

WIRELESS EMERGENCY TELEPHONE SYSTEM FUND

Raleigh, North Carolina

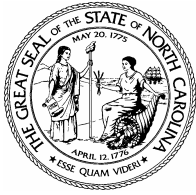
Financial Statement Audit Report

Year Ended June 30, 2006

**Performed Under Contract With the
North Carolina Office of the State Auditor**

Leslie W. Merritt, Jr. CPA, CFP

State Auditor



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Wireless 911 Board

This report represents the results of the financial statement audit of the Wireless Emergency Telephone System Fund (the Wireless Fund) for the year ended June 30, 2006. Cherry, Bekaert & Holland, L.L.P. performed this audit under contract with the Office of the State Auditor and their report is submitted herewith.

The audit of the Wireless Fund was conducted in accordance with *North Carolina General Statute 62A*, Article 2 Wireless Telephone Service. That legislation created the Wireless Fund and the Wireless 911 Board. The State Auditor is required by *G.S. 62A-28* to perform an audit at least every two years to ensure that funds in the Wireless Fund are being managed in accordance with the provisions of Article 2. *General Statute 147-64.7* allows the State Auditor to obtain the services of independent public accountants to carry out its duties and functions.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Wireless Emergency Telephone System Fund
Raleigh, North Carolina

We have audited the accompanying Balance Sheet of the Wireless Emergency Telephone System Fund (the Fund), a special revenue fund of the State of North Carolina as of June 30, 2006, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Fund and are not intended to present fairly the financial position of the State of North Carolina and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

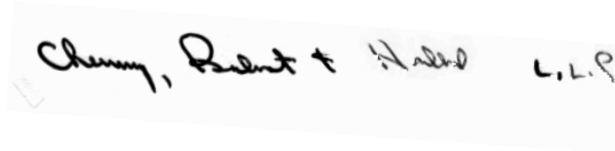
In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

CHERRY, BEKAERT & HOLLAND, L.L.P.

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." The signature is written in a cursive style and is positioned above a light gray rectangular background.

Raleigh, North Carolina
November 16, 2006

**WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006**

As management of the Wireless Emergency Telephone System Fund (the Fund), we are providing the readers of these financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$17,300,857.
- The Funds total fund balance increased by \$9,667,655 for the fiscal year.
- At the end of the current fiscal year, total unreserved fund balance was \$1,060,389.

Overview

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The statements consist of fund financial statements and the notes to the financial statements. The fund financial statements provide a detail look at the Fund's most significant activities. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

The following schedule reflects condensed financial information for the Fund.

Condensed Balance Sheet

	2006	2005	Variance
Assets	\$ 40,238,631	\$ 17,197,066	134%
Liabilities	\$ 22,937,774	\$ 9,563,864	140%
Fund Balance			
Reserved for Service Provider Payments	16,240,468	6,518,500	149%
Unreserved	1,060,389	1,114,702	(5)%
Total Fund Balance	17,300,857	7,633,202	127%
Total Liabilities and Fund Balance	\$ 40,238,631	\$ 17,197,066	134%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The focus of the Fund's financial statements is to provide information on the near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Fund's operating requirements. Specifically, unreserved fund balance can be a useful measure of the resources that are available for spending at the end of the fiscal year.

Total assets increased from \$17,197,066 to \$40,238,631 for the year. The increase is the result of operating profits generated by the Fund for the year. In addition the Fund increased its investment in the State Treasurer's Security Lending Collateral agreement.

Total liabilities increased from \$9,563,864 to \$22,937,774 for the year. The increase is the result of an increase in the Funds obligation to eligible Public Safety Answering Points (PSAPs). In addition the Fund increased its investment in the State Treasurer's Security Lending collateral agreement.

At the end of the current fiscal year unreserved fund balance was \$1,060,389, while total fund balance was \$17,300,857. The remaining portion of fund balance has been reserved for Service Provider Payments.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance

	2006	2005	Variance
Revenues	\$ 45,775,982	\$ 43,765,756	5%
Expenditures			
Statutory Distributions	35,798,701	33,551,147	7%
Other Expenditures	309,626	25,289,496	(99)%
Total Expenditures	36,108,327	58,840,643	(39)%
Revenues Over (Under) Expenditures	9,667,655	(15,074,887)	(164)%
Fund Balance			
Beginning of Year	7,633,202	22,708,089	(66)%
End of Year	\$ 17,300,857	\$ 7,633,202	127%

Revenues remained consistent with the prior year at \$45,775,982. Service charge revenues continued to be the primary revenue source of the Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expenditures for the fiscal year were \$36,108,327 and included statutory distributions, other operating expenditures, and transfers. Statutory distributions and other operating expenditures remained consistent with the prior year. Transfers out on the other hand decreased significantly when compared to last year. In previous years funds were transferred to the State's general fund to cover a budget shortfall at the State level. These costs were not incurred in the current fiscal year.

