TENNESSEE COMPTROLLER OF THE TREASURY

ACCOUNTING AND FINANCIAL REPORTING MANUAL

FOR TENNESSEE EMERGENCY COMMUNICATIONS DISTRICTS

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Quick Reference Links

Emergency Communication District (ECD) Audit Reports – (Electronic Copies)
CARS – Comptroller's Contract and Report System
Audit Manual – Comptroller's Audit Manual
ECD Example Financial Statements – Illustrated Typical Financial Statements
E911 Chart of Accounts – Uniform Chart of Accounts for ECD
911 Revenue Standards – ECD Required, Permissible, Prohibited Revenue Uses
Tennessee Code Annotated - §§ 7-86-101 through 7-86-403 related to ECDs
(Free public access provided by LexisNexis)

INTRODUCTION

In 1984, the Tennessee General Assembly authorized the creation of emergency communications districts by passing the Emergency Communications District Law, currently codified in Tennessee Code Annotated (TCA) Sections 7-86-101 through 7-86-403. 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. The creation of a new district within the boundaries of an existing district requires the prior approval of the Tennessee Emergency Communications Board (TCA Section 7-86-310). This board was established by TCA Section 7-86-302 "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 this state."

TCA Section 7-86-304 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 a district's annual audit must disclose whether the district failed 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 May 1, 2022.** Audit requirements are included in Section I of this manual and accounting and financial reporting requirements are included in Section II of this manual.

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 references to web links, which provide appropriate reporting and legal requirements for the districts and auditors.

SECTION I
AUDIT REQUIREMENTS

STATUTORY AUTHORITY

Tennessee Code Annotated Section 7-86-113 places the audit responsibility for emergency communications districts under the Comptroller of the Treasury. This statute requires each emergency communications district's board of directors to cause an annual audit of the books and records of their district. The Comptroller of the Treasury is responsible for determining that such audit is prepared in accordance with generally accepted governmental auditing standards. 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 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. The Comptroller of the Treasury is authorized to modify the requirements of the annual audit if in the Comptroller's judgment the district's activities are not sufficient to justify the expenses of a complete audit. Electronic copies of the district's audit reports are available on the Comptroller's website at: (**ECD Audit Reports**) https://comptroller.tn.gov/advanced-search.html.

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. TCA Section 12-3-1209 requires districts to award audit contracts on the basis of recognized competence and integrity rather than through competitive bidding.

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 Contract and Report System (**CARS**), which is located on the Comptroller's website at https://apps.cot.tn.gov/CARS/ .

The CARS contract process has three main steps. The CPA or the district initiates and signs the contract. CARS notifies the other party that the contract is awaiting their approval and action. After both parties sign the contract, CARS notifies the Comptroller's office that a contract is awaiting the office's response. After the Comptroller's office reviews and signs the contract, CARS notifies the parties and creates a ".pdf" file of the executed contract which the parties may access in the "Manage Contracts" section of the system.

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* (Uniform Guidance).

The Comptroller's Audit Manual is located on the Comptroller's website at: (**Audit Manual**) https://comptroller.tn.gov/office-functions/la/resources/manuals.html

TENNESSEE EMERGENCY COMMUNICATIONS BOARD

TCA Section 7-86-304 requires the Comptroller of the Treasury to file a copy of the audited financial statements of each emergency communications district with the Tennessee Emergency Communications Board (Board). 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. This section 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 a deficit total net position; or
- is in default on any indebtedness.

For purposes of determining whether an emergency communications district is financially distressed, the Board shall not consider the district's depreciation costs as an operating expense (TCA § 7-86-305).

Notwithstanding annual audits, the Board may deem a district is financially distressed if:

- it is the subject of a lien filed by the Internal Revenue Service;
- the Board determines that it appears 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

Emergency communications districts must create and maintain records that provide reliable information upon which to base management decisions and allow for the preparation of financial statements in accordance with generally accepted accounting principles. Districts should maintain formal books of account, such as journals and general ledgers, 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

Capital assets are assets that are used in the operations of the district and have an initial useful life in excess of one year. Each district should establish a capitalization policy, which specifies the cost at which a given capital asset qualifies for capitalization (threshold). Typically, this amount correlates with the size of the district. A record must be maintained for each capital asset acquired, including information such as description, serial or other identification number, acquisition cost and date, source of funds used in the purchase, location, use, 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 capital assets records. The useful life of assets for recording depreciation expense typically should not exceed the following guidelines.

Asset Account	Years
Furniture and Fixtures	5-10
Office Equipment	3-10
Communication Equipment	3-10
Vehicles	5
Buildings and Improvements	40
Leasehold Improvements	(life of the lease or life of the asset, whichever is less)

The district may purchase certain sensitive items that do not meet the capitalization threshold, such as laptop computers, cameras, radios, etc. The district should have procedures in place to maintain control and security over these types of items.

