



# 9-1-1 PROGRAM

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## **Accounting and Financial Reporting Manual**

*Calendar Year 2017  
January 1, 2017 – December 31, 2017*

# Accounting and Financial Reporting Manual

EFFECTIVE JANUARY 1, 2017

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# **Accounting and Financial Reporting Guidelines**

# PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY

## 9-1-1 PROGRAM

### ACCOUNTING AND FINANCIAL REPORTING GUIDELINES

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#### 1. INTRODUCTION

Chapter 53 of Title 35, amended by Act 12 of 2015 (“The Act”), provides for the collection of a surcharge on 9-1-1 communications services to support a statewide integrated 9-1-1 system. The Act established a new funding program for public safety answering points (PSAPs) across the Commonwealth. The new funding program includes a uniform 9-1-1 surcharge fee of \$1.65, a 9-1-1 Fund for collecting surcharges, and updated procedures related to collecting and distributing surcharge revenues.

The Act directed PEMA to establish guidelines, standards, and reporting requirements for the administration of 9-1-1 systems in the Commonwealth of Pennsylvania. The Act also places the responsibility to audit the PSAPs with PEMA, Per 35 Pa. C.S. § 5306.1 (i)(2), as follows:

“PEMA shall require a biennial performance audit of each PSAP's use of the disbursements it has received from the fund, including amounts placed in capital or operating reserve consistent with published guidelines established by PEMA.”

To meet these requirements, PEMA has created this accounting and financial reporting manual for use by all county and city representatives responsible for 9-1-1 Fund accounting and reporting, PSAP personnel, as well as by the auditor of the PSAPs. This manual includes guidelines for maintaining records and documentation to support appropriate financial reporting, as well as a summary of the audit process, and general audit requirements. This guidance will be updated on an ongoing basis, based upon new information obtained, and experience with the use of the guidelines provided herein.

Guidance for calendar year 2016 was provided by PEMA to PSAPs in the document “9-1-1 Program Funding Guidance”. The information in that document provided financial management standards and program guidance for recipients of 9-1-1 funding from PEMA in 2016. Formula based funds (83 percent funds) followed the same standards and guidance in place during the interim funding period (August 1, 2015 – December 31, 2015). New guidance was included specifically for statewide interconnectivity funding (15 percent funds). Compliance with these standards and guidance will be verified through the biennial audit process beginning in 2017. This manual builds and expands upon the guidance provided in this document.

#### 2. FUND TYPE AND BASIS OF ACCOUNTING

PEMA has not required that a specific type of fund be used to account for 9-1-1 operations through 2016. However, PSAPs must ensure and be able to demonstrate that 9-1-1 revenue

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received was used only for reasonably necessary costs that enhance, operate or maintain a 9-1-1 system in accordance with the Eligibility Factors List provided by PEMA.

It is anticipated most 9-1-1 funds will no longer be reported as enterprise funds (using accrual accounting) for entity-wide financial reporting, but will instead be reported as a special revenue fund, as direct user charges are no longer the main funding stream for the 9-1-1 Fund of a PSAP. As such, it is anticipated that most 9-1-1 Funds will now use modified accrual accounting for entity wide financial reporting purposes, as the main revenue stream is a block grant award that is restricted in nature.

In recognition of this, PEMA reporting will mirror the modified accrual basis of accounting in all instances where practical. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Grant revenues are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension benefits, and claims and judgments, are recorded only when payment is due. In addition, payments for purchases of capital assets are expensed, as opposed to being capitalized and depreciated over their useful life.

### 3. ACCOUNTING RECORDS

#### General Accounting Records

Accounting records must be supported by documentation such as invoices, contracts, lease, loan, and rental agreements, contracts, time sheets, bank statements, cancelled checks, etc. Costs charged to the 9-1-1- Program through a cost allocation plan or some other method involving shared resources must be clearly supported, and allocations of cost charged to the 9-1-1 Program must be reasonable.

Records must be preserved for at least three years following the submission of the Combined Report or in compliance with the PSAP record retention policy; whichever is longer. Access to these records will be integral for the completion of the biennial audit process.

#### Capital Asset Records

Capital asset records must be maintained to clearly define capital assets purchased using 9-1-1 funding, and should follow the PSAPs capitalization policy. Each item should be tracked by a

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serial or other identification number, acquisition cost and date, location, and estimated useful life. If a capital asset is disposed during the year, this should be tracked.

