

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016 AND 2015

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016 AND 2015

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<br>and Other Matters Based on an Audit of Financial Statements Performed in Accordance<br>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

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

Ms. Michelle Jernigan  
4837 Rainer Drive  
Old Hickory, TN 37138

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

Mr. Buford Tune  
1645 A Murfreesboro Pike  
Nashville, TN 37217

Mr. Eliud Trevino  
5252 Hickory Hollow Pkwy  
Antioch, TN 37013

Mr. Grady McNeal  
P.O. Box 893  
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 "ECD"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the ECD'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, 2016 and 2015, 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 ECD's basic financial statements. The Schedule of Revenues and Expenses - Budget to Actual (Non-GAAP) on pages 15-16 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 20, 2016 on our consideration of the ECD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 ECD's internal control over financial reporting and compliance.

*Kraj+CPAs PLLC*

Nashville, Tennessee  
October 20, 2016

## 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, 2016. 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, 2016 and 2015. 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, 2016 and 2015. 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

#### Statements of Net Position

|                              | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          |
|------------------------------|----------------------|----------------------|----------------------|
| Current Assets               | \$ 7,810,214         | \$ 7,541,781         | \$ 8,856,288         |
| Capital Assets               | <u>2,796,406</u>     | <u>4,215,265</u>     | <u>5,618,359</u>     |
| Total Assets                 | <u>10,606,620</u>    | <u>11,757,046</u>    | <u>14,474,647</u>    |
| Current Liabilities          | <u>107,747</u>       | <u>98,206</u>        | <u>1,796,319</u>     |
| Investment in Capital Assets | 2,796,406            | 4,215,265            | 5,618,359            |
| Unrestricted Net Position    | <u>7,702,467</u>     | <u>7,443,575</u>     | <u>7,059,969</u>     |
| Total Net Position           | <u>\$ 10,498,873</u> | <u>\$ 11,658,840</u> | <u>\$ 12,678,328</u> |

## Statements of Revenues, Expenses and Changes in Net Position

|                              | 2016           | 2015           | 2014         |
|------------------------------|----------------|----------------|--------------|
| Operating Revenues           | \$ 6,474,549   | \$ 6,010,812   | \$ 6,214,037 |
| Operating Costs and Expenses | 7,553,284      | 7,124,943      | 6,568,954    |
| Net Operating Income         | (1,078,735)    | (1,114,131)    | (354,917)    |
| Other Income (Expense)       | (81,232)       | 94,643         | 5,813        |
| Change in Net Position       | \$ (1,159,967) | \$ (1,019,488) | \$ (349,104) |

### **Operating Revenues and Non-operating Revenue**

Our operating revenue for fiscal year 2016 increased by approximately \$464,000 from the previous year. Revenues consisted entirely of 911 surcharge fee distributions provided by the Tennessee Emergency Communications Board.

Other income (expense) for fiscal year 2016 is considerably less than the previous fiscal year. During 2015 we had other income of almost \$95,000 which consisted of \$7,000 from interest, \$4,000 from sale of equipment, and \$84,000 from a settlement with AT&T. Our other income (expense) for 2016 reflects a loss of approximately \$81,000. This is made up of \$17,000 from interest and a loss of \$98,000 from disposal of equipment that had not yet fully depreciated.

### **Operating Expenses**

Overall our operating expenses for fiscal year 2016 increased by approximately \$428,000. While our depreciation expense decreased by \$135,000 we saw increases of \$415,000 in contracted services (primarily equipment maintenance), \$115,000 in supplies and materials and \$33,000 in other charges.