Future Highlights

The fund continues to be healthy as revenues show a continued marked increase each year. However, there are two areas of concern that should be mentioned.

First, concerns the collection of the wireless 911 subscriber fees from "prepaid" customers of CMRS providers. TracFone filed a claim with the Wireless 911 Board which resulted in the Board refunding \$235,677 to them in October of 2006. Since that time, two other carriers have requested refunds. The Board has not taken action on either as of this date.

The prepaid consumer market appears to be growing from indicators with national trade associations. Legislative changes in October 2005 have helped to provide another option for CMRS providers in remitting the 911 fee. These changes have also minimized the potential of future request of prepaid carriers to seek refund of 911 fees.

A survey of CMRS providers conducted by the Wireless 911 Board in the fall of 2006 indicated that all CMRS providers offering prepaid services were remitting the 911 fee with the exception of one, TracFone. It is anticipated, but of course not guaranteed, that the 2007 session of the North Carolina General Assembly will bring closure to this issue.

The second area of concern is the continued growth of the CMRS portion of the 911 fund. The statutory fund transfers of 2004 and 2005 totaling 58 million dollars basically brought the CMRS portion of the fund to a zero balance. Currently, only 7 CMRS providers are seeking cost recovery for both Phase 1 and Phase 2. The remaining five carriers are either seeking Phase 1 cost reimbursement only or no cost recovery.

Because of the allocation of funds per carrier within the CMRS fund and the number of providers not seeking cost recovery, the fund balance is once again growing. Due to current statutory constraints, these funds will go unclaimed and potentially could be taken for use within the State budget again and not be used to further enhance the wireless 911 system as was the original legislative intent.

As it would require legislative action to change, use of those funds could be, at the Board's discretion if given that authority, used for grants to offset allowable 911 expenses for CMRS providers, such as rural companies with small customer bases and for PSAPs operating with limited financial resources. This is only one example and this, as well as others should be explored.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Request for Information

This report is designed to provide an overview of the Fund's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, Wireless Emergency Telephone System, 3700 Wake Forest Road, Raleigh, North Carolina 27609.

***Wireless Emergency Telephone System Fund
Balance Sheet
June 30, 2006***

Exhibit A

ASSETS

Cash and Cash Equivalents (Note 2)	\$	18,275,469
Accounts Receivable, Net (Note 2)		5,731,317
Interest Receivable		60,419
State Treasurer's Security Lending Collateral (Note 2)		<u>16,171,426</u>
Total Assets	\$	<u><u>40,238,631</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable (Note 2)	\$	259,676
Intergovernmental Payables (Note 2)		6,504,800
Other Payables		1,872
Obligations Under State Treasurer's Security Lending Agreements (Note 2)		<u>16,171,426</u>
Total Liabilities		<u>22,937,774</u>

Fund Balance

Reserved for Service Provider Payments		16,240,468
Unreserved		<u>1,060,389</u>
Total Fund Balance		<u>17,300,857</u>

Total Liabilities and Fund Balance	\$	<u><u>40,238,631</u></u>
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The accompanying notes are an integral part of the financial statements.

***Wireless Emergency Telephone System Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
Year Ended June 30, 2006***

Exhibit B

REVENUES

Service Charge Revenues	\$ 44,882,014
Interest on Investments	440,614
Administration Fees	<u>453,354</u>
Total Revenues	<u>45,775,982</u>

EXPENDITURES

Current Operating	
Statutory Distributions	35,798,701
Salaries and Benefits	189,338
Contracted Services	17,208
Travel	24,519
Printing	2,635
Telephone	12,841
Dues and Subscriptions	1,288
Other	2,504
Rent	9,624
Registration Fees	2,354
Postage and Freight	2,155
Computer	228
Capital Outlay	<u>12,225</u>
Total Expenditures	<u>36,075,620</u>

REVENUES OVER (UNDER) EXPENDITURES 9,700,362

OTHER FINANCING SOURCES (USES)

Transfers Out	<u>(32,707)</u>
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**REVENUES AND OTHER FINANCING SOURCES (USES)
OVER (UNDER) EXPENDITURES** 9,667,655

FUND BALANCE

Beginning of Year	<u>7,633,202</u>
End of Year	<u><u>\$ 17,300,857</u></u>

The accompanying notes are an integral part of the financial statements.

WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1 - The Organization

The Wireless Emergency Telephone System Fund (the "Fund") was created on October 1, 1998, upon ratification of Senate Bill 1242 by the General Assembly of North Carolina (General Assembly). The Fund provides for an enhanced wireless 911 systems for the use of personal cellular communication and other wireless telephone services. The intent of the Fund is to provide funding for major improvements in the quality and reliability of enhanced wireless 911 services available to the customers of wireless telecommunications service providers.

As required by *North Carolina General Statute 62A-22*, certain elected officials appoint the thirteen members of the Fund's Advisory Board. The State Chief Information Officer or the Chief Information Officer's designee serves as the chair. Two members are appointed by the Governor, five members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives and five members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

Of the thirteen Board members, five members represent the Commercial Mobile Radio Service (CMRS) providers and two members represent the Public Safety Answering Points (PSAPs). During the year, CMRS providers remit monthly service charges to the fund and PSAPs receive statutory distributions from the fund.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - Fund Accounting - The accounts of the Fund are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Fund uses the Governmental Fund Type - Special Revenue Fund. The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The primary revenue source is wireless 911 service charge revenue.

Reporting Entity - As required by accounting principles generally accepted in the United States of America, these financial statements include all funds that are controlled by, or financially dependent on, the Fund. There are no separate organizations for which the Fund is financially accountable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

These financial statements present only the Wireless Emergency Telephone Fund of the State of North Carolina and are not intended to present fairly the financial position of the State of North Carolina, and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in spendable resources.

Basis of Accounting - The basis of accounting determines when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina Accounting Policy the funds of the Fund are maintained during the year using the cash basis of accounting. The fund type is presented in the financial statements on a modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available") to pay the liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The Fund recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (or from) another party without receiving (or giving) equal or nearly equal value in return.

Encumbrances - The Fund is not required to maintain encumbrance accounts.

Cash - The Fund deposits cash with the North Carolina State Treasurer. The funds on deposit with the State Treasurer are available on demand.

Accounts Receivable - This classification consists of service charges on CMRS connection. Accounts receivables are recorded net of estimated uncollectible amounts and are expected to be collected within one year. As of June 30, 2006, the Fund had an accounts receivable balance of \$5,731,317. This amount includes \$5,674,004 in service charge fees and \$57,313 in administration fees from the CMRS.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

State Treasurer's Securities Lending Collateral - While the Fund does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short-Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the Fund recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "State Treasurer's Securities Lending Collateral" and "Obligations Under State Treasurer's Securities Lending Agreements." The allocable share of the costs arising from these transactions is immaterial to the Fund and has been netted against investment income rather than reported as an expense.

Based on the authority provided in *General Statutes 147-69.3(e)*, the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made.

Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Accounts Payable - Accounts payable represent amounts due to CMRS providers for actual costs incurred by the CMRS providers in complying with the wireless 911 requirements. These amounts are payable upon receipt of sworn invoices submitted to the Fund. At June 30, 2006, \$259,676 represents the amount due to vendors, CMRS providers and employees.

Intergovernmental Payables - Intergovernmental payables represent amounts due to eligible Public Safety Answering Points (PSAPs). Eligible PSAPs are those providers that have complied with the provisions of "*North Carolina General Statutes, Chapter 62A, Article 2, Wireless Telephone Service*". These amounts are calculated based on a percentage of the wireless enhanced 911 service charge and are distributed monthly. In addition, any amounts remaining in this fund on June 30th of each year will be equally distributed to each of the eligible PSAPs. At June 30, 2006, approximately \$6,504,800 is currently due the PSAPs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Service Charge Fees - A monthly service charge is levied on each CMRS connection. The monthly service charge was initially set on October 1, 1998 and may be adjusted by the Fund on July 1st of every even numbered year to ensure full recovery of costs associated with developing and maintaining a wireless enhanced 911 system. The Fund receives a 1% administrative fee from the total service charges remitted by the CMRS providers.

Statutory Distributions - The Fund is required to use the wireless enhanced 911 service charge fees, less a 1 % administrative fee, to cover the costs associated with developing and maintaining a wireless enhanced 911 system. Fifty three percent of the remaining fees are to be used to reimburse CMRS for actual costs incurred in order to comply with the wireless 911 requirements established by the Federal Communications Commission (FCC) Order. Forty seven percent of the remaining fees are to be used to make monthly distributions to eligible PSAPs.

Transfers - Transfers represents cost allocated to the Fund from Information Technology Services (ITS) for costs such as facilities, administration, security and customer support expenses. At June 30, 2006, amounts transferred for ITS services amounts to \$32,707.