Capital assets should clearly be defined and tracked between existing capital assets purchased using other funding sources of the PSAP, prior 9-1-1 funding, and those purchased using funding provided under Act 12 (i.e., expenditure incurred as of August 1, 2015 or after).

#### 4. ACCOUNTING POLICIES

##### Bank Accounts

9-1-1 Funds must be deposited and maintained in an interest-bearing account.

##### Interest Income

Interest earned on 9-1-1 Funds must be reported as a revenue of the fund. If pooled accounts are used, a reasonable method should be used to allocate interest to the 9-1-1 Fund on a timely basis. Interest income received should be used to reduce the amount of either Formula Funds or Interconnectivity Funds used to fund eligible expenditures.

##### Prepaid Items

Expenditures related to multi-year or multi-month contracts entered into by the PSAP (such as maintenance agreements) should be allocated proportionally to the appropriate expenditure category over the life of the contract. The balance of the prepaid item should be reflected as a prepaid asset on the balance sheet of the 9-1-1 Fund.

##### Cost Allocation and Indirect Costs

Any allocation of general costs (central office personnel of a PSAP, document reproduction costs, etc.) charged to the 9-1-1 Program through a cost allocation or indirect cost plan must be based upon a reasonable method, and must be supported by actual costs – not budgeted costs. Costs charged throughout the year may be based upon budgeted costs, but must be reconciled for year-end financial reporting to actual costs incurred/allocated. This includes costs of shared resources between different programs managed by the PSAP, different funding sources for the PSAP, as well as any shared resources between different PSAPs.

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#### Capital Assets

##### Fully and Partially Depreciated Capital Assets

The usage of capital assets by the 9-1-1 Program that are already fully depreciated may not be charged to the 9-1-1 Program. Capital assets purchased using prior 9-1-1 Program funding also cannot charge depreciation to the 9-1-1 Program.

##### Proceeds from Sales of Capital (or Other) Assets

The proceeds of any sales of capital assets purchased using 9-1-1 funding should be reported as a revenue of the 9-1-1 Program, and used to reduce the amount of Formula or Interconnectivity Funding used during the year to fund eligible expenditures, similar to interest income.

##### Capital Assets Purchased Using Prior Funding, or Other PSAP Funding

There will be times when the purchase of a capital asset for the 9-1-1 Program will be paid for by another funding stream of the PSAP. If the purchased asset will be used by the 9-1-1 Program, the reimbursement of those costs from the 9-1-1 Program to the other fund of the PSAP is an allowable cost.

##### Shared Capital Assets

If a purchased or leased capital asset will be shared between the 9-1-1 Program and another activity of the PSAP, only a portion of the purchase cost should be allocated to the 9-1-1 Program. This allocation should be accomplished using a reasonable method that approximates actual usage.

##### Capital Assets Financed by Other Funds of the PSAP

There will be times when the purchase of a capital asset or other asset for the 9-1-1 Program will be financed by another fund of the PSAP. If such a transaction occurs, the PSAP should ensure that the timing and method of repayment to the 9-1-1 Program is clearly defined through supporting documentation.

#### Revenues

##### Revenue Reporting

Each quarter, 9-1-1 Fund revenue and formula payment calculations for each PSAP are posted to PEMA's website at the following link: [Revenue Report](#)

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A schedule of the formula based payments in 2016 is shown below in Figure 1. PSAPs should report these payments as revenue in 2016. As such, the surcharge revenue collected by January 15<sup>th</sup>, 2017 and remitted to the PSAP in February 2017, should be reported as a receivable from PEMA by the 9-1-1 Program.

*Figure 1 – 2016 Quarterly Payment Schedule*

CALENDAR QUARTER		DUE DATE FOR PROVIDERS TO REMIT SURCHARGE REVENUE	DATE PAYMENT RECEIVED BY COUNTY (ESTIMATED)
1 <sup>st</sup>	January – March	April 15, 2016	May 6, 2016
2 <sup>nd</sup>	April – June	July 15, 2016	August 5, 2016
3 <sup>rd</sup>	July – September	October 15, 2016	November 7, 2016
4 <sup>th</sup>	October - December	January 15, 2017	February 6, 2017

#### Combined Report Reporting

It has been clarified that the Combined Report, which was previously reported on an accrual basis, should be reported on modified accrual basis. Based upon how this revenue is provided to each PSAP, in most cases there should be minor differences between using the modified accrual versus the accrual method. The focus is consistent financial reporting by each PSAP from period to period, and consistency between PSAPs.

