital Expenditures**

Capital expenditures made in 2013 included:

Locution Dispatch Alerting System	\$248,298
Computer Equipment (PC's, Servers)	176,450
NICE Virtualization	50,271
Furniture and Office Equipment	43,927
Renovations to Dispatch Center	29,549
Aurora 2.0 Call Center Management Upgrade	15,674
Radio Consoles	11,016

### **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 15<sup>th</sup> Avenue South, Nashville, TN 37212.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 901,596	\$ 643,553
Investments	7,899,188	5,789,216
Accounts receivable	298,609	299,211
Due from Tennessee Emergency Communications Board:		
Shared wireless charge	262,707	241,378
Prepaid expense	<u>90,929</u>	<u>108,622</u>
<b>TOTAL CURRENT ASSETS</b>	9,453,029	7,081,980
<b>EQUIPMENT - net of accumulated depreciation</b>	<u>3,704,079</u>	<u>4,874,285</u>
<b>TOTAL ASSETS</b>	<u>13,157,108</u>	<u>11,956,265</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	<u>129,676</u>	<u>184,990</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>129,676</u>	<u>184,990</u>
<b>NET POSITION</b>		
Net investment in capital assets	3,704,079	4,874,285
Unrestricted	<u>9,323,353</u>	<u>6,896,990</u>
<b>TOTAL NET POSITION</b>	<u>\$ 13,027,432</u>	<u>\$ 11,771,275</u>

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Emergency telephone service charges	\$ 3,085,829	\$ 3,346,923
Tennessee Emergency Communications Board - shared wireless charge	1,540,301	1,458,708
Tennessee Emergency Communications Board - operational funding	<u>1,974,239</u>	<u>1,531,644</u>
 TOTAL OPERATING REVENUES	 <u>6,600,369</u>	 <u>6,337,275</u>
OPERATING COSTS AND EXPENSES		
Contracted services	4,806,025	11,881,160
Supplies and materials	341,990	93,923
Other charges	441,745	471,693
Depreciation	<u>1,477,253</u>	<u>1,733,688</u>
 TOTAL OPERATING COSTS AND EXPENSES	 <u>7,067,013</u>	 <u>14,180,464</u>
 OPERATING (LOSS) INCOME	 <u>(466,644)</u>	 <u>(7,843,189)</u>
NONOPERATING REVENUE		
Interest income	10,942	13,100
Tennessee Emergency Communications Board - grants and reimbursements	1,710,179	-
Gain on disposal of equipment	1,680	2,373
Miscellaneous income	<u>-</u>	<u>831,831</u>
 TOTAL NONOPERATING REVENUE	 <u>1,722,801</u>	 <u>847,304</u>
 CHANGE IN NET POSITION	 1,256,157	 (6,995,885)
 NET POSITION - BEGINNING OF YEAR	 <u>11,771,275</u>	 <u>18,767,160</u>
 NET POSITION - END OF YEAR	 <u>\$ 13,027,432</u>	 <u>\$ 11,771,275</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from subscribers, including TECB operational funding	\$ 6,579,642	\$ 6,365,539
Payments to suppliers	<u>(5,577,109)</u>	<u>(12,478,894)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>1,002,533</u>	<u>(6,113,355)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tennessee Emergency Communications Board - grants and reimbursements	1,710,179	-
Miscellaneous income received	<u>-</u>	<u>831,831</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>1,710,179</u>	<u>831,831</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of equipment	(307,047)	(1,931,974)
Proceeds from the sale of equipment	1,680	2,373
Payment of prior year accounts payable for equipment purchases	<u>(50,272)</u>	<u>(220,605)</u>
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(355,639)</u>	<u>(2,150,206)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(3,300,000)	(12,091)
Liquidation of investments	1,190,028	7,100,000
Interest income	<u>10,942</u>	<u>13,100</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(2,099,030)</u>	<u>7,101,009</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	258,043	(330,721)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>643,553</u>	<u>974,274</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 901,596</u>	<u>\$ 643,553</u>
<b>RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Operating (loss) income	\$ (466,644)	\$ (7,843,189)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Depreciation	1,477,253	1,733,688
Changes in assets and liabilities:		
Decrease in accounts receivable	602	22,481
(Increase) decrease in Due from Tennessee Emergency Communications Board	(21,329)	5,783
(Increase) decrease in prepaid expenses	17,693	39,960
Increase (decrease) in accounts payable	<u>(5,042)</u>	<u>(72,078)</u>
<b>TOTAL ADJUSTMENTS</b>	<u>1,469,177</u>	<u>1,729,834</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 1,002,533</u>	<u>\$ (6,113,355)</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Accounts payable for equipment purchases	<u>\$ -</u>	<u>\$ 50,272</u>

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met. With this measurement focus, all assets and liabilities associated with operations are included in the statement of net position. Net position is separated between net investment in capital assets and unrestricted components.