### **Capital Expenditures**

Capital expenditures made in 2016 included:

|   |            |
|---|------------|
| Fire Station PrimeAlert System (not capitalized by ECD) | \$ 676,478 |
| Dell Computers (under capitalization threshold)         | \$ 147,390 |
| Motorola Logger Recorder Upgrade (CIP)                  | \$ 126,600 |
| Security Cameras System                                 | \$ 38,308  |
| Milestone Camera Security System (Equipment & Licenses) | \$ 20,382  |

### **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> Ave South, Nashville, TN 37212.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2016 AND 2015

|  | <u>2016</u>          | <u>2015</u>          |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                      |                      |                      |
| <b>CURRENT ASSETS</b>                              |                      |                      |
| Cash and cash equivalents                          | \$ 748,048           | \$ 806,564           |
| Investments  | 6,929,222            | 6,612,659            |
| Prepaid expense                                    | <u>132,944</u>       | <u>122,558</u>       |
| <b>TOTAL CURRENT ASSETS</b>                        | 7,810,214            | 7,541,781            |
| <b>EQUIPMENT - net of accumulated depreciation</b> | <u>2,796,406</u>     | <u>4,215,265</u>     |
| <b>TOTAL ASSETS</b>                                | <u>10,606,620</u>    | <u>11,757,046</u>    |
| <b>LIABILITIES</b>                                 |                      |                      |
| <b>CURRENT LIABILITIES</b>                         |                      |                      |
| Accounts payable                                   | <u>107,747</u>       | <u>98,206</u>        |
| <b>TOTAL CURRENT LIABILITIES</b>                   | <u>107,747</u>       | <u>98,206</u>        |
| <b>NET POSITION</b>                                |                      |                      |
| Investment in capital assets                       | 2,796,406            | 4,215,265            |
| Unrestricted                                       | <u>7,702,467</u>     | <u>7,443,575</u>     |
| <b>TOTAL NET POSITION</b>                          | <u>\$ 10,498,873</u> | <u>\$ 11,658,840</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, 2016 AND 2015

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>OPERATING REVENUES</b>                         |                      |                      |
| TECB distribution of 911 surcharges (base amount) | \$ 6,352,152         | \$ 3,176,076         |
| TECB distribution of excess revenue               | 122,385              | -                    |
| Other operating revenues                          | <u>12</u>            | <u>2,834,736</u>     |
| <b>TOTAL OPERATING REVENUES</b>                   | <u>6,474,549</u>     | <u>6,010,812</u>     |
| <b>OPERATING COSTS AND EXPENSES</b>               |                      |                      |
| Contracted services                               | 5,270,180            | 4,855,273            |
| Supplies and materials                            | 261,861              | 146,262              |
| Other charges                                     | 518,976              | 485,773              |
| Depreciation                                      | <u>1,502,267</u>     | <u>1,637,635</u>     |
| <b>TOTAL OPERATING COSTS AND EXPENSES</b>         | <u>7,553,284</u>     | <u>7,124,943</u>     |
| <b>OPERATING LOSS</b>                             | <u>(1,078,735)</u>   | <u>(1,114,131)</u>   |
| <b>NONOPERATING REVENUE (EXPENSE)</b>             |                      |                      |
| Interest income                                   | 16,826               | 6,815                |
| Gain (loss) on disposal of equipment              | (98,058)             | 3,892                |
| Miscellaneous income                              | <u>-</u>             | <u>83,936</u>        |
| <b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>       | <u>(81,232)</u>      | <u>94,643</u>        |
| <b>CHANGE IN NET POSITION</b>                     | <u>(1,159,967)</u>   | <u>(1,019,488)</u>   |
| <b>NET POSITION - BEGINNING OF YEAR</b>           | <u>11,658,840</u>    | <u>12,678,328</u>    |
| <b>NET POSITION - END OF YEAR</b>                 | <u>\$ 10,498,873</u> | <u>\$ 11,658,840</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, 2016 AND 2015

