



9-1-1 PROGRAM

2018 Accounting and Financial Reporting Manual

*For the Reporting Period of
January 1, 2017 – December 31, 2017*

Accounting and Financial Reporting Manual

FOR THE 2017 REPORTING PERIOD

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Accounting and Financial Reporting Guidelines

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ACCOUNTING AND FINANCIAL REPORTING GUIDELINES

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.

2. FUND TYPE AND BASIS OF ACCOUNTING

PEMA has not required that a specific type of accounting fund be used to account for 9-1-1 operations. However, PSAPs must ensure and be able to demonstrate that funding received under Act 12 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. In addition, PSAPs should be able to track other reasonable expenditures (both eligible and ineligible) of the 9-1-1 Program outside of those funded by Act 12.

It is anticipated most 9-1-1 funds are reported as special revenue funds for entity-wide financial reporting. As such, it is also anticipated that most 9-1-1 Funds use modified accrual accounting for entity/wide financial reporting purposes, as the main revenue stream 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

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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, indirect cost plan, or some other method involving shared resources must be clearly supported, and allocations of costs 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 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).

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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. Additional emphasis is placed on ensuring this allocation between calendar years.

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.

Debt Service Costs

Debt service costs charged to either (or both) Act 12 funding, or to the 9-1-1 Program in Other Activity, should be based upon a reasonable allocation of the project funded by the debt. Clear documentation of the original project costs/purchases should be maintained to support the allocation of debt service to the 9-1-1 Program for as long as the debt service is being charged to the 9-1-1 Program. The documentation should also clearly define the portions of the debt service that are Act 12 eligible, that are 9-1-1 related, and any portion of debt service that is not related to the 9-1-1 Program.

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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

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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Formula Funding Revenue

The surcharge revenue collected by January 15th, 2018 and remitted to the PSAP in February 2018, should be reported as a receivable from PEMA by the 9-1-1 Program as of December 31, 2017, and revenue for the 2017 year.

Excess Formula Funding revenue remaining at year/end is treated as fund balance of the 9-1-1 Program.

Interconnectivity Revenue Reporting

Excess Interconnectivity Funding revenues over eligible expenditures should be treated as unearned revenue. To the extent eligible expenditures exceed Interconnectivity Funding, and those additional expenditures will be funded by Interconnectivity Funding, a grant receivable and revenue should be recorded.

As a result of this treatment, **Interconnectivity Revenue reported on the Combined Report (and therefore the Financial Statement as well) should always equal the eligible Interconnectivity expenditures incurred. Therefore, there should not be any fund balance or carryover related to the Interconnectivity project/activities.**

Other Activity Revenue

Revenues reported within the Other Activity section should only be those revenues derived from 9-1-1 related activities. Examples would be dispatching revenue, tower leasing, or if another type of state or federal grant was received within the 9-1-1 Program. Contributions from the General Fund or other funds of the PSAP (either through a direct transfer of cash to the 9-1-1 Program, or through the other fund directly paying for excess costs of the 9-1-1 Program) should NOT be reported as Other Activity Revenue.

In most cases, revenues and expenditures in the Other Activity section should **not** net to zero, because this section would not report General Fund transfers as revenue.

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

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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 31st will be reported as restricted fund balance of the 9-1-1 Program, remaining Interconnectivity Funding as of December 31st will be reported as unearned revenue of the 9-1-1 Program. This should be consistent with the reporting within the Combined Report tool.

Reported fund balance at year-end cannot be less than \$0.

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.

PSAPs should, at a minimum, ensure there is a reconciliation between expenditures recorded within their 9-1-1 Fund accounting fund(s), and the amounts reported in the Cost Types & Cost Categories on the Combined Report submitted to PEMA. This includes supporting not only the amounts reported as expenditures within Schedule A, but also the expenditures reported within the Other Activity section.

Ineligible Expenditures

If ineligible expenditures are identified within the 9-1-1 Program, the 9-1-1 Program should be reimbursed from other funds of the PSAP as soon as possible. These ineligible expenditures, if made for a reasonable 9-1-1 Program related purpose, should be reported as expenditures in the Other Activity section of the Combined Report and Financial Statement.

Other Activity - Expenditures

The “Other Activity – Expenditures” section should be used to report excess expenditures of the 9-1-1 Program beyond those funded by Act 12. The PSAP should make a reasonable effort to report these costs in order to present the full costs of the 9-1-1 Program, between the Act 12 section and the Other Activity section of the Combined Report. **These Other Activity expenditures should include all reasonable costs of the 9-1-1 Program that are not funded by Act 12.** This includes expenditures that are paid for by other funds/programs of the PSAP, as well as any expenditures that are a reasonable cost of the 9-1-1 Program, but are ineligible to be funded by Act 12.

