

WIRELESS EMERGENCY TELEPHONE SYSTEM FUND

Raleigh, North Carolina

Financial Statement Audit Report

Year Ended June 30, 2007

**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

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2007. Thomas & Gibbs, CPAs, PLLC 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

**WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2007**

	PAGE
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS	
Balance Sheet	7
Statement of Revenues, Expenditures, and Changes in Fund Balance	8
Notes to Financial Statements	9-15
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17-18
ORDERING INFORMATION	19



Fayetteville Road Office Park
6114 Fayetteville Road, Suite 101
Durham, North Carolina 27713

919/ 544-0555 Phone
919/ 544-0556 Fax
866/ 956-5544 Toll Free

Certified Public Accountants
and Consultants

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, 2007, 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 an opinion 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2007, 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 March 13, 2008, on our consideration of the Fund'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 the internal control over financial reporting or on

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

compliance. That report is an integral part of our 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 the information and express no opinion on it.

James S. Gilbo CA, PLLC

Durham, North Carolina

March 13, 2008

**WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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, 2007.

Financial Highlights

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$17,492,392.
- The Fund's total fund balance increased by \$191,535 for the fiscal year.
- At the end of the current fiscal year, total unreserved fund balance was \$1,532,545.

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

	2007	2006	Variance
Assets	\$ 39,133,878	\$ 40,238,631	\$ (1,104,753)
Liabilities	\$ 21,641,486	22,937,774	(1,296,288)
Fund Balance			
Reserved for Service Provider Payments	15,959,847	16,240,468	(280,621)
Unreserved	1,532,545	1,060,389	472,156
Total Fund Balance	17,492,392	17,300,857	191,535
Total Liabilities and Fund Balance	\$ 39,133,878	\$ 40,238,631	\$ (1,104,753)

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total assets decreased from \$40,238,631 to \$39,133,878 for the year. The decrease is the result of a decrease in operating profits generated by the Fund for the year. In addition the Fund's investment allocation in the State Treasurer's Security Lending Collateral agreement was decreased.

Total liabilities decreased from \$22,937,774 to \$21,641,486 for the year. The decrease is the result of a decrease in the Fund's obligation to eligible Public Safety Answering Points (PSAPs). In addition the Fund's investment allocation in the State Treasurer's Security Lending Collateral agreement was decreased.

At the end of the current fiscal year unreserved fund balance was \$1,532,545, while total fund balance was \$17,492,392. The remaining portion of fund balance has been reserved for Service Provider Payments.

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

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Revenues	\$ 50,208,687	\$ 45,775,982	\$ 4,432,705
Expenditures			
Statutory Distributions	49,698,841	35,798,701	13,900,140
Other Expenditures	<u>318,311</u>	<u>309,626</u>	<u>8,685</u>
Total Expenditures	<u>50,017,152</u>	<u>36,108,327</u>	<u>13,908,825</u>
Revenues Over Expenditures	191,535	9,667,655	(9,476,120)
Fund Balance			
Beginning of Year	<u>17,300,857</u>	<u>7,633,202</u>	<u>9,667,655</u>
End of Year	<u>\$ 17,492,392</u>	<u>\$ 17,300,857</u>	<u>\$ 191,535</u>

As of June 30, 2007, there are 53 CMRS providers and resellers operating in North Carolina that are remitting the 911 service fee. One CMRS reseller, TracFone, a prepaid provider, is not remitting the 911 fee until the end of the 2007 legislative session per the settlement agreement between TracFone and the Wireless 911 Board of October 2006. Nine carriers or resellers are being reimbursed for their wireless 911 Phase I and Phase 2 expenses.

As of June 30, 2007, the Wireless 911 Board was disbursing monthly 911 funds to 127 PSAPs in North Carolina including the Eastern Band of the Cherokee Indians.