Note 3 - Deposits

All of the Fund's deposits are insured or collateralized by the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer of North Carolina. Since the State Treasurer is acting in a fiduciary capacity for the Fund, these deposits are considered to be held by the Fund's agent in the Fund's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Fund or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Fund under the Pooling Method, the potential exists for under collateralization and this risk may increase in periods of high cash flows. However, the State Treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. At June 30, 2006, the Fund's deposits held by the State Treasurer had a carrying amount of \$18,275,469.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4 - Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$5,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Fund directly to the insurer.

The State Property Fire Insurance Fund (the "Insurance Fund"), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses, which carry a \$1,000 per occurrence deductible.

All State owned vehicles are covered by liability insurance administered by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The Fund is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State with a limit of \$5,000,000 per occurrence, subject to a \$50,000 deductible and a 10% participation in each loss above the deductible. The coverage is placed with a private insurance company and is administered by the North Carolina Department of Insurance.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan. This employee benefit plan is funded by employer and employee contributions.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Fund's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The State is self-insured for workers' compensation. A third party administrator processes workers' compensation claims. State agencies, including the Fund, contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self-insured death benefit program is administered by the Department of the State Treasurer and funded via employer contributions.

Additional details on state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

Note 5 - Pension and Deferred Compensation Plans

Retirement Plan - All full-time employees participate in the Teachers' and State Employees' Retirement System (the Retirement System) of North Carolina. The Retirement System is a multiple-employer, cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service, reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.82% of an average final compensation (based on the four consecutive years that produce the highest average) multiplied by the number of years of creditable service.

Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service. Benefit and contribution provisions for the Retirement System are established by *North Carolina General Statute 135-5 and 135-8* and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6.00% of covered payroll for members.

For the year ended June 30, 2006, the Fund had a total payroll of \$155,765 all of which was covered under the Retirement Fund. Total employee and employer contributions for pension benefits for the year were \$9,346 and \$3,645 respectively. The Fund made one hundred percent of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$3,644, \$2,899, and \$219, respectively.

Supplemental Retirement Income Plan - IRC Section 401(k) Plan - All full-time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of plan participants. There were no costs incurred by the Fund in the current year.

Deferred Compensation Plan - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Compensation Plan (the "Plan"). The Plan permits each participating employee to defer a portion of his or her salary until future years.

The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, an agency under the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All cost of administering and funding the Plan are the responsibility of the Plan participants. There were no costs incurred by the Fund in the current year.

Note 6 - Other Postemployment Benefits

Health Care for Long-Term Disability Beneficiaries and Retirees - The Fund participates in state administered programs which provide post employment health insurance to eligible former employees. Eligible former employees include longterm disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement Fund.

These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Fund contributed 3.80% of the covered payroll under the Teachers' and State Employees' Retirement Fund for these health care benefits. For the fiscal year ended June 30, 2006, the Fund's total contribution to the Plan was \$5,919. The Fund assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

Long-Term Disability - The Fund participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, the DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement Fund. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The Fund contributed .52% of the covered payroll under the Teachers' and State Employees' Retirement System for these benefits. The Fund's total contribution to the Plan for the fiscal year ended June 30, 2006 was \$810. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

Note 7 - Legislation Amendment

In October of 2005 the North Carolina General Assembly House bill 1261 amended the law applying to the Wireless 911 Fund. The significant changes in the law include reducing the service charge per month per wireless connection from .80 to .70. Additionally, the legislation was amended to provide an additional collection option to include prepaid wireless providers as well as traditional cell phone contracts.

Note 8 - Subsequent Settlement

During the fiscal year, TracFone, a prepaid wireless provider, threatened the Wireless 911 Fund with litigation arguing that their wireless system for prepaid wireless phones was not subject to the monthly connection fees. The amendment of the legislation in October of 2005 cited in Note 7 amends this matter, leaving no doubt that TracFone customers are subject to Wireless 911 fees. However, it was determined that due to the ambiguity of the initial legislation that Wireless 911 Fund would pay a settlement to TracFone in the amount of \$235,000 for fees collected prior to the change in legislation. This amount was paid in October of 2006.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Wireless Emergency Telephone System Fund
Raleigh, North Carolina

We have audited the financial statements of the Wireless Emergency Telephone System Fund (the Fund) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

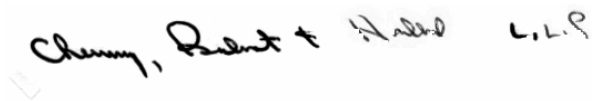
**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting that we have reported to management of the Fund in a separate letter dated November 16, 2006.

This report is intended solely for the information and use of the Board of Directors, management, the Governor and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.

CHERRY, BEKAERT & HOLLAND

 Cherry, Bekaert & Holland L.L.P.

Raleigh, North Carolina
November 16, 2006

ORDERING INFORMATION

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