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As noted above in the “Other Activity – Revenues” section, in most cases, revenues and expenditures in the Other Activity section should **not** net to zero, because this section would not report General Fund transfers as revenues⁰

Debt Service Payments

Debt service payments made to fund 9-1-1 Program projects should be reported either in the Schedule A or in the Other Activity section of the Combined Report, depending on what funding paid for the debt service payments.

Supporting documentation should be maintained ongoing for any allocation of debt service to the 9-1-1 Program. This would potentially include the original bond/note documents, documentation to support the original purchase costs being eligible for either Act 12 funding, or eligible costs of the 9-1-1 Program as a whole (that would be reported in Other Activity). It would also include support for any partial allocation – either between the 9-1-1 Program and other funds of the PSAP, as well as any allocation between Act 12 eligible debt service, and debt service that will be reported as Other Activity.

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 5 of this manual. This general format should be followed in preparing the financial statements. 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.

In addition to the notes to the financial statements, the supplementary information is required by PEMA to ensure proper reporting of the carryover of Formula and Interconnectivity Funding, as well as deferred expenditures, each year.

AUDIT GUIDELINES

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AUDIT GUIDELINES

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 April 2018 after submission of the combined report, and review by internal PEMA staff. The audit will be completed by December 1st, 2018. These audits will be for the year ended December 31, 2017. Determination of the 35 PSAPs to be audited for the year ended December 31, 2017 will be communicated to the PSAPs by April 1, 2018.

The audits of the remaining 34 PSAPs for December 31, 2017 and 2018 at the same time, will begin the established cycle of biennial audits ongoing.

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.

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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.

Cash Balance / Fund Balance

Procedures should be performed to ensure the cash on hand at year/gnd in the 9-1-1 bank account is adequate to support the amount reported as the Act 12 carryover at the end of each year. As the Combined Report is completed on the modified accrual basis of accounting, consideration for timing of the 4th quarter PEMA Act 12 payments, as well as prepaid contracts, should be included in this comparison.

In addition, procedures should be performed to ensure the 9-1-1 bank account is being reconciled and reviewed on a timely basis.

Revenues

Act 12 Formula Funding revenues should be reconciled to confirmed amounts provided by PEMA. Interconnectivity Funding should be reviewed to ensure proper revenue is recognized based on any potential accounts receivable, or excess amounts received which should be deferred to future periods.

Reserves

Remaining balances of Formula Funding reported at the end of each year in the Combined Report, as well as any deferred Interconnectivity Funding (reported as supplementary information) should be supported by balances within the 9-1-1 Program in the PSAPs accounting records.

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

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ensure the amounts reported within the Combined Report are supported by the general ledger and/or other supporting 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”. A sample of items reported within Schedule A of the Combined Report should be selected and reviewed.

The following are examples of 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
- Allocation of debt service to the 9-1-1 Program
- Statewide interconnectivity funding not used for the specifically awarded project

Deferral of Expenditures

In addition, contracts should be allocated by the PSAP over the service period. The audit procedures should include procedures to identify items that cross periods, and should be deferred and considered expended in future periods.

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.

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In addition, the auditor should ensure any pension, post-employment benefit, or compensated absence costs are charged to the 9-1-1 consistent with the policy of the PSAP as a whole, and that the allocation of the charge is reasonable.

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 in their testing.

Debt Service

The auditor should perform procedures to ensure any debt issued that will be charged to Act 12 funding is eligible for reimbursement, as the source costs were eligible.

Procurement

The auditor should perform procedures to ensure the PSAP performed appropriate procurement procedures in accordance with state law.

Other Activity

The auditor should perform procedures to ensure amounts reported as other activity expenditures are reasonable costs of providing 9-1-1 service. Revenues reported in other activity should be only those revenues derived directly from the 9-1-1 Program, and not from other funds/funding sources of the PSAP.

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. Potential findings of noncompliance and any feedback on those results from the PSAP will be reviewed, 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. In addition, any adjustments from the audit process will be communicated to PEMA by the auditors for adjustment in the combined report system.