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.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's ongoing operations. The principal operating revenues of the District are emergency telephone service charges levied on residential and business service users. Operating expenses include the cost of providing these services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 \$1,974,239 and \$1,531,644 for the years ended June 30, 2013 and 2012, respectively. Operational funding for June 30, 2013 included a one-time payment of \$238,586 in addition to routine operational funding payments.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Grants and Reimbursements

Grants and reimbursements from the TECB are recorded as non-operating revenues by the ECD when the related expenditures and/or approval under the respective grant or reimbursement program have been incurred and the ECD is entitled to receive the funds.

Events Occurring After Reporting Date

The ECD has evaluated events and transactions that occurred between June 30, 2013 and October 17, 2013, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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. Credit risk is the risk of loss due to failure of the investment issuer or backer. Interest rate risk is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates. The ECD does not have formalized and written deposit policies for custodial risk, credit risk or interest rate risk. For purposes of disclosing interest rate risk on the deposits held by the Local Government Investment Pool (the "Pool"), interest rate risk is based on the average maturity of the pool's investments, which was one hundred eleven days at June 30, 2013. The Pool does not have a credit rating.

As of June 30, 2013 and 2012, the ECD's deposits and investments were insured or collateralized.

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. During 2013, ECD paid \$2,108,000 in connection with this agreement. These payments are recorded as impact payments under the contracted services heading in the Statement of Revenues, Expenses and Changes in Net Position. For non-GAAP budgetary purposes, these payments were included in capital expenditures by the ECD.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 3 - TRANSACTIONS WITH PRIMARY GOVERNMENT (CONTINUED)

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

Year ending June 30:

2014	\$	2,046,000
2015		1,984,000
2016		1,922,000
2017		1,860,000
2018		1,798,000
2019 - 2021		<u>5,022,000</u>
	\$	<u>14,632,000</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 per year in 2013 and 2012.

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, 2013 and 2012, ECD remitted to the Metro Government approximately \$532,000 and \$605,000, 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.

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.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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 the 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 30% and 24% of total operating revenue for the years ended June 30, 2013 and 2012, respectively.

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

	2013			End of the Year
	Beginning of the Year	Increases	Decreases	
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ -	\$ 248,298	\$ -	\$ 248,298
<u>Capital assets being depreciated:</u>				
Communications equipment	10,047,398	26,890	(100,843)	9,973,445
Office equipment	15,718	3,942	(5,224)	14,436
Furniture and fixtures	830,521	27,917	-	858,438
Total capital assets being depreciated	10,893,637	58,749	(106,067)	10,846,319
<u>Less accumulated depreciation for:</u>				
Communications equipment	(5,613,103)	(1,359,340)	100,843	(6,871,600)
Office equipment	(10,494)	(2,493)	5,224	(7,763)
Furniture and fixtures	(395,755)	(115,420)	-	(511,175)
Total accumulated depreciation	(6,019,352)	(1,477,253)	106,067	(7,390,538)
Capital assets, net	\$ 4,874,285	\$ (1,170,206)	\$ -	\$ 3,704,079

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 7 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	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	<u>8,830,387</u>	<u>2,192,714</u>	<u>(129,464)</u>	<u>10,893,637</u>
<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	<u>(4,415,128)</u>	<u>(1,733,688)</u>	<u>129,464</u>	<u>(6,019,352)</u>
Capital assets, net	<u>\$ 4,625,727</u>	<u>\$ 459,026</u>	<u>\$ (210,468)</u>	<u>\$ 4,874,285</u>

At June 30, 2013, construction in progress consisted of a locution dispatch alerting system that was placed in service during August 2013. The cost to complete as of June 30, 2013 was approximately \$250,000.

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.