#### Fund Balance and Anti-windfall Provision

The total annual disbursement from the fund to any one 9-1-1 system may not exceed the actual annual costs to enhance, operate or maintain that 9-1-1 system in accordance with the statewide 9-1-1 system plan. 35 Pa. C.S. § 5306.1 (e) (6).

**The anti-windfall provision will take effect in 2018.** To prepare for the anti-windfall provision, counties have 2017 to implement PEMA’s Accounting and Financial Reporting Requirements to ensure standardized accounting practices are in place for 9-1-1 funding across the Commonwealth.

In most scenarios for PSAP entity-wide reporting, remaining Formula Funding fund balance as of December 31<sup>st</sup> will be reported as restricted fund balance of the 9-1-1 Program, remaining Interconnectivity Funding as of December 31<sup>st</sup> will be reported as unearned revenue of the 9-1-1 Program, which may differ slightly from the 9-1-1 standalone financial statement for PEMA, as both items will be reported as fund balance.

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#### Expenditure Reporting

Expenditures will be reported following the standard chart of accounts / eligibility factors list issued by PEMA each year, consistent with the Combined Report.

During the transition period, PEMA recognizes that some counties may not have the ability to implement this chart of accounts tracking immediately. However, PSAPs should, at a minimum, ensure there is a reconciliation between expenditures recorded within their 9-1-1 Fund accounting fund, and the amounts reported in the Cost Types & Cost Categories on the Combined Report submitted to PEMA.

#### Ineligible Expenditures

If ineligible expenditures are identified within the 9-1-1 Program, the 9-1-1 Program should be reimbursed from others funds of the PSAP as soon as possible.

#### Transactions with/Balances between the 9-1-1 Program and other funds of the PSAP

The PSAP should ensure that balances shown as due to/from other funds of the PSAP relate to ongoing transactions between the funds of the PSAP, and are reconciled and repaid on a regular basis (monthly or quarterly). Balances owed to or from the 9-1-1 Program that are not expected to be repaid on such a basis should have these balances reported separately from the ongoing, normal balances reported in the due/to from accounts. In addition, the PSAP should have clear documentation to support the reason for the long term balance, and a plan for the repayment of such funds from or to the 9-1-1 Fund.

## 5. REPORTING

#### Required Reporting Format, including Footnotes and Supplementary Information

An example financial statement, including general footnotes disclosures and supplementary information required by PEMA is provided in the example financial statement in Section 4 of this manual. In addition to the example footnotes shown there, the PSAP should consider the necessity of additional footnote disclosure for any significant balances/transactions not already captured through the example footnotes. The supplementary information is required by PEMA to ensure proper reporting of carryover of Formula and Interconnectivity Funding each year.

# **AUDIT GUIDELINES**

# PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY

## 9-1-1 PROGRAM

### AUDIT GUIDELINES

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#### 1. INTRODUCTION

Compliance with the financial management standards and guidance will be verified through the biennial audit process. PEMA will work with funding recipients to address any areas of noncompliance discovered during the audit process. Recipients of 9-1-1 funding that continually are unable to meet the standards set by PEMA may face increased oversight. Increased oversight may include, but is not limited to, any of the following:

- Requirements that payments from PEMA be reimbursements
- Documentation supporting project costs are submitted regularly
- Ineligibility to receive consideration for statewide interconnectivity funding

PSAPs are expected to maintain a state of audit readiness; records related to the financial and programmatic aspects of 9-1-1 operations should be readily accessible for audit.

#### 2. GENERAL AUDIT REQUIREMENTS

##### Audit Period and Audit Timing

The audit process will begin in early 2017, and complete by March 31, 2018. These audits will be for the years ended December 31, 2015 and 2016.

##### Auditor's Reports to be Issued

Audit will be performed in accordance with generally accepted auditing standards, and *Government Auditing Standards*. The auditor should provide an opinion on the financial statements prepared on a regulatory basis of accounting, as well as 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*, and ensure reference to the supplementary information required by PEMA.

#### 3. COMPLIANCE AUDIT PROCEDURES

##### General

The auditor should consider the below specific compliance and financial reporting areas that PEMA has placed more specific emphasis upon. Materiality of each area, as in any audit, should be a consideration of the extent of procedures necessary.