**EXAMPLE FINANCIAL
STATEMENTS**

Example County, Pennsylvania

9-1-1 Program

Program Financial Statement and Supplementary Information

Years Ended December 31, 2018 and 2017
with Independent Auditor's Reports

EXAMPLE COUNTY, PENNSYLVANIA

9-1-1 PROGRAM

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

Board of Commissioners
Example County, Pennsylvania

Report on the Program Financial Statements

We have audited the accompanying program financial statements (financial statements) of the 9-1-1 Program of Example County, Pennsylvania (9-1-1 Program) for the years ended December 31, 2018 and 2017, and the related notes to the 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), as described in Note 2. 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 results of operations for the years ended December 31, 2018 and 2017 in accordance with the financial reporting provisions of PEMA as described in Note 2.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the activity related to the 9-1-1 Program, and do not purport to, and do not, present fairly the financial position of Example County as of December 31, 2018

and 2017, 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 2 of the financial statements, which describes the basis of accounting. This financial statement is 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 9-1-1 Program's financial statements. The schedules required by PEMA are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules required by PEMA are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 PEMA are fairly stated in all material respects in relation to the 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, 2019, 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

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

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Revenues:		
PEMA - Formula Funding	\$ 1,021,777	\$ 972,011
PEMA - Interconnectivity Funding	200,000	300,000
Interest income	107	265
Sale of capital assets	-	-
Total revenues	1,221,884	1,272,276
Expenditures:		
Personnel	677,343	617,643
Connectivity/infrastructure	120,644	54,162
Call processing equipment	28,326	259
Computer aided dispatch	78,414	-
Voice/data recorder	10,325	-
GIS mapping	15,000	2,500
Radio systems	32,261	49,530
Mass notification systems	11,285	-
Facilities	22,052	17,528
Office operations	38,419	5,048
Public education	-	-
Contracted services	-	-
Total expenditures	1,034,069	746,670
Excess (Deficiency) of Revenues Over Expenditures	187,815	525,606
Fund Balance:		
Beginning of year	1,239,138	713,532
End of year	\$ 1,426,953	\$ 1,239,138
Other Activity:		
Other revenues (define):		
Dispatching services revenue	\$ 69,197	\$ 65,478
Total other revenues	69,197	65,478
Other expenditures (define):		
Personnel	98,156	67,135
Facilities	18,956	18,956
Office operations	5,897	9,834
Contracted services	5,000	10,000
Total other expenditures	128,009	105,925
Net Other Activity	\$ (58,812)	\$ (40,447)

See accompanying notes to program financial statements.

EXAMPLE COUNTY, PENNSYLVANIA

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. THE 9-1-1 PROGRAM

The 9-1-1 Program is primarily funded by grants from the Pennsylvania Emergency Management Agency (PEMA), who administers the 9-1-1 Program for the Commonwealth of Pennsylvania (Commonwealth) as discussed in Note 2, which includes allocation of funding to the Public Safety Answering Points (PSAPs) in the Commonwealth.

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

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. This format includes presentation of the results of operations, but does not require the presentation of a balance sheet. In addition, the presentation of the flow of revenues and expenditures of the 9-1-1 Program is modified to conform more closely with PEMA's Combined Report model, which includes separate components for Act 12 related revenues and expenditures, and other activities of the 9-1-1 Program that are funded by sources other than Act 12 revenues.

Program Funding and Revenue Recognition

Pennsylvania Act 12 of 2015 (Act 12) amended Chapter 53 of Title 35 (Chapter 53) 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 (with the exception of prepaid wireless service) are required to assess and collect the surcharge monthly and forward the collection quarterly to the State Treasurer. The uniform surcharge on prepaid wireless service is charged and collected by retailers and remitted to the Commonwealth with the same due dates as the retailer's sales/use tax returns.

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NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

These receipts are distributed on a quarterly basis to the PSAPs by PEMA, based on a formula allocation (Formula Funding). In the aggregate, this Formula Funding will represent 83% of revenues collected by PEMA. In addition, up to 15% of funds collected will be allocated to establish, enhance, operate, and maintain statewide interconnectivity of 9-1-1 systems. A portion of these funds may be allocated through an annual grant process to PSAPs (Interconnectivity Grants). The remaining 2% provides PEMA funding for administration and support for the 9-1-1 Program.

In addition, up to 15% of funds collected will be allocated to establish, enhance, operate, and maintain statewide interconnectivity of 9-1-1 systems. A portion of these funds may be allocated through an annual grant process to PSAPs

PEMA Formula Funding is recognized as revenue by the 9-1-1 Program in the period the fees are charged to consumers. PEMA Interconnectivity Grant revenue is recognized in the period for which the matching eligible expenditure that will be reimbursed is incurred.

