

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2014 AND 2013

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY
FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2014 AND 2013

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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. 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

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

Fiscal Officer
Mr. Mark Lynam
2060 15th 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"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the years ended June 30, 2014 and 2013, 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 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 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 opinion.

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, 2014 and 2013, 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 16, 2014 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 16, 2014

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, 2014. 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, 2014 and 2013. 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, 2014 and 2013. 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>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 8,856,288	\$ 9,453,029	\$ 7,081,980
Capital Assets	<u>5,618,359</u>	<u>3,704,079</u>	<u>4,874,285</u>
Total Assets	<u>14,474,647</u>	<u>13,157,108</u>	<u>11,956,265</u>
Current Liabilities	<u>1,796,319</u>	<u>129,676</u>	<u>184,990</u>
Investment in Capital Assets	5,618,359	3,704,079	4,874,285
Unrestricted Net Position	<u>7,059,969</u>	<u>9,323,353</u>	<u>6,896,990</u>
Total Net Position	<u>\$ 12,678,328</u>	<u>\$ 13,027,432</u>	<u>\$ 11,771,275</u>

Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 6,214,037	\$ 6,600,369	\$ 6,337,275
Operating Costs and Expenses	<u>6,568,954</u>	<u>7,067,013</u>	<u>14,180,464</u>
Net Operating Income	(354,917)	(466,644)	(7,843,189)
Other Income (Expense)	<u>5,813</u>	<u>1,722,801</u>	<u>847,304</u>
Change in Net Position	<u>\$ (349,104)</u>	<u>\$ 1,256,157</u>	<u>\$ (6,995,885)</u>

Operating Revenues and Non-operating Revenue

During fiscal year 2014 we saw surcharge fee collections for land lines decrease by \$345,000 from the previous year. During that same period we saw wireless distributions increase by \$65,000 while TECB operational funding decreased by \$106,000. This left us with an overall decrease in operating revenues of approximately \$386,000 for fiscal year 2014.

Non-operating revenue for fiscal year 2014 was considerably less than the previous fiscal year. During 2013 we received approximately \$1.7 million from the TECB as part of their equipment funding and reimbursements programs. During fiscal year 2014 our only source of other income was \$8,400 interest that we received from our checking account and Local Government Investment Pool.

Operating Expenses

Overall our operating expenses for fiscal year 2014 were down by approximately \$498,000 from the previous fiscal year. While we did see an increase of \$43,000 in the category noted as “other charges” we saw expenses decrease in other areas. Supplies and materials were down by \$231,000. We also saw decreases of \$225,000 in depreciation and \$85,000 in contracted services.

Capital Expenditures

Capital expenditures made in 2014 included:

Intrado Telephone System	\$1,134,140
CAD Locution Voice Interface	257,522
Kohler Generator	129,000
NICE Inform Upgrade	52,931
Grounding and Surge Protection	30,800
Furniture and Office Equipment	21,373
Office Renovation	3,958

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 POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 791,252	\$ 901,596
Investments	7,406,809	7,899,188
Accounts receivable	256,262	298,609
Due from Tennessee Emergency Communications Board:		
Shared wireless charge	271,651	262,707
Prepaid expense	<u>130,314</u>	<u>90,929</u>
TOTAL CURRENT ASSETS	8,856,288	9,453,029
EQUIPMENT - net of accumulated depreciation	<u>5,618,359</u>	<u>3,704,079</u>
TOTAL ASSETS	<u>14,474,647</u>	<u>13,157,108</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	<u>1,796,319</u>	<u>129,676</u>
TOTAL CURRENT LIABILITIES	<u>1,796,319</u>	<u>129,676</u>
NET POSITION		
Investment in capital assets	5,618,359	3,704,079
Unrestricted	<u>7,059,969</u>	<u>9,323,353</u>
TOTAL NET POSITION	<u>\$ 12,678,328</u>	<u>\$ 13,027,432</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Emergency telephone service charges	\$ 2,740,259	\$ 3,085,829
Tennessee Emergency Communications Board - shared wireless charge	1,605,183	1,540,301
Tennessee Emergency Communications Board - operational funding	<u>1,868,595</u>	<u>1,974,239</u>
TOTAL OPERATING REVENUES	<u>6,214,037</u>	<u>6,600,369</u>
OPERATING COSTS AND EXPENSES		
Contracted services	4,721,290	4,806,025
Supplies and materials	111,341	341,990
Other charges	484,157	441,745
Depreciation	<u>1,252,166</u>	<u>1,477,253</u>
TOTAL OPERATING COSTS AND EXPENSES	<u>6,568,954</u>	<u>7,067,013</u>
OPERATING LOSS	<u>(354,917)</u>	<u>(466,644)</u>
NONOPERATING REVENUE		
Interest income	8,415	10,942
Tennessee Emergency Communications Board - grants and reimbursements	-	1,710,179
Gain (loss) on disposal of equipment	<u>(2,602)</u>	<u>1,680</u>
TOTAL NONOPERATING REVENUE	<u>5,813</u>	<u>1,722,801</u>
CHANGE IN NET POSITION	<u>(349,104)</u>	<u>1,256,157</u>
NET POSITION - BEGINNING OF YEAR	<u>13,027,432</u>	<u>11,771,275</u>
NET POSITION - END OF YEAR	<u>\$ 12,678,328</u>	<u>\$ 13,027,432</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from subscribers, including TECB operational funding	\$ 6,247,440	\$ 6,579,642
Payments to suppliers	<u>(5,360,257)</u>	<u>(5,577,109)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>887,183</u>	<u>1,002,533</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tennessee Emergency Communications Board - grants and reimbursements	<u>-</u>	<u>1,710,179</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>1,710,179</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of equipment	(1,500,591)	(307,047)
Proceeds from the sale of equipment	2,270	1,680
Payment of prior year accounts payable for equipment purchases	<u>-</u>	<u>(50,272)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,498,321)</u>	<u>(355,639)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(3,300,000)
Liquidation of investments	492,379	1,190,028
Interest income	<u>8,415</u>	<u>10,942</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>500,794</u>	<u>(2,099,030)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,344)	258,043
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>901,596</u>	<u>643,553</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 791,252</u>	<u>\$ 901,596</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (354,917)	\$ (466,644)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,252,166	1,477,253
Changes in assets and liabilities:		
Decrease in accounts receivable	42,347	602
Increase in Due from Tennessee Emergency Communications Board	(8,944)	(21,329)
(Increase) decrease in prepaid expenses	(39,385)	17,693
Decrease in accounts payable	<u>(4,084)</u>	<u>(5,042)</u>
TOTAL ADJUSTMENTS	<u>1,242,100</u>	<u>1,469,177</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 887,183</u>	<u>\$ 1,002,533</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Accounts payable for equipment purchases	<u>\$ 1,670,727</u>	<u>\$ -</u>