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### AUDIT GUIDELINES

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#### Transition Revenue

Through Information Bulletin 2015-1 issued on August 27, 2015, PEMA notified the service providers that surcharge revenue collected at the new rate of \$1.65 for August and September 2015 was to be remitted to the State Treasurer by October 15<sup>th</sup>, 2015. However, there may have been some instances of a provider still remitting a payment to a PSAP in error. Any wireline or VoIP funds remitted directly to a PSAP for any service period after August 1, 2015 were to be deposited by the PSAP, Ken Leaver at PEMA was to be notified, and then a subsequent payment made to the State Treasurer. The audit will ensure any surcharge revenue as described above was appropriately remitted to the State Treasurer, and does not remain on deposit with the PSAP.

#### Yearly Carryover

Remaining balances of Formula and Interconnectivity Funding reported at the end of each year in the Combined Report should be reconciled to actual revenues and expenditures charged to the 9-1-1 Program in the PSAPs accounting records. The auditor should ensure the accurate calculation of the carryover balance of both types of funding.

#### Combined Report

The audit process will verify the Combined Report for the audit period was completed in accordance with the modified accrual basis of accounting.

If the PSAP keeps their internal records on the cash basis of accounting, the combined report is still required to be reported on the modified accrual basis of accounting. The audit should ensure the amounts reported within the Combined Report are able to be reconciled to the general ledger records of the PSAP.

#### Capital Assets

The auditor should ensure Act 12 funding is not used to fund depreciation of capital assets purchased using prior funding, or funded by other funds of the PSAP. The auditor should also ensure a system for tracking of capital assets purchased using Act 12 funding, as required by PEMA through guidance released in 2016.

#### Eligible Expenditures

In review of expenditures charged to the 9-1-1 Program, the auditor must consider the Eligibility Factors list as a reference point as to “eligible costs”.

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The following are examples are ineligible costs that might be encountered:

- Charging of personnel not dedicated to 9-1-1 services
- 9-1-1 paying full costs for shared facilities/equipment (Fiber)
- Mobile computers (such as in police cars, ambulances, etc.)
- Portable radios
- Statewide interconnectivity funding not used for the specifically awarded project.

#### Payroll and Benefit Expenditures

The auditor should ensure employees charged to the 9-1-1 Program work in the department. In addition, for any employees only partially allocated to the 9-1-1 Program through a cost allocation or indirect costs plan, the auditor should ensure the reasonableness of the portion charged to the 9-1-1 Program

#### Cost Allocation and Indirect Costs

To the extent any expenditure item is allocated to the 9-1-1 Program through a cost allocation or indirect cost plan, or there are shared resources used between funds of the PSAP, the auditor should consider the reasonableness of that allocation of costs.

#### Procurement, Suspension, and Debarment

The auditor should perform procedures to ensure the PSAP performed appropriate procurement procedures in accordance with state law. In addition, the auditor should ensure the PSAPs review of the suspension and debarment website as part of that process.

## **4. RESULTS OF AUDIT AND FINALIZATION**

Near the conclusion of each audit, a draft financial statement will be provided to the PSAP for their review and approval. An exit conference between the auditors and the PSAP will be held summarizing the results of the audit, will review any potential findings of noncompliance and any feedback on those results from the PSAP, and any comments on improvements to internal control or documentation that did not rise to the level of a finding will be communicated. After the exit conference, a final financial statement will be issued, and final PDF copies remitted to the management of the 9-1-1 Fund of the PSAP, as well as PEMA.

**EXAMPLE FINANCIAL  
STATEMENTS**

# **Example County, Pennsylvania**

## 9-1-1 Program

### Program Financial Statements and Supplementary Information

Years Ended December 31, 2016 and 2015  
with Independent Auditor's Reports

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

YEARS ENDED DECEMBER 31, 2016 AND 2015

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## Independent Auditor's Report

Board of Commissioners  
Example County, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements (financial statements) of the 9-1-1 Program of Example County, Pennsylvania (County) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the 9-1-1 Program's financial statements 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 the financial reporting provisions of the Commonwealth of Pennsylvania Emergency Management Agency (PEMA). Management is also responsible for 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 audits 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 financial position of the 9-1-1 Program, as of December 31, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with the financial reporting provisions of PEMA as described in Note XX.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the funds of the 9-1-1 Program and do not purport to, and do not, present fairly the financial position of the County as of December 31, 2016 and 2015, or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Basis of Accounting***

We draw attention to Note XX of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of PEMA, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of PEMA. Our opinion is not modified with respect to this matter.