Other Activity

Revenues of the 9-1-1 Program other than those described above are reported within the Other Activity section of the Program Statements of Revenues, Expenditures, and Changes in Fund Balance. These 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.

In addition, expenditures of the 9-1-1 Program not charged against the Act 12 funding are reported in the Other Activity section of the Program Statements of Revenues, Expenditures, and Changes in Fund Balance.

Expenditures

Expenditures generally are recorded when a liability is incurred, as under modified accrual accounting.

Prepaid Items

The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

EXAMPLE COUNTY, PENNSYLVANIA

9-1-1 PROGRAM

NOTES TO PROGRAM FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Capital Assets

Capital asset purchases are recorded as expenditures in the appropriate line item of the financial statements at the time of purchase, rather than capitalized and depreciated.

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 all Formula Funding from PEMA that is unspent as of year-end. Any capital reserves represent amounts set aside by the 9-1-1 Program for future capital purchases and projects. Operating reserves represent amounts remaining at year-end to fund future operating costs to be incurred by the 9-1-1 Program.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. COMMITMENTS AND CONTINGENCIES

The 9-1-1 Program receives significant financial assistance from governmental agencies in the form of contracts, grants, and other entitlement (the largest portion being received 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

ROLLFORWARD OF ACT 12 FUNDING

YEARS ENDED DECEMBER 31, 2018 AND 2017

	Formula Funding	Interconnectivity Funding	Total Balance
Year Ended December 31, 2017			
Beginning balance as of January 1, 2017	\$ 713,532	\$ -	\$ 713,532
PEMA funding under Act 12	972,011	300,000	1,272,011
Interest income	265	-	265
Other income (explain)	-	-	-
Total revenues and beginning balance	<u>1,685,808</u>	<u>300,000</u>	<u>1,985,808</u>
Less: Eligible expenditures funded by PEMA	446,670	300,000	746,670
Less: Other expenditures (explain)	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>446,670</u>	<u>300,000</u>	<u>746,670</u>
Ending balance at December 31, 2017	<u>\$ 1,239,138</u>	<u>\$ -</u>	<u>\$ 1,239,138</u>
Year Ended December 31, 2018			
Beginning balance as of January 1, 2018	\$ 1,239,138	\$ -	\$ 1,239,138
PEMA funding under Act 12	1,021,777	200,000	1,221,777
Interest income	107	-	107
Other income (explain)	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and beginning balance	<u>2,261,022</u>	<u>200,000</u>	<u>2,461,022</u>
Less: Eligible expenditures funded by PEMA	834,069	\$ 200,000	1,034,069
Less: Other expenditures (explain)	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>834,069</u>	<u>200,000</u>	<u>1,034,069</u>
Ending balance at December 31, 2018	<u>\$ 1,426,953</u>	<u>\$ -</u>	<u>\$ 1,426,953</u>

EXAMPLE COUNTY, PENNSYLVANIA

9-1-1 PROGRAM

SCHEDULE OF RESERVES AND DEFERRALS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>January 1, 2017</u>	<u>2017 Activity</u>	<u>December 31, 2017</u>
Capital Reserves			
CAD	\$ 100,000	\$ -	\$ 100,000
CPE	-	-	-
Voice/data recorder	-	-	-
Facilities - UPS	-	-	-
Facilities - emergency power generator	-	-	-
Office operations - workstation furniture	-	-	-
Total Capital Reserves	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Operating Reserves	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>
Total Reserves	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>
Total Deferred Expenditures for 2017	<u>\$ 42,123</u>	<u>\$ 65,655</u>	<u>\$ 107,778</u>
	<u>January 1, 2018</u>	<u>2018 Activity</u>	<u>December 31, 2018</u>
Capital Reserves			
CAD	\$ 100,000	\$ -	\$ 100,000
CPE	-	300,000	300,000
Voice/data recorder	-	-	-
Facilities - UPS	-	-	-
Facilities - emergency power generator	-	-	-
Office operations - workstation furniture	-	-	-
Total Capital Reserves	<u>\$ 100,000</u>	<u>\$ 300,000</u>	<u>\$ 400,000</u>
Operating Reserves	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>
Total Reserves	<u>\$ 600,000</u>	<u>\$ 300,000</u>	<u>\$ 900,000</u>
Total Deferred Expenditures for 2018	<u>\$ 107,778</u>	<u>\$ (62,325)</u>	<u>\$ 45,453</u>

Example County, Pennsylvania

9-1-1 Program

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

Years Ended December 31, 2018 and 2017

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), for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, and have issued our report thereon dated July xx, 2019. 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
July xx, 2019