

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015 AND 2014

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

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AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

	<u>PAGE</u>
BOARD OF DIRECTORS.....	i
INDEPENDENT AUDITOR'S REPORT.....	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 4
FINANCIAL STATEMENTS	
Statements of Net Position.....	5
Statements of Revenues, Expenses and Changes in Net Position.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements	8 - 14
ADDITIONAL INFORMATION	
Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP)	15 - 16
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 <i>Government Auditing Standards</i>	17 - 18
Schedule of Findings and Responses	19

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, 2015 and 2014, 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 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 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, 2015 and 2014, 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 15, 2015 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.

Kraj+CPAs PLLC

Nashville, Tennessee
October 15, 2015

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, 2015. 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, 2015 and 2014. 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, 2015 and 2014. 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		
	2015	2014	2013
Current Assets	\$ 7,541,781	\$ 8,856,288	\$ 9,453,029
Capital Assets	4,215,265	5,618,359	3,704,079
Total Assets	<u>11,757,046</u>	<u>14,474,647</u>	<u>13,157,108</u>
Current Liabilities	<u>98,206</u>	<u>1,796,319</u>	<u>129,676</u>
Investment in Capital Assets	4,215,265	5,618,359	3,704,079
Unrestricted Net Position	<u>7,443,575</u>	<u>7,059,969</u>	<u>9,323,353</u>
Total Net Position	<u>\$ 11,658,840</u>	<u>\$ 12,678,328</u>	<u>\$ 13,027,432</u>

Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 6,010,812	\$ 6,214,037	\$ 6,600,369
Operating Costs and Expenses	<u>7,124,943</u>	<u>6,568,954</u>	<u>7,067,013</u>
Net Operating Income	(1,114,131)	(354,917)	(466,644)
Other Income (Expense)	<u>94,643</u>	<u>5,813</u>	<u>1,722,801</u>
Change in Net Position	<u>\$ (1,019,488)</u>	<u>\$ (349,104)</u>	<u>\$ 1,256,157</u>

Operating Revenues and Non-operating Revenue

Our overall revenue for fiscal year 2015 was fairly consistent with that of the previous fiscal year. While we saw operating revenue decline by approximately \$200,000 we saw non-operating revenue increase by approximately \$89,000. The net result was a \$114,000 decrease in revenue for 2015 when compared to 2014.

The one major change for 2015 was the passage of the 911 Funding Modernization and IP Transition Act of 2014. This act, which became effective January 1, 2015, established a single uniform 911 surcharge rate of \$1.16. Under this new law all communications providers will remit 911 fees to the Tennessee Emergency Communications Board, which in turn will remit 911 funds to local 911 districts throughout the state. Each district will receive an annual base funding amount. The annual base level funding for the Emergency Communications District of Nashville and Davidson County is \$6,352,152. This funding is being provided in bi-monthly payments of \$1,058,692.

Operating Expenses

Overall our operating expenses for fiscal year 2015 increased by approximately \$556,000. The majority of this increase is due to depreciation expense going up by approximately \$385,000. We also saw increases of \$134,000 in contracted services and \$35,000 in supplies and materials.

Capital Expenditures

Capital expenditures made in 2015 included:

Intrado Telephone System (in accounts payable at June 30, 2014)	\$ 1,670,728
Fire Station PrimeAlert System (not capitalized by ECD)	\$ 449,919
EMV VNX Storage Upgrade	\$ 153,966
Server Upgrade (Equipment & Licenses)	\$ 44,328
Milestone Camera Security System (Equipment & Licenses)	\$ 41,013
Office Furniture	\$ 34,726
Dell Computers	\$ 8,051