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, 2013

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (SEE NOTE A)	FAVORABLE (UNFAVORABLE) WITH FINAL BUDGET
	ORIGINAL	FINAL		
<b>OPERATING REVENUES</b>				
Emergency telephone service charges	\$ 4,348,330	\$ 4,348,330	\$ 3,086,431	\$ (1,261,899)
Tennessee Emergency Communications Board - shared wireless charge	1,460,000	1,460,000	1,518,972	58,972
Tennessee Emergency Communications Board - operational funding	1,471,918	1,471,918	1,974,239	502,321
<b>TOTAL OPERATING REVENUES</b>	<b>7,280,248</b>	<b>7,280,248</b>	<b>6,579,642</b>	<b>(700,606)</b>
<b>OPERATING COSTS AND EXPENSES</b>				
<b>Contracted services:</b>				
Advertising	500	500	378	122
Audit services	10,000	10,000	10,000	-
Administrative services	40,000	40,000	40,000	-
<b>Contracts with government agencies - primary government:</b>				
Metro - Public Works	8,400	8,400	4,900	3,500
Metro - CommCenter Training	332,000	332,000	224,597	107,403
Fees paid to service providers - telephones	887,300	887,300	852,354	34,946
Fees paid to service providers - lines	24,000	24,000	19,374	4,626
Legal services	18,000	18,000	18,000	-
Maintenance agreements	1,360,500	1,360,500	1,345,046	15,454
Communications equipment	90,200	90,200	56,245	33,955
Rental - office equipment	5,400	5,400	(5)	5,405
Rent at back-up facility	83,200	83,200	67,980	15,220
Vehicles	15,000	15,000	14,209	791
Other contracted services	67,200	67,200	35,787	31,413
<b>Total contracted services</b>	<b>2,941,700</b>	<b>2,941,700</b>	<b>2,688,865</b>	<b>252,835</b>
<b>Supplies and materials:</b>				
Office supplies	38,500	38,500	28,087	10,413
Data processing supplies and materials	14,000	14,000	12,035	1,965
Postage	2,000	1,000	339	661
Uniforms	58,000	58,000	50,849	7,151
Small equipment items	46,000	46,000	30,646	15,354
<b>Total supplies and materials</b>	<b>158,500</b>	<b>157,500</b>	<b>121,956</b>	<b>35,544</b>
<b>Other charges:</b>				
Dues and memberships	10,000	10,000	7,354	2,646
Premiums on surety bonds	9,000	9,000	6,015	2,985
Public education	463,600	463,600	430,462	33,138
Travel expenses	10,000	10,000	5,855	4,145
Service awards - employee recognition	14,000	14,000	11,179	2,821
Internet services	3,000	4,000	3,793	207
Miscellaneous and contingency	5,000	5,000	2,456	2,544
<b>Total other charges</b>	<b>514,600</b>	<b>515,600</b>	<b>467,114</b>	<b>48,486</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>3,614,800</b>	<b>3,614,800</b>	<b>3,277,935</b>	<b>336,865</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	12,000	12,000	10,942	(1,058)
Tennessee Emergency Communications Board - grants and reimbursements	-	-	1,710,179	1,710,179
Capital improvements	(2,964,900)	(2,964,900)	(2,654,813)	310,087
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(2,952,900)</b>	<b>(2,952,900)</b>	<b>(933,692)</b>	<b>2,019,208</b>
<b>(DEFICIT) EXCESS OF OPERATING REVENUES OVER OPERATING COSTS AND EXPENSES AND NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 712,548</b>	<b>\$ 712,548</b>	<b>\$ 2,368,015</b>	<b>\$ 1,655,467</b>

(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, 2013

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)		\$ 2,368,015
Add: Current year accounts receivable	\$ 298,609	
Receivable from Tennessee Emergency Communications Board	262,707	
Current year prepaid expenses	90,929	
Prior year accounts payable	184,990	
Equipment purchases capitalized	307,047	
Gain on disposals of equipment	<u>1,680</u>	
		1,145,962
Less: Current year accounts payable	129,676	
Prior year accounts receivable	299,211	
Prior year prepaid expenses	108,622	
Prior year receivable from Tennessee Emergency Communications Board	241,378	
Depreciation expense	1,477,253	
Cash received on sale of equipment used to offset capital expenditures	<u>1,680</u>	
		<u>(2,257,820)</u>
Change in net position (GAAP basis) per Financial Statements - per page 6		<u>\$ 1,256,157</u>

OTHER REPORT



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

Board of Directors  
Emergency Communications District of  
Metropolitan Nashville and Davidson County  
Nashville, 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 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2013.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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*.

## ECD'S RESPONSE TO FINDING

The ECD's response to the finding identified in our audit is 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.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee  
October 17, 2013

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2013 AND 2012

PRIOR YEAR FINDING

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.

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