

ACCOUNTING AND FINANCIAL REPORTING MANUAL
FOR
TENNESSEE
EMERGENCY COMMUNICATIONS DISTRICTS



EFFECTIVE JULY 1, 2015

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF LOCAL GOVERNMENT AUDIT



ACCOUNTING AND FINANCIAL REPORTING MANUAL FOR TENNESSEE EMERGENCY COMMUNICATIONS DISTRICTS

TABLE OF CONTENTS

Introduction	i
Section I Audit Requirements	
Statutory Authority	1
Audit Period	1
Auditor Qualifications	1
Audit Contract	1-2
Tennessee Emergency Communications Board	2
Section II Accounting and Financial Reporting	
Records	3
Depreciation of Capital Assets	3
Fund Type and Basis of Accounting	4
Financial Reporting	4-5
Financial Reporting Required for Board Meetings	6
Section III Uniform Chart of Accounts	6
Section IV Legal Requirements	7
Section V 911 Revenue Standards	7
Quick Reference Links	
<u>ECD Audit Reports</u> – Electronic Copies of Annual Audit Reports	1
<u>CARS</u> - Contract and Report System	1
<u>Audit Manual</u> – Comptroller’s Audit Manual	2
<u>Example Financial Statements</u> - Illustrated Typical Financial Statements	4
<u>E911 Chart of Accounts</u> – Uniform Chart of Accounts for ECD	6
<u>Code Sections</u> – Tennessee Code Annotated E911 Related Sections	7
<u>E911 AG Opinions</u> – Attorney General Opinions Related to E911	7
<u>911 Revenue Standards</u> –ECD Required, Permissible, Prohibited Revenue Uses	7

INTRODUCTION

The Tennessee General Assembly authorized the creation of emergency communications districts by passing the Emergency Communications District Law (Sections 7-86-101 through 7-86-320, Tennessee Code Annotated (TCA)). The legislative body of a municipality or county may create an emergency communications district following the approval of the voters within the boundaries of a proposed district. However, as of May 20, 1998, a referendum to allow the creation of a new district within the boundaries of an existing district should not take place, according to Section 7-86-310, TCA, without the prior approval of the Tennessee Emergency Communications Board. This board was established by Section 7-86-302, TCA, “for the purpose of assisting emergency communications district boards of directors in the areas of management, operations, and accountability, and establishing emergency communications for all citizens of the state.”

Section 7-86-304, TCA, directs the comptroller of the treasury to develop a uniform financial accounting system conforming to generally accepted accounting principles for use by all emergency communications districts. This section further provides that the annual audit disclose the failure of any district to maintain the financial accounting system prescribed by the comptroller. To fulfill this responsibility, the Office of the Comptroller of the Treasury, Division of Local Government Audit, has developed this accounting and financial reporting manual to be used by all Tennessee emergency communications districts. **The provisions of this edition of the manual are effective July 1, 2015.**

Audit, accounting, and financial reporting requirements for emergency communications districts are encompassed in the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* published by the Comptroller of the Treasury. Audit requirements are included in Section I of this document and accounting and financial reporting requirements are included in Section II of this document.

The information in this manual provides general auditing and reporting standards requirements for Tennessee emergency communications districts. The manual directs districts and auditors through specific guidance in the manual or through reference to web links which provide appropriate reporting and legal requirements for the districts and auditors.

SECTION I AUDIT REQUIREMENTS

STATUTORY AUTHORITY

Section 4-3-304, Tennessee Code Annotated (TCA), and other state statutes place the audit responsibility for all governmental entities in Tennessee under the Office of the Comptroller of the Treasury. Section 7-86-113, TCA, specifically places the audit responsibility for emergency communications districts under the comptroller's authority. This statute requires each emergency communications district's board of directors to require an annual audit of the books and records of their district. If the board of directors fails or refuses to have an audit conducted, the comptroller may appoint a certified public accountant or direct the Department of Audit to perform the audit, with the district paying the cost of the audit. The comptroller may modify the requirements for an audit. The district is required to file a copy of the audit report with the clerk or recorder of the appropriate county or municipality. The district is also required to file a copy of the audit report with the chief administrative officer of the appropriate county or municipality. Electronic copies of the district's audit reports are available on Comptroller's web site at: (ECD Audit Reports) <http://www.comptroller.tn.gov/la/CountySelect.asp> .

AUDIT PERIOD

Audits should be performed annually and cover only one fiscal year, unless otherwise approved by the comptroller of the treasury. The fiscal year-end for Tennessee emergency communications districts is June 30.

AUDITOR QUALIFICATIONS

Only certified public accountants (CPA) or certified public accounting firms licensed by the Tennessee State Board of Accountancy may contract to perform audits of emergency communications districts. Section 12-3-1209, TCA, requires that audit contracts not be awarded based upon competitive bids but on the basis of recognized competence and integrity.

AUDIT CONTRACT

The comptroller of the treasury has prescribed a uniform audit contract for local governments, including emergency communications districts.