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 Ave South, Nashville, TN 37212.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 806,564	\$ 791,252
Investments	6,612,659	7,406,809
Accounts receivable	-	256,262
Due from Tennessee Emergency Communications Board:		
Shared wireless charge	-	271,651
Prepaid expense	<u>122,558</u>	<u>130,314</u>
TOTAL CURRENT ASSETS	7,541,781	8,856,288
EQUIPMENT - net of accumulated depreciation	<u>4,215,265</u>	<u>5,618,359</u>
TOTAL ASSETS	<u>11,757,046</u>	<u>14,474,647</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	<u>98,206</u>	<u>1,796,319</u>
TOTAL CURRENT LIABILITIES	<u>98,206</u>	<u>1,796,319</u>
NET POSITION		
Investment in capital assets	4,215,265	5,618,359
Unrestricted	<u>7,443,575</u>	<u>7,059,969</u>
TOTAL NET POSITION	<u>\$ 11,658,840</u>	<u>\$ 12,678,328</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Emergency telephone service charges	\$ 1,198,704	\$ 2,740,259
Tennessee Emergency Communications Board - shared wireless charge	586,981	1,605,183
Tennessee Emergency Communications Board - operational funding/base funding	<u>4,225,127</u>	<u>1,868,595</u>
TOTAL OPERATING REVENUES	<u>6,010,812</u>	<u>6,214,037</u>
OPERATING COSTS AND EXPENSES		
Contracted services	4,855,273	4,721,290
Supplies and materials	146,262	111,341
Other charges	485,773	484,157
Depreciation	<u>1,637,635</u>	<u>1,252,166</u>
TOTAL OPERATING COSTS AND EXPENSES	<u>7,124,943</u>	<u>6,568,954</u>
OPERATING LOSS	<u>(1,114,131)</u>	<u>(354,917)</u>
NONOPERATING REVENUE		
Interest income	6,815	8,415
Gain (loss) on disposal of equipment	3,892	(2,602)
Miscellaneous income	<u>83,936</u>	<u>-</u>
TOTAL NONOPERATING REVENUE	<u>94,643</u>	<u>5,813</u>
CHANGE IN NET POSITION	<u>(1,019,488)</u>	<u>(349,104)</u>
NET POSITION - BEGINNING OF YEAR	<u>12,678,328</u>	<u>13,027,432</u>
NET POSITION - END OF YEAR	<u>\$ 11,658,840</u>	<u>\$ 12,678,328</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from subscribers, including TECB operational funding	\$ 6,538,725	\$ 6,247,440
Payments to suppliers	<u>(5,506,938)</u>	<u>(5,360,257)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,031,787</u>	<u>887,183</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous income received	<u>83,936</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>83,936</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of equipment	(234,541)	(1,500,591)
Proceeds from the sale of equipment	3,892	2,270
Payment of prior year accounts payable for equipment purchases	<u>(1,670,727)</u>	<u>-</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,901,376)</u>	<u>(1,498,321)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Liquidation of investments	794,150	492,379
Interest income	<u>6,815</u>	<u>8,415</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>800,965</u>	<u>500,794</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,312	(110,344)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>791,252</u>	<u>901,596</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 806,564</u>	<u>\$ 791,252</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,114,131)	\$ (354,917)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,637,635	1,252,166
Changes in assets and liabilities:		
Decrease in accounts receivable	256,262	42,347
(Increase) decrease in Due from Tennessee Emergency Communications Board	271,651	(8,944)
(Increase) decrease in prepaid expenses	7,756	(39,385)
Decrease in accounts payable	<u>(27,386)</u>	<u>(4,084)</u>
TOTAL ADJUSTMENTS	<u>2,145,918</u>	<u>1,242,100</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,031,787</u>	<u>\$ 887,183</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Accounts payable for equipment purchases	<u>\$ -</u>	<u>\$ 1,670,727</u>

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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.

Through December 31, 2014, the service suppliers for land lines retained a three percent (3%) administrative collection fee for billing and collecting the telephone service charges and remitted 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.

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 investment in capital assets and unrestricted components.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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").

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.

On April 25, 2014, The Tennessee General Assembly passed the 911 Funding Modernization and IP Transition Act of 2014 ("the Act"). The Act, which was effective January 1, 2015, updates the existing model for funding 911 to account for changes in technology and consumer choice by establishing a single, uniform 911 surcharge rate of \$1.16. Each 911 is allocated a base funding beginning January 1, 2015. The methodology for this funding is based on "total recurring annual revenue the district received from distributions from the board and from direct remittance of 911 surcharges," as stipulated in the new 911 Funding Modernization Act.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Expense Recognition (Continued)

Through December 31 2014, wireless telephone service providers charged \$1.00 per line monthly, which was then paid to the TECB. In accordance with Tennessee Code Annotated §7-86-303(d), the TECB disbursed 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 \$1,049,051 and \$868,595 for the years ended June 30, 2015 and 2014, respectively.

Cash and Cash Equivalents

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

Accounts Receivable

Prior to the effective date of the Act, accounts receivable consisted of subscriber fees due from service suppliers. Based on historical experience, an allowance for doubtful accounts was not provided. Any subscriber accounts subsequently determined to be uncollectible were charged against revenues at that time. In management's opinion, such reporting did 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.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The ECD has evaluated events and transactions that occurred between June 30, 2015 and October 15, 2015, 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 ten days at June 30, 2015. The Pool does not have a credit rating.

As of June 30, 2015 and 2014, 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 2015 and 2014, ECD paid \$1,984,000 and \$2,046,000, 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.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

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:

2016	\$	1,922,000
2017		1,860,000
2018		1,798,000
2019		1,736,000
2020		1,674,000
2021		<u>1,612,000</u>
	\$	<u>10,602,000</u>

During 2015, the Board of Directors voted to assist the Metropolitan Government's replacement of the fire station alerting system. During 2015, payments of \$449,919 were paid under this agreement, which is included in contracted services. The remaining balance due for the fire station alerting system is \$674,878 which will be completed in fiscal year 2016.

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 2015 and 2014.

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, 2015 and 2014, ECD remitted to the Metro Government approximately \$616,000 and \$539,000, 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.

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.

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

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 have previously consisted of unremitted fees paid by telephone service subscribers to telephone service providers. Revenue received through TECB amounts to 70% and 30% of total operating revenue for the years ended June 30, 2015 and 2014.