|   | <u>2016</u>        | <u>2015</u>         |
|---|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES  |                    |                     |
| Receipts from TECB distributions and other operating revenue                          | \$ 6,474,549       | \$ 6,538,725        |
| Payments to suppliers   | <u>(6,051,862)</u> | <u>(5,506,938)</u>  |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | <u>422,687</u>     | <u>1,031,787</u>    |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES                                       |                    |                     |
| Miscellaneous income received   | <u>-</u>           | <u>83,936</u>       |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES                                  | <u>-</u>           | <u>83,936</u>       |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES                              |                    |                     |
| Acquisition of equipment  | (185,290)          | (234,541)           |
| Proceeds from the sale of equipment   | 3,824              | 3,892               |
| Payment of prior year accounts payable for equipment purchases                        | <u>-</u>           | <u>(1,670,727)</u>  |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES                             | <u>(181,466)</u>   | <u>(1,901,376)</u>  |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                    |                     |
| (Purchase) sale of investments  | (316,563)          | 794,150             |
| Interest income   | <u>16,826</u>      | <u>6,815</u>        |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES                                   | <u>(299,737)</u>   | <u>800,965</u>      |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                  | (58,516)           | 15,312              |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR   | <u>806,564</u>     | <u>791,252</u>      |
| CASH AND CASH EQUIVALENTS - END OF YEAR   | <u>\$ 748,048</u>  | <u>\$ 806,564</u>   |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:        |                    |                     |
| Operating loss  | \$ (1,078,735)     | \$ (1,114,131)      |
| Adjustments to reconcile operating loss to net cash provided by operating activities: |                    |                     |
| Depreciation  | 1,502,267          | 1,637,635           |
| Changes in assets and liabilities:  |                    |                     |
| Decrease in accounts receivable   | -                  | 256,262             |
| (Increase) decrease in Due from Tennessee Emergency Communications Board              | -                  | 271,651             |
| (Increase) decrease in prepaid expenses   | (10,386)           | 7,756               |
| Increase (decrease) in accounts payable   | <u>9,541</u>       | <u>(27,386)</u>     |
| TOTAL ADJUSTMENTS   | <u>1,501,422</u>   | <u>2,145,918</u>    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | <u>\$ 422,687</u>  | <u>\$ 1,031,787</u> |

See accompanying notes to financial statements.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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.

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.

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.

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Information

The ECD's procedures in establishing the budget 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.

Cash and Cash Equivalents

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

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of pooled funds in the State of Tennessee Local Government Investment Pool (“LGIP” or “Pool”), which is maintained and operated by the State of Tennessee in accordance with applicable State laws and regulations. Because the Pool is considered a qualified external investment pool, participants are guaranteed consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

Equipment and Depreciation

Equipment is reported at cost at the date of purchase. Effective February 1, 2016, the ECD’s policy for capitalizing purchases was increased from \$1,000 or more to \$10,000 or more. The expected useful life must also be 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.

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no effect on the change in net assets previously reported.

Events Occurring After Reporting Date

The ECD has evaluated events and transactions that occurred between June 30, 2016 and October 20, 2016, 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, 2016 AND 2015

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 (“LGIP” or “Pool”). The ECD invests funds that are not immediately needed in the LGIP. 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. The Pool is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Accordingly, the Pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. There are no limitations on withdrawals or maximum transaction amounts on funds held in the 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 LGIP, interest rate risk is based on the average maturity of the pool’s investments, which was one hundred ten days at June 30, 2016. The Pool does not have a credit rating.

As of June 30, 2016 and 2015, 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 2016 and 2015, ECD paid \$1,922,000 and \$1,984,000, 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, 2016 AND 2015

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:

|      |    |                  |
|------|----|------------------|
| 2017 | \$ | 1,860,000        |
| 2018 |    | 1,798,000        |
| 2019 |    | 1,736,000        |
| 2020 |    | 1,674,000        |
| 2021 |    | <u>1,612,000</u> |
|      | \$ | <u>8,680,000</u> |

During 2015, the Board of Directors voted to assist the Metropolitan Government's replacement of the fire station alerting system. During 2016 and 2015, payments of \$676,478 and \$449,919, respectively, were paid 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 2016 and 2015.