Revenues increased by \$4,432,705 over the prior year to \$50,208,687 due to general increases in wireless customers in North Carolina. 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 \$50,017,152 and included statutory distributions, other operating expenditures, and transfers. Statutory distributions and other operating expenditures increased by \$13,900,140 over the prior year to \$49,698,841. Transfers out also increased slightly when compared to last year.

Future Highlights

The fund continues to be healthy as revenues show a continued increase each year. However, there are two areas of concern that continue to be followed with close scrutiny.

Concerns continue regarding the collection of the wireless 911 subscriber fee from "prepaid" customers of CMRS providers. TracFone filed a lawsuit 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, ATT (now merged with Cingular) and Virgin Mobile. The Board agreed to allow a credit of \$149,950 for Cingular taken from the overpayment of pre-October 2005 prepaid fees by ATT. The Board did settle with Virgin Mobile by authorizing a refund of \$421,584 on December 18, 2007. At this time, no other carriers have asked for a refund or credit for prepaid wireless 911 fees.

The prepaid consumer market continues to grow. Legislative changes proposed in H1755 call for a 17 month moratorium on the remittance of the wireless 911 fee from prepaid providers. During this time, the Joint Legislative Utility Review Committee is to determine the best method for collecting the 911 service fee.

The second area of concern is the growth of the CMRS portion of the 911 fund. A review of the existing cost recovery procedures indicated payments to carriers requesting cost recovery were not being calculated properly. First, carrier eligible funds were being calculated on remittances less the administrative and PSAP designated amounts rather than the total amount remitted as stated in the statute. Also, rather than working from individual "pots of money" designated to each carrier, the procedures were corrected to reimburse carriers from a single fund. Hopefully, this correction will allow for more use of the funds available and help to maintain the fund balance at a suitable level.

Consideration should be given to review and possibly seek legislative action to change the percentage of remittances from the current 53% for CMRS providers to a lower percentage with the difference being allocated to the PSAPs.

Legislation (H1755) was introduced into the 2007 session of the North Carolina General Assembly that would create a single 911 Board from the Wireless 911 Board. That legislation increases the membership of the Board to 17 from the existing 13, creates a single 911 fee of \$.70 for all voice communication service connections and provides for central collection and distribution of all 911 fees from the newly created 911 Board.

Legislative action in H1755 to reallocate some CMRS designated funds at the Board's discretion for use as grants to PSAPs in rural or high cost areas will again offset the rising

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

CMRS fund balance while allowing the 911 fee to be used to enhance the 911 system in North Carolina as originally intended.

The full impact of H1755 (SL2007-0383) will not be realized until the end of FY 2008-09. Any predictions prior to that time would be premature.

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 presented in this report or requests for additional financial 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
Year Ended June 30, 2007

ASSETS

Cash and Cash Equivalents (Note 2)	\$ 18,057,946
Accounts Receivable, Net (Note 2)	5,564,356
Interest Receivable	78,053
State Treasurer's Security Lending Collateral (Note 2)	<u>15,433,523</u>

Total Assets \$ 39,133,878

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable (Note 2)	\$ 38,647
Intergovernmental Payables (Note 2)	6,167,442
Other Payables	1,874
Obligation Under State Treasurer's Security Lending Agreements (Note 2)	<u>15,433,523</u>

Total Liabilities 21,641,486

Fund Balance

Reserved Service Provider Payments	15,959,847
Unreserved	<u>1,532,545</u>

Total Fund Balance 17,492,392

Total Liabilities and Fund Balance \$ 39,133,878

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

**WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended June 30, 2007**

REVENUES

Service Charge Revenues	\$ 48,757,623
Interest on Investments	958,562
Administration Fees	492,502
	50,208,687
Total Revenues	50,208,687

EXPENDITURES

Current Operating	
Statutory Distributions	49,698,841
Salaries and Benefits	189,216
Contracted Services	39,092
Travel	21,326
Printing	2,672
Telephone	12,996
Dues and Subscriptions	2,579
Other	2,137
Rent	10,247
Registration Fees	2,495
Postage and Freight	1,607
Computer	228
Capital Outlay	32
	49,983,468
Total Expenditures	49,983,468
Revenues Over Expenditures	225,219
Other Financing Uses	
Transfer Out	(33,684)
	191,535
Revenues and Other Financing Sources Over Expenditures	191,535
Fund Balance	
Beginning of Year	17,300,857
	17,492,392
End of Year	\$ 17,492,392

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

WIRELESS EMERGENCY TELEPHONE SYSTEM FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

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 system 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.