***Other Matters***

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 9-1-1 Program's basic financial statements. The schedules required by PEMA are presented for purposes of additional analysis and are also not a required part of the basic financial statements.

The schedules required by the PEMA are the responsibility of management and were derived from and relate 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 schedules required by the PEMA are 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 XXXXX, 2017, on our consideration of the 9-1-1 Program's internal control over financial reporting and 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 9-1-1 Program's internal control over financial reporting and compliance.

***Restriction on Use***

This report is intended solely for the information and use of management of the 9-1-1 Program, the Board of Commissioners, others within the County, and PEMA and is not intended to be and should not be used by anyone other than these specified parties.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash	\$ 756,314	\$ 1,092,364
Accounts receivable - PEMA	50,000	50,000
Accounts receivable - other	5,000	5,000
Prepays	3,000	3,000
Due from Example County	7,000	9,000
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 821,314</b>	<b>\$ 1,159,364</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 36,000	\$ 38,000
Accrued payroll and related benefits	12,000	12,000
Due to Example County	7,000	7,000
Due to PEMA	-	-
Unearned revenue	4,000	4,000
	<hr/>	<hr/>
Total Liabilities	59,000	61,000
	<hr/>	<hr/>
<b>Fund Balance:</b>		
Capital Reserves	\$ 600,000	\$ -
Operating Reserve	162,314	1,098,364
	<hr/>	<hr/>
Total Fund Balance	762,314	1,098,364
	<hr/>	<hr/>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 821,314</b>	<b>\$ 1,159,364</b>
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to program financial statements.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### PROGRAM STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Revenues:</b>		
PEMA - Formula Funding	\$ 2,300,000	\$ 1,178,814
PEMA - Interconnectivity Funding	500,000	-
PEMA - VoIP	-	260,148
Provider revenue - wireline, wireless, and VoIP	-	1,219,393
Interest income	450	279
Sale of capital assets	5,000	-
Total revenues	2,805,450	2,658,634
<b>Expenditures:</b>		
Personnel	2,035,000	1,978,387
Connectivity/infrastructure	494,000	134,770
Call processing equipment	1,000	688
Computer aided dispatch	785,000	762,029
Voice/data recorder	1,000	1,013
GIS mapping	-	-
Radio systems	-	-
Mass notification systems	-	-
Facilities	14,000	14,180
Office operations	1,500	1,268
Public education	-	-
Contracted services	-	-
Total expenditures	3,331,500	2,892,335
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(526,050)</b>	<b>(233,701)</b>
<b>Other Activity</b>		
Other revenues (define):		
Transfers in from Example County General Fund	200,000	408,186
XXXXX	-	-
Total other revenues	200,000	408,186
Other expenditures (define):		
Transfers out to Example County General Fund	(10,000)	-
XXXXX	-	(416,662)
XXXXX	-	-
Total other expenditures	(10,000)	(416,662)
<b>Net Change in Fund Balance</b>	<b>(336,050)</b>	<b>(242,177)</b>
<b>Fund Balance:</b>		
Beginning of year	1,098,364	1,340,541
End of year	\$ 762,314	\$ 1,098,364

See accompanying notes to program financial statements.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### 1. THE 9-1-1 PROGRAM

The County of XXXX, Pennsylvania (County) 9-1-1 Program consists of XXX accounting funds of the County. The accompanying program financial statements include only the financial activity of the 9-1-1 Program. The program financial statements are not intended to present the results of operations of the County as a whole.

Pennsylvania Act 12 of 2015 (Act 12) amended Chapter 53 of Title 35 of the Pennsylvania Consolidated Statutes by authorizing a uniform 911 surcharge of \$1.65 for each 911 communications service or prepaid wireless device for which the subscriber or consumer is billed by a provider or seller effective August 1, 2015. All providers, as defined in section §5302 of Title 35, are required to assess and collect the surcharge monthly and forward the collection quarterly to the State Treasurer. Assessment and collection of the \$1.65 uniform surcharge began with the first monthly billing cycle after the uniform surcharge's August 1, 2015 effective date.

The 9-1-1 Program of the County is funded by grants from the Pennsylvania Emergency Management Agency (PEMA), who receives and administers the 9-1-1 Program as discussed above, which includes allocation of funding to the Public Safety Answering Points (PSAPs) in the Commonwealth of Pennsylvania.