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, 2016 and 2015, ECD remitted to the Metro Government approximately \$631,000 and \$616,000, 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 \$184,381 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, 2016 AND 2015

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the ECD to concentrations of credit risk consist principally of funding through the TECB. Revenue received through TECB amounts to 100% and 70% of total operating revenue for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

|  | 2016                     |                       |                     | End of<br>the Year  |
|--|--------------------------|-----------------------|---------------------|---------------------|
|  | Beginning of<br>the Year | Increases             | Decreases           |                     |
| <u>Capital assets not being depreciated:</u> |                          |                       |                     |                     |
| Construction in progress                     | \$ -                     | \$ 126,600            | \$ -                | \$ 126,600          |
| <u>Capital assets being depreciated:</u>     |                          |                       |                     |                     |
| Communications equipment                     | \$ 10,797,940            | \$ 58,690             | \$ (920,473)        | \$ 9,936,157        |
| Office equipment                             | 14,436                   | -                     | (7,741)             | 6,695               |
| Furniture and fixtures                       | 881,636                  | -                     | -                   | 881,636             |
| Total capital assets being depreciated       | <u>11,694,012</u>        | <u>58,690</u>         | <u>(928,214)</u>    | <u>10,824,488</u>   |
| <u>Less accumulated depreciation for:</u>    |                          |                       |                     |                     |
| Communications equipment                     | (6,792,754)              | (1,453,198)           | 818,591             | (7,427,361)         |
| Office equipment                             | (122,843)                | (47,730)              | -                   | (170,573)           |
| Furniture and fixtures                       | (563,150)                | (1,339)               | 7,741               | (556,748)           |
| Total accumulated depreciation               | <u>(7,478,747)</u>       | <u>(1,502,267)</u>    | <u>826,332</u>      | <u>(8,154,682)</u>  |
| Capital assets, net                          | <u>\$ 4,215,265</u>      | <u>\$ (1,316,977)</u> | <u>\$ (101,882)</u> | <u>\$ 2,796,406</u> |

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 7 - CHANGES IN CAPITAL ASSETS (CONTINUED)

|   | <u>2015</u>                      |                       |                    | <u>End of<br/>the Year</u> |
|---|----------------------------------|-----------------------|--------------------|----------------------------|
|   | <u>Beginning of<br/>the Year</u> | <u>Increases</u>      | <u>Decreases</u>   |                            |
| <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>        |