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The ECD'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 ECD 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 ECD's ongoing operations. The principal operating revenues of the ECD 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.

Budgetary Information

The ECD's procedures in establishing the budget as reflected in the basic financial statements are as follows:

1. During March / April, the ECD administrative officer prepares budget for ensuing fiscal year.
2. At the April ECD Board meeting, a proposed budget is presented to the ECD Board of Directors. Board members accept or make changes to proposed budget. The District's budget is approved at the line item level.
3. In May, a copy of the proposed budget is sent to the Metro Clerk who distributes copies to the Mayor's Office and Metro Council. Members of Metro's Council can make recommendations regarding the ECD budget but cannot adjust the budget.
4. At the June ECD Board Meeting, a public hearing is held regarding the budget. The ECD Board makes adjustments to the budget if necessary and then adopts budget for the upcoming fiscal year. The ECD Board at this time will determine if the prior year's budget will require amendment as well. The administrative officer does not have the authority to revise line item categories without the Board's approval.
5. In July, a copy of the adopted budget and any amendments are sent to the Metro Clerk who distributes copies to the Mayor's Office and the Metro Council. A copy of the adopted budget is also sent to Tennessee Emergency Communications Board ("TECB").

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 \$1,868,595 and \$1,974,239 for the years ended June 30, 2014 and 2013, respectively. Operational funding for June 30, 2013 included a one-time payment of \$238,586 in addition to routine operational funding payments.

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.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and October 16, 2014, 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. The ECD invests funds that are not immediately needed in the Local Government Investment Pool (the "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 nine days at June 30, 2014. The Pool does not have a credit rating.

As of June 30, 2014 and 2013, 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, 2014 AND 2013

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 2014 and 2013, ECD paid \$2,046,000 and \$2,108,000, respectively, 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.

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

Year ending June 30:

2015	\$	1,984,000
2016		1,922,000
2017		1,860,000
2018		1,798,000
2019		1,736,000
2020 - 2021		<u>3,286,000</u>
	\$	<u>12,586,000</u>

During 2014, the Board of Directors voted to assist the Metropolitan Government's replacement of a generator at a facility used approximately 60% by the Emergency Communication Center. A payment of \$129,000 was paid to Metro under this agreement, which is included in contracted services.

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 2014 and 2013.

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, 2014 and 2013, ECD remitted to the Metro Government approximately \$539,000 and \$532,000, respectively (excluding separately disclosed payments above), 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, 2014 AND 2013

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 \$226,463 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 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% of total operating revenue for the years ended June 30, 2014 and 2013.