Under the interim formula required by law (until a permanent formula is developed), each PSAP will receive a share equivalent of 106% of their wireline and VoIP average receipts over the prior five years. The remaining amount of funds will be disbursed based on a ratio of each PSAPs average reported expenses to average reported expenses statewide over the past five years. This funding is distributed on a quarterly basis to the PSAPs, and in the aggregate, will represent 83% of revenues collected by PEMA.

In addition, up to 15% of funds collected will be allocated based upon competitive grants to establish, enhance, operate, and maintain statewide interconnectivity of 9-1-1 systems. The remaining 2% will provide PEMA funding for administration and support for the 9-1-1 Program.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The program financial statements of the 9-1-1 Program are reported using a regulatory basis of accounting as prescribed by PEMA. Under this regulatory basis, the financial statement presentation uses the current financial resources measurement as under the modified accrual basis of accounting, however all PEMA funding under Act 12 that remains at year end is reported as fund balance, and not as unearned revenue. In addition, the presentation of revenues and expenditures of the 9-1-1 Program, while similar to the presentation under generally accepted accounting principles, changes the format of presentation to conform more closely with PEMA's Combined Report model.

As under modified accrual, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

### Cash and Cash Equivalents

Cash and cash equivalents include funds on deposit with local banks.

### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

### Capital Assets

Capital assets purchases are recorded as expenditures at the time of purchase rather than capitalized and depreciated.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### Debt, Capital Leases, and Long-term Liabilities

Debt, capital leases, and other long-term liabilities are recognized as expenditures when due and payable, rather than reported on the balance sheet as liabilities.

#### Payroll Related Liabilities

Payments for compensated absences, other post-employment benefits, and pension are recognized as an expenditure when paid, rather than when incurred. Payment of these benefits for the 9-1-1 Program is consistent with the policies of the County.

#### Fund Balance

Fund balance represents grant funding received from PEMA that is unspent as of year-end. Capital Reserves represents amounts set aside by the 9-1-1 Program for future capital purchases and projects. Operating Reserves represents amounts remaining at year end to fund future operating and capital costs to be incurred by the 9-1-1 Program.

#### Interfund Balances and Transactions

Activities between funds of the County that are representative of temporary lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Any residual balances outstanding between the 9-1-1 Program and other activities/funds of the County as of the end of the year are reported in the financial statements as “Due to/from the County of Example.”

Certain expenditures of the 9-1-1 Program are funded by other funds of the County. These amounts are presented as “Transfer In – XXXX” on the program statements of revenues, expenditures, and changes in fund balance.

#### Indirect Costs/Cost Allocation

The 9-1-1 Program allocates costs based upon XXXXX. All expenses not charged directly to the 9-1-1 Program are allocated per the County’s cost allocation plan. The County uses full-time equivalents, square footage, and other sources as a basis in developing the Cost Allocation Plan.

The 9-1-1 Program is charged certain indirect costs for XXXXX.

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# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### Risk Management

The 9-1-1 Program is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. There have been no significant changes in insurance coverage.

#### Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **3. CASH AND INVESTMENTS**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. Statutes do not prescribe regulations related to demand deposits; however, they do allow pooling of governmental funds for investment purposes.

Cash and investments of the 9-1-1 Program are held in the name of the County. As such, the County, and therefore the 9-1-1 Program, is subject to custodial credit risk, which is the risk that in the event of a bank failure, the 9-1-1 Program's deposits may not be returned to it. The 9-1-1 Program does not have its own deposit policy for custodial credit risk, but instead follows the policy of the County. Deposits are collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Investments are stated at fair value based on current market prices.

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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#### **4. ACCOUNTS RECEIVABLE - PEMA**

As of December 31, 2016 and 2015, the 9-1-1 Program was owed \$XX,XXX and \$XX,XXX, respectively, from PEMA related to their 4<sup>th</sup> quarter allocation, received in February of the following year.

#### **5. INTERFUND BALANCES AND TRANSACTIONS**

Certain expenditures of the 9-1-1 Program are funded by other funds of the County. The funding received by the 9-1-1 Program from these other funds of the County are presented as "Transfer In – General Fund" on the program statements of revenues, expenditures, and changes in fund balance.