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, 2016

|  | <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>        |
| <b>OPERATING REVENUES</b>  |                         |                       |                     |                      |
| TECB distribution of 911 surcharges (base amount)  | \$ 6,352,152            | \$ 6,352,152          | \$ 6,352,152        | \$ -                 |
| TECB distribution of excess revenue  | -                       | -                     | 122,385             | 122,385              |
| Other operating revenues   | -                       | -                     | <u>12</u>           | <u>12</u>            |
| <b>TOTAL OPERATING REVENUES</b>  | <u>6,352,152</u>        | <u>6,352,152</u>      | <u>6,474,549</u>    | <u>122,397</u>       |
| <b>OPERATING COSTS AND EXPENSES</b>  |                         |                       |                     |                      |
| Contracted services:   |                         |                       |                     |                      |
| Addressing / mapping / database consultants  | 8,400                   | 8,400                 | 4,900               | 3,500                |
| Audit services   | 10,300                  | 10,300                | 10,300              | -                    |
| Accounting / bookkeeping services  | 44,000                  | 44,000                | 44,000              | -                    |
| Contracts with government agencies - primary government:   |                         |                       |                     |                      |
| Metro - CommCenter training  | 337,000                 | 337,000               | 239,009             | 97,991               |
| Fees paid to service providers - telephones  | 839,200                 | 839,200               | 824,307             | 14,893               |
| Contracts with language interpreting   | 28,800                  | 31,800                | 31,639              | 161                  |
| Legal services   | 19,800                  | 19,800                | 19,800              | -                    |
| Maintenance agreements   | 1,269,600               | 1,349,600             | 1,344,883           | 4,717                |
| Communications equipment   | 79,000                  | 79,000                | 67,579              | 11,421               |
| Rental - office equipment  | 7,200                   | 7,200                 | 4,152               | 3,048                |
| Rent at back-up facility   | 74,000                  | 74,000                | 62,315              | 11,685               |
| Vehicles   | 33,600                  | 33,600                | 12,855              | 20,745               |
| Other contracted services  | 84,500                  | 79,500                | 33,880              | 45,620               |
| Total contracted services  | <u>2,835,400</u>        | <u>2,913,400</u>      | <u>2,699,619</u>    | <u>213,781</u>       |
| Supplies and materials:  |                         |                       |                     |                      |
| Office supplies  | 38,500                  | 38,500                | 14,774              | 23,726               |
| Data processing supplies and materials   | 14,000                  | 14,000                | 2,496               | 11,504               |
| Postage  | 2,000                   | 2,000                 | 404                 | 1,596                |
| Uniforms   | 60,000                  | 60,000                | 49,838              | 10,162               |
| Small equipment items  | 45,800                  | 45,800                | 25,480              | 20,320               |
| Total supplies and materials   | <u>160,300</u>          | <u>160,300</u>        | <u>92,992</u>       | <u>67,308</u>        |
| Other charges:   |                         |                       |                     |                      |
| Dues and memberships   | 10,000                  | 10,000                | 7,855               | 2,145                |
| Legal notices  | 500                     | 500                   | 367                 | 133                  |
| Premiums on surety bonds   | 9,000                   | 9,000                 | 5,070               | 3,930                |
| Public education   | 460,100                 | 465,100               | 464,464             | 636                  |
| Travel expenses  | 14,000                  | 14,000                | 10,498              | 3,502                |
| Service awards - employee recognition  | 18,000                  | 18,000                | 13,184              | 4,816                |
| Internet connectivity  | 5,000                   | 7,000                 | 6,662               | 338                  |
| Miscellaneous and contingency  | 5,000                   | -                     | -                   | -                    |
| Total other charges  | <u>521,600</u>          | <u>523,600</u>        | <u>508,100</u>      | <u>15,500</u>        |
| <b>TOTAL OPERATING EXPENSES</b>  | <u>3,517,300</u>        | <u>3,597,300</u>      | <u>3,300,711</u>    | <u>296,589</u>       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |                         |                       |                     |                      |
| Interest income  | 8,400                   | 8,400                 | 16,826              | 8,426                |
| Miscellaneous income   | -                       | -                     | -                   | -                    |
| Capital improvements   | (4,043,879)             | (3,963,879)           | (2,936,441)         | 1,027,438            |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>  | <u>(4,035,479)</u>      | <u>(3,955,479)</u>    | <u>(2,919,615)</u>  | <u>1,035,864</u>     |
| <b>(DEFICIT) EXCESS OF OPERATING REVENUES OVER OPERATING COSTS<br/>AND EXPENSES AND NONOPERATING REVENUES (EXPENSES)</b> | <u>\$ (1,200,627)</u>   | <u>\$ (1,200,627)</u> | <u>\$ 254,223</u>   | <u>\$ 1,454,850</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, 2016

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 expenditures (Non-GAAP)                           |            | \$ 254,223            |
| Add: Current year prepaid expenses  | \$ 132,944 |                       |
| Prior year accounts payable   | 98,206     |                       |
| Equipment purchases capitalized   | 185,290    |                       |
|   |            | 416,440               |
| Less: Current year accounts payable                                       | 107,747    |                       |
| Prior year prepaid expenses   | 122,558    |                       |
| Depreciation expense  | 1,502,267  |                       |
| Loss on disposal of equipment   | 98,058     |                       |
|   |            | <u>(1,830,630)</u>    |
| Change in net position (GAAP basis) per Financial Statements - per page 6 |            | <u>\$ (1,159,967)</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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the ECD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the ECD's internal control over financial reporting.

*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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control 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. The ECD's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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 20, 2016

EMERGENCY COMMUNICATIONS DISTRICT OF  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016 AND 2015

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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