FUND TYPE AND BASIS OF ACCOUNTING

The financial operations of 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

An emergency communications district should be reported as a single enterprise fund. 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 (GASB).

All audit reports must include the following information, as applicable, and conform to the following outline. An illustrated example of the typical financial statements and budgetary comparison schedules for an emergency communications district can be obtained at: (**E911 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 *Government Auditing Standards* (generally accepted government auditing standards).

B. Financial Statements and Notes

1. Statement of Net Position
The classified format that 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 TCA Section 7-86-120 which requires emergency communications districts to adopt and operate under an annual budget. The board of directors should follow all the requirements of this section in adopting the budget. However, for financial reporting purposes it is only necessary to present budgetary revenues and expenses compared with actual revenues and expenses. 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. Schedule of Changes in Long-Term Debt by Individual Issue.
   This schedule should include the following:
   - Original Amount of Issue
   - Interest Rate
   - Date of Issuance
   - Final Maturity Date
   - Beginning Outstanding Amounts
   - Amounts Issued During Period
   - Amounts Paid and/or Matured During Period
   - Amounts Refunded During the Period
   - Ending Outstanding Amounts

5. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt) by individual issue and by Fiscal Year.

6. Schedule of Changes in Lease Obligations.
   The schedule should include the following:
   - Original Amount of Issue
   - Interest Rate
   - Date of Issuance
   - Maturity Date
   - Beginning Outstanding Amounts
   - Amounts Issued During Period
   - Amounts Paid and/or Matured During Period
   - Remeasurements

- Ending Outstanding Amounts

7. Schedule of Lease Obligations, Principal, and Interest Requirements by Fiscal Year

8. Grant Schedule
   Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance.

9. 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 Single Audits*, for sample reports. Any findings addressed in the report should include management's response.

V. Corrective Action Plan

The plan must:

- provide the name(s) of the contact person(s) responsible for the corrective action;
- provide the corrective action taken or planned; and the anticipated completion date;
- be included in a separate section of the audit report;
- be labeled "management's corrective action plan";
- be on the district's letterhead;
- be signed by a representative of the district and include all departments (no separate plans for each division or department); and
- include comments related to material discrete component units that have findings significant to the audit.

FINANCIAL REPORTING REQUIRED FOR BOARD MEETINGS

TCA Section 7-86-123 requires a financial report of the district's activities be provided to the board of directors at every regularly 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 Revenues, Expenses, and Changes in Fund Net Position (statement of operations).

4. The report shall include a budgetary statement that compares year to date budget with actual.

5. The report shall include a listing of all investment accounts and a summary of investment activity for each account respectively.

SECTION III
UNIFORM CHART OF ACCOUNTS

UNIFORM CHART OF ACCOUNTS

All Tennessee emergency communications districts are required to adopt the uniform chart of accounts. 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 TCA Title 7, Chapter 86. These statutes contain provisions that relate to the financial operations of emergency communications districts. The auditor for the district should report noncompliance with these statutes if the noncompliance has a significant effect on financial reporting. Other state statutes may affect emergency communications districts, such as those relating to public records, open meetings, conflicts of interest, etc. If the district receives federal and/or state grant funds, the district may be subject to the Single Audit Act, Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*Uniform Guidance), and state contract requirements. In addition, the state attorney general has issued numerous opinions concerning the operations of emergency communications districts. Attorney general opinions issued since 2000 are available on the Tennessee Attorney General and Reporter website at https://www.tncourts.gov/Tennessee%20Code.

SECTION V
911 REVENUE STANDARDS

Emergency communication districts are authorized to receive funds from federal, state, and local governmental sources as well as private sources pursuant to TCA § 7-86-109. Any use of 911 revenue must comply with TCA § 7-86-102(d), which states that the funds received by districts "from all sources shall be used exclusively in the operation of the emergency communications district."

TCA § 7-86-306(11) 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 the following three categories of revenue uses for emergency communications districts. A listing detailing items included in each category is available on the TECB's website at https://www.tn.gov/commerce/e911/laws-rules-policies/revenue-standards.html (**911 Revenue Standards**)

Required Uses of 911 Revenue – Emergency communications districts must ensure items in this category are obtained and operative before considering expending revenue on other permissible items, goods, or services.

Permissible Uses of 911 Revenue - Items in this category do not represent required expenditures of 911 revenue, but rather, are permissible uses of the revenue. The district should have the budgetary resources for the expenditures and such expenditures should fit within the district's plan.

Prohibited Uses of 911 Revenue - The items in this category represent prohibited expenditures, regardless of the source of revenue or the budgetary resources of an emergency communications district. The list provided in the *911 Revenue Standards* is not considered all inclusive.