These financial statements present only the Wireless Emergency Telephone System Fund of the State of North Carolina and are not intended to present fairly the financial position of the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 for CMRS connection. Accounts receivables are recorded net of estimated uncollectible amounts and are expected to be collected within one year. As of June 30, 2007, the Fund had an accounts receivable balance of \$5,564,356. This amount includes \$5,508,712 in service charge fee and \$55,644 in administration fees from the CMRS.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 Statute 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 vendors and employees for goods, services or travel provided/incurred by June 30, 2007. In addition, it includes payments to Public Safety Answering Points (PSAP's) which are not considered inter-governmental. At June 30, 2007, \$38,647 represents the amount due to vendors, PSAP's 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, 2007, approximately \$6,167,442 is currently due the PSAPs.

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 even numbered year to ensure full recovery of costs associated with developing

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

and maintaining a wireless enhanced 911 System. The Fund receives a 1% administrative fee from the total service charges remitted by the CMRS providers. In 2005 the North Carolina General Assembly authorized the monthly service charge to be reduced from \$.80 to \$.70 based on past fund expenditures and projected needs of the wireless carriers and the PSAPs. The CMRS providers continue to retain 1% of the collected \$.70 for their administrative costs.

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, and administrative costs charged by the Office of the State Controller (OSC) for the flexible benefits plan. At June 30, 2007, \$33,445 was transferred to ITS and \$239 was transferred to OSC.

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, 2007, the Fund's deposits held by the State Treasurer had a carrying amount of \$18,057,946.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

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 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. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Insurance Fund. 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 North Carolina Teacher's and State Employee's 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

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.

Benefits and administrative expenses are funded by member contribution of 6% of compensation, investment income, and by an actuarially required employer contribution established by legislation. For the fiscal year ended June 30, 2007, the State made the actuarially based required contribution of 2.66% of covered payroll. Benefit and construction provisions are established by General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 2007, the Fund had a total payroll of \$155,684, all of which was covered under the Retirement System. Total employee and employer contributions for pension benefits for the year were \$9,341 and \$4,141, respectively. The Fund made one hundred percent of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$4,141, \$3,644, and \$2,899, 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. No costs were incurred by the Fund.

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 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

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

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 postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System.

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 System for these health care benefits.

For the fiscal year ended June 30, 2007, the Fund's total contribution to the Plan was \$5,916. 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 System. 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, 2007, was \$810. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

Note 7 - Subsequent Event

During the fiscal year, Virgin Mobile, a prepaid wireless provider, requested a refund of monies paid by or on its behalf to the Wireless 911 Fund for the period of August 1, 2002, through September 30, 2005. On December 18, 2007, the Wireless 911 Fund executed a release and settlement agreement with Virgin Mobile for a refund of \$421,584.

[This Page Left Blank Intentionally]



Fayetteville Road Office Park
6114 Fayetteville Road, Suite 101
Durham, North Carolina 27713

919/ 544-0555 Phone
919/ 544-0556 Fax
866/ 956-5544 Toll Free

Certified Public Accountants
and Consultants

**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 statement of the Wireless Emergency Telephone System Fund (the "Fund") as of and for the year ended June 30, 2007, and have issued our report thereon dated March 13, 2008. 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 as a basis for designing our auditing procedures 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all

**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 (CONCLUDED)**

deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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, 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*.

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

Thomas S. Gibbs CA, PCC

Durham, North Carolina
March 13, 2008

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647