

NORTH CAROLINA 911 FUND

Raleigh, North Carolina

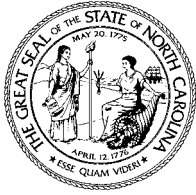
Financial Statement Audit Report

Year Ended June 30, 2008

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

Beth A. Wood, CPA

State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
Members of the North Carolina General Assembly
Board of Directors, 911 Fund

This report represents the results of the financial statement audit of the North Carolina 911 Fund (the 911 Fund) for the year ended June 30, 2008. 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 911 Fund was conducted in accordance with *North Carolina General Statute 62A*, Article 3 Emergency Telephone Service. That legislation created the 911 Fund and the 911 Board. The State Auditor is required by *G.S. 62A-50* to perform an audit at least every two years to ensure that funds in the 911 Fund are being managed in accordance with the provisions of Article 3. *General Statute 147-64.7* allows the State Auditor to obtain the services of independent public accountants to carry out its duties and functions.

The auditor's consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The 911 Fund's response is included following the finding.

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.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Carolina 911 Fund
Raleigh, North Carolina

We have audited the accompanying Balance Sheet of the North Carolina 911 Fund (the "Fund"), a special revenue fund of the State of North Carolina as of June 30, 2008, 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, 2008, 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 December 9, 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 AUDITORS' 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. Gibbs CMA, PCC

Durham, North Carolina

December 9, 2008

**NORTH CAROLINA 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

As management of the North Carolina 911 Fund (the "Fund") and the fund previously identified as the Enhanced Wireless 911 Fund, we are providing the readers of these financial statements this narrative overview and analysis of the financial activities of the two funds for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$28,105,806.
- The Fund's total fund balance increased by \$10,613,414 for the fiscal year.
- At the end of the current fiscal year, total unreserved fund balance was \$11,378,588.

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

	2008	2007	Variance
Assets	\$ 59,848,390	\$ 39,133,878	\$ 20,714,512
Liabilities	31,742,584	21,641,486	10,101,098
Fund Balance			
Reserved for Service Provider Payments	16,727,218	15,959,847	767,371
Unreserved	11,378,588	1,532,545	9,846,043
Total Fund Balance	28,105,806	17,492,392	10,613,414
Total Liabilities and Fund Balance	\$ 59,848,390	\$ 39,133,878	\$ 20,714,512

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 increased from \$39,133,878 to \$59,848,390 for the year. The increase is the result of an increase in overall revenues over expenditures of the Fund following the inclusion of wireline service fees for the six month period ended June 30, 2008. In addition, the Fund's investment allocation in the State Treasurer's Security Lending Collateral agreement was increased.

Total liabilities increased from \$21,641,486 to \$31,742,584 for the year. The increase is the result of an increase 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 increased.

At the end of the current fiscal year, unreserved fund balance was \$11,378,588, while total fund balance was \$28,105,806. The remaining portion of fund balance has been reserved for Service Provider Payments.

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

	<u>2008</u>	<u>2007</u>	<u>Variance</u>
Revenues			
Service Charge Revenues	\$ 67,189,134	\$ 48,757,623	\$ 18,431,511
Other Revenues	<u>1,929,368</u>	<u>1,451,064</u>	<u>478,304</u>
Total Revenues	69,118,502	50,208,687	18,909,815
Expenditures			
Statutory Distributions	57,561,485	49,698,841	7,862,644
Other Expenditures	<u>943,603</u>	<u>318,311</u>	<u>625,292</u>
Total Expenditures	<u>58,505,088</u>	<u>50,017,152</u>	<u>8,487,936</u>
Revenue Over Expenditures	10,613,414	191,535	10,421,879
Fund Balance			
Beginning of Year	<u>17,492,392</u>	<u>17,300,857</u>	<u>191,535</u>
End of Year	<u>\$ 28,105,806</u>	<u>\$ 17,492,392</u>	<u>\$ 10,613,414</u>

As of June 30, 2008, the North Carolina 911 Board was disbursing monthly 911 funds to 128 PSAPs in North Carolina not including the Eastern Band of the Cherokee Indians. Prior to statutory changes that took effect January 1, 2008, 126 PSAPs, including the Eastern Band of the Cherokee Indians, were receiving funds from the Wireless 911 Fund for the period ending December 31, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The enactment of SL 2007-383, which became effective in the middle of the fiscal year, created many challenges in transitioning from a wireless only fund to a consolidated wireline, VoIP and wireless fund.