A "Contract to Audit Accounts" should be executed through the web based application known as Contract and Report System (CARS), which is located on the Comptroller's website at https://www.comptroller.tn.gov/RA_Upload/

The CARS contract process has three main steps. The CPA or the district begins the process and signs the contract. The other party is notified that the contract is awaiting their approval and action. After both parties sign the contract, the Comptroller's office is notified that a contract is awaiting our response. Once the Comptroller's office signs the contract, a "pdf" file of the executed contract is created and the document will then be accessible through CARS, in the manage contracts section.

The auditor must conduct the audit in accordance with generally accepted auditing standards, Government Auditing Standards published by the U.S. Government Accountability Office, and the Audit Manual – Auditing, Accounting, and Reporting for Local Governmental Units and Other Organizations published by the Tennessee Office of the Comptroller of the Treasury and when applicable, U.S. Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

The Comptroller’s Audit Manual is located on the Comptroller's website at: <http://www.comptroller.tn.gov/la/auditmanual.asp> (**Audit Manual**).

TENNESSEE EMERGENCY COMMUNICATIONS BOARD

Section 7-86-304, TCA, provides for the comptroller of the treasury to file with the Tennessee Emergency Communications Board a copy of the audited financial statements of each emergency communications district. This section gives the board the authority to act upon any adverse findings noted in the audit reports and to order such action as necessary to remedy the adverse findings. Section 7-86-304, TCA, further provides for a district that is “financially distressed” to be subject to the board’s supervision and evaluation.

As shown by annual audits, a district is deemed financially distressed if it:

- has a negative change in net position for a period of three consecutive years;
- has deficit total net position; or
- has a default on any indebtedness.

For purposes of determining whether an emergency communications district is financially distressed, the board shall not consider an emergency communications district's depreciation costs as an operating expense.

Notwithstanding annual audits, a district is deemed financially distressed if:

- it is the subject of a lien filed by the Internal Revenue Service;
- the board determines that the district cannot satisfy its financial obligations to the extent that the continued operation of the district is at risk; or
- the district has defaulted on any indebtedness due to insufficient funds, such default is not cured within 60 days, and upon determination of the board, it appears that the district cannot satisfy its financial obligations to the extent that the continued operation of the district is at risk.

**SECTION II
ACCOUNTING AND FINANCIAL REPORTING**

RECORDS

Records must be maintained that provide reliable information upon which to base management decisions and the preparation of financial statements in accordance with generally accepted accounting principles. Formal books of account, such as journals and general ledgers, should be maintained utilizing double-entry bookkeeping. Documentation should be on file to support the books of account, such as pre-numbered receipts, bank statements, cancelled checks, lease and loan agreements, contracts, time sheets, invoices, and inventories of capital assets. Written policies and procedures should be maintained for internal controls, travel, personnel, and purchasing. Personnel policies should include written job descriptions and purchasing policies should specify individuals authorized to make purchases. Formal minutes must be maintained for all meetings of the board of directors, and should be approved by the board in a subsequent meeting. These minutes must include the budget adopted by the board and any subsequent amendments.

DEPRECIATION OF CAPITAL ASSETS

Each emergency communications district should establish a capitalization policy, which specifies the per unit cost at which a given capital asset qualifies for capitalization. Typically, this amount correlates with the size of the district. A record must be maintained for each capital asset acquired. The record of the capital asset should include information such as a description of the property, serial number or other identification number, acquisition cost and date, source of funds used in the purchase, location, use and condition, estimated useful life for depreciation purposes and disposition date if applicable. Capital assets should be inventoried periodically and the results of the inventory compared with the capital assets records. The useful life of assets for recording depreciation expense typically should not exceed the guidelines listed below.

<u>Asset Account</u>	<u>Years</u>
Office Furniture and Fixtures	10
Equipment	10
Vehicles	5
Buildings and Improvements	40
Leasehold Improvements (life of the lease or life of the asset, whichever is less)	

FUND TYPE AND BASIS OF ACCOUNTING

The financial operations of Tennessee emergency communications districts must be accounted for in an enterprise fund. Enterprise funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. This is the same measurement focus and basis of accounting used by private business enterprises. Revenues are recognized in enterprise funds when they are earned and expenses are recognized as soon as a liability is incurred.

FINANCIAL REPORTING

Emergency communications districts should be accounted for as single enterprise funds on the accrual basis of accounting. Financial statements and the accompanying notes must be prepared in accordance with the Codification of Governmental Accounting and Financial Reporting Standards (Codification) published by the Governmental Accounting Standards Board.

All audit reports must include the following information, as applicable, and conform to the following outline. Illustrated example of the typical financial statements and budgetary comparison schedules for an emergency communications district can be obtained at: **(Example Financial Statements)**

I. Introductory Section

Table of contents, roster of management officials, roster of board members, and any other material deemed appropriate by management, such as a letter of transmittal or organizational chart.

II. Management's Discussion and Analysis

This is required supplementary information by the GASB. Information required by the Codification should be included, as appropriate.

III. Financial Section

A. Independent Auditor's Report on the Financial Statements

This report must state that the audit was performed in accordance with generally accepted government auditing standards.

B. Financial Statements and Notes

1. Statement of Net Position

(The classified format which distinguishes between all current and long-term assets and liabilities is required by the Codification.)