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

	2014			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	9,973,445	3,396,418	(130,935)	13,238,928
Office equipment	14,436	23,198	-	37,634
Furniture and fixtures	858,438	-	-	858,438
Total capital assets being depreciated	<u>10,846,319</u>	<u>3,419,616</u>	<u>(130,935)</u>	<u>14,135,000</u>
<u>Less accumulated depreciation for:</u>				
Communications equipment	(6,871,600)	(1,135,796)	126,063	(7,881,333)
Office equipment	(7,763)	(113,741)	-	(121,504)
Furniture and fixtures	(511,175)	(2,629)	-	(513,804)
Total accumulated depreciation	<u>(7,390,538)</u>	<u>(1,252,166)</u>	<u>126,063</u>	<u>(8,516,641)</u>
Capital assets, net	<u>\$ 3,704,079</u>	<u>\$ 2,167,450</u>	<u>\$ (253,170)</u>	<u>\$ 5,618,359</u>

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 7 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	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	<u>10,893,637</u>	<u>58,749</u>	<u>(106,067)</u>	<u>10,846,319</u>
<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	<u>(6,019,352)</u>	<u>(1,477,253)</u>	<u>106,067</u>	<u>(7,390,538)</u>
Capital assets, net	<u>\$ 4,874,285</u>	<u>\$ (1,170,206)</u>	<u>\$ -</u>	<u>\$ 3,704,079</u>

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, 2014

	BUDGETED AMOUNTS		ACTUAL	FAVORABLE
	ORIGINAL	FINAL	AMOUNTS (SEE NOTE A)	(UNFAVORABLE) WITH FINAL BUDGET
OPERATING REVENUES				
Emergency telephone service charges	\$ 3,057,230	\$ 3,057,230	\$ 2,782,606	\$ (274,624)
Tennessee Emergency Communications Board - shared wireless charge	1,500,000	1,500,000	1,596,239	96,239
Tennessee Emergency Communications Board - operational funding	1,493,936	1,493,936	1,868,595	374,659
TOTAL OPERATING REVENUES	6,051,166	6,051,166	6,247,440	196,274
OPERATING COSTS AND EXPENSES				
Contracted services:				
Advertising	500	500	375	125
Audit services	10,000	10,000	10,000	-
Administrative services	44,000	44,000	44,000	-
Contracts with government agencies - primary government:				
Metro - Public Works	8,400	8,400	4,900	3,500
Metro - CommCenter Training	312,000	312,000	192,190	119,810
Fees paid to service providers - telephones	891,800	891,800	816,529	75,271
Fees paid to service providers - lines	28,000	28,000	-	28,000
Legal services	19,800	19,800	19,650	150
Maintenance agreements	1,463,900	1,463,900	1,328,303	135,597
Communications equipment	88,600	88,600	55,640	32,960
Rental - office equipment	5,400	5,400	2,139	3,261
Rent at back-up facility	83,200	83,200	67,980	15,220
Vehicles	33,600	33,600	32,017	1,583
Other contracted services	84,500	84,500	53,817	30,683
Total contracted services	3,073,700	3,073,700	2,627,540	446,160
Supplies and materials:				
Office supplies	38,500	38,500	17,130	21,370
Data processing supplies and materials	14,000	14,000	5,046	8,954
Postage	2,000	1,000	464	536
Uniforms	58,000	58,000	43,821	14,179
Small equipment items	46,000	46,000	32,990	13,010
Total supplies and materials	158,500	157,500	99,451	58,049
Other charges:				
Dues and memberships	10,000	10,000	8,796	1,204
Premiums on surety bonds	9,000	9,000	6,230	2,770
Public education	461,900	461,900	423,261	38,639
Travel expenses	14,000	14,000	3,590	10,410
Service awards - employee recognition	15,000	15,000	10,137	4,863
Internet services	5,000	6,000	3,814	2,186
Miscellaneous and contingency	5,000	5,000	776	4,224
Total other charges	519,900	520,900	456,604	64,296
TOTAL OPERATING EXPENSES	3,752,100	3,752,100	3,183,595	568,505
NONOPERATING REVENUES (EXPENSES)				
Interest income	12,000	12,000	8,415	(3,585)
Capital improvements	(5,214,600)	(5,214,600)	(3,674,983)	1,539,617
TOTAL NONOPERATING REVENUES (EXPENSES)	(5,202,600)	(5,202,600)	(3,666,568)	1,536,032
(DEFICIT) EXCESS OF OPERATING REVENUES OVER OPERATING COSTS AND EXPENSES AND NONOPERATING REVENUES (EXPENSES)	\$ (2,903,534)	\$ (2,903,534)	\$ (602,723)	\$ 2,300,811

(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, 2014

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)		\$ (602,723)
Add: Current year accounts receivable	\$ 256,262	
Receivable from Tennessee Emergency Communications Board	271,651	
Current year prepaid expenses	130,314	
Prior year accounts payable	129,676	
Equipment purchases capitalized	3,171,318	
		3,959,221
Less: Current year accounts payable	1,796,319	
Prior year accounts receivable	298,609	
Prior year prepaid expenses	90,929	
Prior year receivable from Tennessee Emergency Communications Board	262,707	
Depreciation expense	1,252,166	
Loss on disposal of equipment	2,602	
Cash received on sale of equipment used to offset capital expenditures	<u>2,270</u>	
		<u>(3,705,602)</u>
Change in net position (GAAP basis) per Financial Statements - per page 6		<u>\$ (349,104)</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, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014.

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.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kraft CPAs PLLC

Nashville, Tennessee
October 16, 2014

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2014 AND 2013

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.