Technical corrections in the statutory language of SL 2007-383, SL 2008-134, included the Eastern Band of the Cherokee Indians for 911 Fund disbursements effective July 15, 2008. This technical correction allows for payments to be retroactive to January 1, 2008.

Revenues increased by \$18,909,815 over the prior year to \$69,118,502 due to the inclusion of wireline service revenues effective January 2008. Service charge revenues continued to be the primary revenue source of the Fund.

Expenditures for the fiscal year were \$58,505,088 and included statutory distributions, other operating expenditures, and transfers. Statutory distributions and other operating expenditures increased by \$8,487,771 over the prior year to \$58,471,239. Transfers out also increased slightly when compared to last year.

G.S. § 62A-46.(a)(1) states that “the PSAP’s base amount is the amount received in the fiscal year ending June 30, 2007, and deposited in the Emergency Telephone System Fund of its local governing entity, as reported to the State Treasurer’s Office, Local Government Division.” The 911 Board staff did not receive this report from the State Treasurer’s office until April 16, 2008. Staff review noted errors in the report and began reconciliation procedures between local government reporting agencies, wireline carriers and Wireless 911 Fund disbursements.

This process was very labor intensive among all the participants and was completed in September of 2008. As a result of the staff’s due diligence, \$5,140,970 was found to have been reported in error.

The other major challenge was transitioning wireline and VoIP providers from remitting to local governments at rates ranging from \$.25 to \$3.50, to remitting to the 911 Fund at a standard rate of \$.70 while trying to maintain adequate funding to the PSAPs.

As a result, monthly revenues to the 911 Fund were inconsistent from wireline and VoIP providers until July 2008 when they began to level off. This delay in transitioning remittances caused a shortfall in funding to PSAPs at the June 30, 2007 level. Again, technical corrections in the statutory language, SL 2008-134, gave the NC 911 Board the ability to adjust the percentages allocated for CMRS cost recovery and for PSAPs.

At a special called 911 Board meeting on July 28, 2008, the Board did adjust the percentage allocation to .5% for CMRS cost recovery and 99.5% for PSAP distribution until December 1, 2008. This change in distribution allowed the Fund to “true-up” distributions to PSAPs to meet the June 30, 2007 minimum allocation requirement.

As of June 30, 2008, the CMRS Cost Recovery Fund balance was \$25,209,447 with an average monthly disbursement of \$1.4 million. As of the same date, the average monthly

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

disbursement for the PSAP was \$5.4 million. Average revenues to the PSAP fund on June 30, 2008 were \$4.3 million.

Future Highlights

There are several areas of concern that will need to be addressed in the near future.

While the current legislation prescribes funding PSAPs at the June 30, 2007 level, with remaining funds to be disbursed on a per capita basis, the concerns are whether this model adequately funds all PSAPs to provide parity of service statewide among them, or if it creates an imbalance of PSAPs with large 911 fund balances and PSAPs with limited operating funds.

The Board is currently awaiting the completion of a Comprehensive Statewide 911 Report. With findings from this report, the Board should begin immediate work towards determining the actual funding need, or better expressed as the actual cost to operate 911 in North Carolina in order to create a sustainable funding model that better reflects the true cost of 911.

While the future funding model for the PSAPs needs to be addressed, likewise the funding for CMRS provider cost recovery needs to receive additional focus. With the completion of deployment of Wireless 911 Phase 1 and Phase 2, CMRS cost recovery now appears to be more in a "maintenance mode" rather than a "build out mode". This is reflected in the lower average amounts of monthly disbursements and the reduced number of CMRS providers seeking cost recovery.

The Board should begin immediate forecasting with CMRS providers to determine actual future funding requirements. This forecast, along with the PSAP funding needs could be reflected in a change of allocation percentage, a reduction in the 911 fee, or both.

§ 62A-47 establishes a PSAP Grant account for the purpose of making grants to PSAPs in rural and other high-cost areas. To date, the 911 Board has not taken action to implement these grants, but is targeting implementation during the 2nd half of FY 2008/2009, with actual disbursements projected for the first quarter of FY 2009/2010. Funding for these grants will be transferred from CMRS designated funds to a grant account. The impact of these grants should be a consideration in the future funding forecasting.

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, North Carolina 911 Fund, 3700 Wake Forest Road, Raleigh, North Carolina 27609.