2. Statement of Revenues, Expenses, and Changes in Net Position

Revenue and expense classifications must follow the Uniform Chart of Accounts and should be sufficiently detailed to be meaningful. Expenses may be summarized by major categories as identified in the Uniform Chart of Accounts. If expenses are summarized by major categories, a schedule of detailed expenses must be presented in the supplementary information section.

3. Statement of Cash Flows
4. Notes to the Financial Statements

C. Supplementary Information

1. Independent Auditor's Report on Supplementary Information
This may be addressed in the Independent Auditor's Report on the Financial Statements.
2. Budgetary Comparison Schedule
This schedule must be presented to demonstrate legal compliance with Section 7-86-120, Tennessee Code Annotated, which requires emergency communications districts to adopt and operate under an annual budget. The board of directors should follow all the requirements of Section 7-86-120 in adopting the budget. However, for financial reporting purposes it is only necessary to present budgetary revenues and expenses compared with actual. Expenses must be presented at the legal level of control, **which is defined to be at the line-item level**. The budget **may or may not** be adopted in accordance with generally accepted accounting principles (GAAP). For example, depreciation may or may not be budgeted. Likewise, outlays for capital items may be budgeted as expenses. The budgetary comparison between budgeted and actual amounts should be presented on the same basis of accounting. The budgetary comparison schedule should include a reconciliation for any differences between GAAP basis and budgetary basis actual amounts.
3. Schedule of Detailed Expenses
This schedule is not required if expenses are detailed on the Statement of Revenues, Expenses, and Changes in Net Position.
4. Grant Schedule (Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance)
5. Any other schedules or information deemed necessary by management.

IV. Internal Control and Compliance Section

This section must include the auditor's report on internal control and compliance over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards. The auditor should consult the AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, for sample reports. Any findings addressed in the report should include management's response.

FINANCIAL REPORTING REQUIRED FOR BOARD MEETINGS

Section 7-86-123, TCA, requires that a financial report of the district's activities must be provided to the board of directors at every scheduled meeting of the board. This report must be in accordance with guidelines developed by the Comptroller of the Treasury.

The **minimum guidelines** for the board meeting financial report are as follows:

1. The financial report shall be as of the most recent month ended prior to a regularly scheduled board meeting.
2. The report shall include a Statement of Net Position (balance sheet) reflecting the financial position of the district.
3. The report shall contain a Statement of Activities (statement of operations).
4. The report shall include a budgetary statement that compares budget with actual for the year to date.
5. The report shall include a summary of investment activity, which includes a listing of all investment accounts.

SECTION III UNIFORM CHART OF ACCOUNTS

UNIFORM CHART OF ACCOUNTS

All Tennessee emergency communications districts are required to adopt the uniform chart of accounts as of July 1, 2008. The Uniform Chart of Accounts can be obtained at: (**E911 Chart of Accounts**).

Deviations from the uniform chart of accounts may not be made without the written approval of the Office of the Comptroller of the Treasury, Division of Local Government Audit.

SECTION IV LEGAL REQUIREMENTS

Emergency communications districts are created under the authority of Title 7, Chapter 86, Tennessee Code Annotated (TCA). Chapter 86 contain provisions that relate to the financial operations of emergency communications districts. The auditor for the district should report noncompliance with these sections if the noncompliance has a significant effect on financial reporting. A list of financial related code sections can be obtained at ([Code Sections](#)); however, this list should only be used as a guideline and should not be considered comprehensive. Other state statutes may affect emergency communications districts, such as those relating to public records, open meetings, and conflicts of interest. In addition, the state attorney general has issued numerous opinions concerning the operations of emergency communications districts. A list of state attorney general opinions related to emergency communications districts can be obtained at ([E911 AG Opinions](#)).

SECTION V 911 REVENUE STANDARDS

ECDs may receive funds from federal, state and local governmental sources as well as private sources according to Tennessee Code Annotated § 7-86-109. ECDs may use interest income for operating and capital expenditures. Any use of 911 revenue must comply with Tennessee Code Annotated § 7-86-102(d), which states that the funds received by ECDs “from all sources shall be used exclusively in the operation of the emergency communications district.”

Tennessee Code Annotated § 7-86-306(10) authorizes the Tennessee Emergency Communications Board (TECB) to “...establish operating standards concerning acceptable uses of revenue for emergency communications districts and periodically review and revise these standards...”

TECB’s 911 Revenue Standards establishes three categories of revenue uses for ECD. The 911 Revenue Standards are located on the TECB website and can be obtained at ([911 Revenue Standards](#)).

Required Uses of 911 Revenue – ECDs must assure that these items are obtained and operative before considering expending revenue on any permissible expenditure

Permissible Uses of 911 Revenue - These items do not represent required expenditures of 911 revenue, but rather, are permissible uses of 911 revenue, provided that an emergency communications district has the budgetary resources and that such expenditures fit within the district’s plan.

Prohibited Uses of 911 Revenue - These items represent expenditures that are prohibited, regardless of the source of revenue or the budgetary resources of an emergency communications district. The list is not considered all inclusive.