In addition, during the year ended December 31, 2012, the General Fund of the County funded the \$500,000 purchase of Example Equipment on behalf of the 9-1-1 Program. The 9-1-1 Program agreed to repay the General Fund \$100,000 a year for the next five years. As of December 31, 2016 and 2015, the 9-1-1 fund owed the General Fund \$100,000 and \$200,000, respectively. This amount is reported as a "Due to General Fund" on the 9-1-1 Program balance sheet in both 2016 and 2015.

#### **6. COMMITMENTS AND CONTINGENCIES**

The 9-1-1 Program receives significant financial assistance from governmental agencies in the form of contracts, grants, and other entitlements, and specifically from PEMA. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in the contract agreements and are subject to audit by grantor agencies. Any disallowed costs resulting from such audits could become a liability of the 9-1-1 Program.

## **Supplementary Information**

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### RESERVES AND DEFERRALS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Formula Funding	Interconnectivty Funding	Total Balance
<b>Period Ended December 31, 2015</b> <b>(August 1, 2015 through December 31, 2015)</b>			
Beginning balance as of July 31, 2015	\$ 1,025,742	\$ -	\$ 1,025,742
PEMA funding under Act 12	1,178,814	-	1,178,814
Interest income	81	-	81
Other income (explain)	-	-	-
Total revenues and beginning balance	<u>2,204,637</u>	<u>-</u>	<u>2,204,637</u>
Less: Eligible operating expenditures funded by PEMA	1,006,273	-	1,006,273
Less: Other expenditures (explain)	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total expenditures	<u>1,106,273</u>	<u>-</u>	<u>1,106,273</u>
Ending balance at December 31, 2015	<u>\$ 1,098,364</u>	<u>\$ -</u>	<u>\$ 1,098,364</u>
<b>Year Ended December 31, 2016</b>			
Beginning balance as of January 1, 2016	\$ 1,098,364	\$ -	\$ 1,098,364
PEMA funding under Act 12	2,300,000	500,000	2,800,000
Interest income	300	150	450
Other income (explain)	<u>205,000</u>	<u>-</u>	<u>205,000</u>
Total revenues and beginning balance	<u>3,603,664</u>	<u>500,150</u>	<u>4,103,814</u>
Less: Eligible operating expenditures funded by PEMA	3,331,500	-	3,331,500
Less: Other expenditures (explain)	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total expenditures	<u>3,341,500</u>	<u>-</u>	<u>3,341,500</u>
Ending balance at December 31, 2016	<u>\$ 262,164</u>	<u>\$ 500,150</u>	<u>\$ 762,314</u>

# EXAMPLE COUNTY, PENNSYLVANIA

## 9-1-1 PROGRAM

### RESERVES AND DEFERRALS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

<b>Capital Reserves</b>	<u>January 1, 2015</u>	<u>2015 Activity</u>	<u>December 31, 2015</u>
CAD	\$ -	\$ -	\$ -
CPE	-	-	-
Voice/Data Recorder	-	-	-
Facilities - UPS	-	-	-
Facilities - Emergency Power Generator	-	-	-
Office Operations - Workstation Furniture	-	-	-
<b>Total Capital Reserves</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

  

<b>Capital Reserves</b>	<u>January 1, 2016</u>	<u>2016 Activity</u>	<u>December 31, 2016</u>
CAD	\$ -	\$ 500,000	\$ 500,000
CPE	-	-	-
Voice/Data Recorder	-	100,000	100,000
Facilities - UPS	-	-	-
Facilities - Emergency Power Generator	-	-	-
Office Operations - Workstation Furniture	-	-	-
<b>Total Capital Reserves</b>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>

**Example County, Pennsylvania**

9-1-1 Program

Independent Auditor's Report in Accordance  
with *Government Auditing Standards*

Years Ended December 31, 2016 and 2015

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Program Financial Statements Performed in Accordance  
with Government Auditing Standards

Board of Commissioners  
Example County, Pennsylvania

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 program financial statements (financial statements) of the 9-1-1 Program (9-1-1 Program) of Example County, Pennsylvania, (County), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated XXXX, 2017. These financial statements are presented on the regulatory basis of accounting, in accordance with the financial reporting provisions of the Commonwealth of Pennsylvania Emergency Management Agency.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 9-1-1 Program'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 9-1-1 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the 9-1-1 Program's internal control.

A deficiency in internal control exists when the design or operation 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 9-1-1 Program's financial statements are free from 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

Board of Commissioners  
Example County, Pennsylvania  
Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters

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*.

**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.

Pittsburgh, Pennsylvania  
XXXXX, 2017