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

	2015			End of the Year
	Beginning of the Year	Increases	Decreases	
<u>Capital assets being depreciated:</u>				
Communications equipment	\$ 13,238,928	\$ 234,541	\$ (2,675,529)	\$ 10,797,940
Office equipment	14,436	-	-	14,436
Furniture and fixtures	881,636	-	-	881,636
Total capital assets being depreciated	<u>14,135,000</u>	<u>234,541</u>	<u>(2,675,529)</u>	<u>11,694,012</u>
<u>Less accumulated depreciation for:</u>				
Communications equipment	(7,881,333)	(1,586,950)	2,675,529	(6,792,754)
Office equipment	(121,504)	(1,339)	-	(122,843)
Furniture and fixtures	(513,804)	(49,346)	-	(563,150)
Total accumulated depreciation	<u>(8,516,641)</u>	<u>(1,637,635)</u>	<u>2,675,529</u>	<u>(7,478,747)</u>
Capital assets, net	<u>\$ 5,618,359</u>	<u>\$ (1,403,094)</u>	<u>\$ -</u>	<u>\$ 4,215,265</u>

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 7 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	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	-	-	14,436
Furniture and fixtures	858,438	23,198	-	881,636
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>

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, 2015

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>FAVORABLE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>(UNFAVORABLE)</u>
			<u>(SEE NOTE A)</u>	<u>WITH FINAL</u>
				<u>BUDGET</u>
OPERATING REVENUES				
Emergency telephone service charges	\$ 1,447,000	\$ 1,447,000	\$ 1,454,966	\$ 7,966
Tennessee Emergency Communications Board - shared wireless charge	798,000	798,000	858,632	60,632
Tennessee Emergency Communications Board - operational funding/base funding	4,159,998	4,159,998	4,225,127	65,129
TOTAL OPERATING REVENUES	<u>6,404,998</u>	<u>6,404,998</u>	<u>6,538,725</u>	<u>133,727</u>
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	307,000	307,000	202,990	104,010
Fees paid to service providers - telephones	838,000	838,000	806,117	31,883
Fees paid to service providers - lines	28,800	28,800	25,176	3,624
Legal services	19,800	19,800	19,800	-
Maintenance agreements	1,173,400	1,173,400	1,099,948	73,452
Communications equipment	88,600	88,600	53,604	34,996
Rental - office equipment	5,400	5,400	5,107	293
Rent at back-up facility	74,000	74,000	67,980	6,020
Vehicles	33,600	33,600	13,161	20,439
Other contracted services	84,500	84,500	49,692	34,808
Total contracted services	<u>2,716,000</u>	<u>2,716,000</u>	<u>2,402,850</u>	<u>313,150</u>
Supplies and materials:				
Office supplies	38,500	38,500	16,333	22,167
Data processing supplies and materials	14,000	14,000	13,415	585
Postage	2,000	1,000	685	315
Uniforms	58,000	58,000	53,787	4,213
Small equipment items	41,800	41,800	20,389	21,411
Total supplies and materials	<u>154,300</u>	<u>153,300</u>	<u>104,609</u>	<u>48,691</u>
Other charges:				
Dues and memberships	10,000	10,000	9,996	4
Premiums on surety bonds	9,000	9,000	5,070	3,930
Public education	461,100	461,100	439,270	21,830
Travel expenses	14,000	14,000	11,981	2,019
Service awards - employee recognition	15,000	15,000	14,986	14
Internet services	5,000	6,000	4,088	1,912
Miscellaneous and contingency	5,000	5,000	2,748	2,252
Total other charges	<u>519,100</u>	<u>520,100</u>	<u>488,139</u>	<u>31,961</u>
TOTAL OPERATING EXPENSES	<u>3,389,400</u>	<u>3,389,400</u>	<u>2,995,598</u>	<u>393,802</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	10,000	10,000	6,815	(3,185)
Miscellaneous Income	-	-	83,936	83,936
Capital improvements	(6,784,500)	(6,784,500)	(4,412,716)	2,371,784
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,774,500)</u>	<u>(6,774,500)</u>	<u>(4,321,965)</u>	<u>2,452,535</u>
(DEFICIT) EXCESS OF OPERATING REVENUES OVER OPERATING COSTS AND EXPENSES AND NONOPERATING REVENUES (EXPENSES)	<u>\$ (3,758,902)</u>	<u>\$ (3,758,902)</u>	<u>\$ (778,838)</u>	<u>\$ 2,980,064</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, 2015

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 expenditures over revenues (Non-GAAP)		\$ (778,838)
Add: Current year prepaid expenses	\$ 122,558	
Prior year accounts payable	125,592	
Equipment purchases capitalized	1,905,268	
		2,153,418
Less: Current year accounts payable	98,206	
Prior year accounts receivable	256,262	
Prior year prepaid expenses	130,314	
Prior year receivable from Tennessee Emergency Communications Board	271,651	
Depreciation expense	1,637,635	
Gain on disposal of equipment	(3,892)	
Cash received on sale of equipment used to offset capital expenditures	<u>3,892</u>	
		<u>(2,394,068)</u>
Change in net position (GAAP basis) per Financial Statements - per page 6		<u>\$ (1,019,488)</u>

OTHER REPORT



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PLLC

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2015.

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 15, 2015

EMERGENCY COMMUNICATIONS DISTRICT OF
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2015 AND 2014

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.