NORTH CAROLINA 911 FUND
BALANCE SHEET
Year Ended June 30, 2008

ASSETS

Cash and Cash Equivalents (Note 2)	\$ 29,944,559
Accounts Receivable (Note 2)	11,081,834
Interest Receivable	113,998
State Treasurer's Security Lending Collateral (Note 2)	<u>18,707,999</u>

Total Assets \$ 59,848,390

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable (Note 2)	\$ 998,588
Intergovernmental Payables (Note 2)	11,977,967
Other Payables	58,030
Obligation Under State Treasurer's Security Lending Agreements (Note 2)	<u>18,707,999</u>

Total Liabilities 31,742,584

Fund Balance

Reserved Service Provider Payments	16,727,218
Unreserved	<u>11,378,588</u>

Total Fund Balance 28,105,806

Total Liabilities and Fund Balance \$ 59,848,390

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

NORTH CAROLINA 911 FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
Year Ended June 30, 2008

REVENUES	
Service Charge Revenues	\$ 67,189,134
Interest on Investments	1,253,532
Administration Fees	675,815
Miscellaneous	21
	69,118,502
Total Revenues	69,118,502
EXPENDITURES	
Current Operating	
Statutory Distributions	57,561,485
Salaries and Benefits	206,666
Contracted Services	578,603
Travel	71,672
Printing	1,233
Telephone	15,067
Dues and Subscriptions	10,028
Other	2,072
Rent	14,570
Registration Fees	1,995
Postage and Freight	3,122
Computer	228
Capital Outlay	4,498
	58,471,239
Total Expenditures	58,471,239
Revenues Over Expenditures	10,647,263
Other Financing Uses	
Transfer Out	(33,849)
	(33,849)
Revenues and Other Financing Sources Over Expenditures	10,613,414
Fund Balance	
Beginning of Year	17,492,392
	17,492,392
End of Year	\$ 28,105,806
	\$ 28,105,806

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

**NORTH CAROLINA 911 FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

Note 1 -The Organization

On October 1, 1998, the General Assembly of North Carolina (General Assembly) ratified Senate Bill 1242 which established the Enhanced 911 Wireless Fund and the North Carolina Wireless 911 Board. On July 27, 2007, the General Assembly of North Carolina further revised NCGS 62A, creating a North Carolina 911 Fund and North Carolina 911 Board. The North Carolina 911 Board consolidates the State's Enhanced 911 system under a single board with a uniform 911 service charge to integrate the State's 911 system, enhance efficiency and accountability, and create a level competitive playing field among voice communication providers.

The Board continues to provide for an enhanced wireless 911 system for the use of personal cellular communication and other wireless telephone services. In addition, the Fund provides funding for major improvements in the quality and reliability of state wide 911 services available to the customers of voice communication service providers.

As required by *North Carolina General Statute 62A-41* certain elected officials appoint the sixteen members of the Fund's Advisory Board. The State Chief Information Officer or the Chief Information Officer's designee serves as the chair. Four members are appointed by the Governor, six members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives and six members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

Of the seventeen Board members, four members represent the Commercial Mobile Radio Service (CMRS) providers, four members represent the Local Exchange Carriers, and one member represents Voice over Internet Protocol (VoIP) providers.

During the year, Voice Communications providers remit monthly service charges to the fund and Public Safety Answering Points (PSAPs) receive statutory distributions from the fund. The North Carolina 911 Board manages all revenues remitted to the 911 Fund, establishes procedures for disbursement of funds, and advises all voice communications service providers and eligible counties of such procedures.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 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 North Carolina 911 Fund 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 State of 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Cash and Cash Equivalents - 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 voice communication connections. Accounts receivable is expected to be collected within one year. As of June 30, 2008, the Fund had an accounts receivable balance of \$11,081,834. This amount includes \$10,174,937 in service charge fees, \$102,777 in administration fees from the CMRS, and \$804,120 in PSAP overpayments.

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 vendors and employees for goods, services or travel provided/incurred by June 30, 2008. In addition, it includes payments to Public Safety Answering Points (PSAP's) which are not considered inter-governmental. At June 30, 2008, \$998,588 represents the amount due to vendors, PSAP's and employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 3, Emergency 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, 2008, approximately \$5,875,094 is currently due the PSAPs.

Service Charge Fees - A monthly service charge is levied on each voice communication service 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 years 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 voice communication providers. 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. At June 30, 2008, \$33,849 was transferred to ITS.

Note 3 – Deposits

The amount shown on the Statement of Net Assets as cash and cash equivalents includes \$29,944,559, which represents the Fund's equity position in the Short-Term Investment Fund managed by the North Carolina State Treasurer (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating). The Short-Term Investment Fund had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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 \$1,000,000 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 \$75,000 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 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.

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, 2008, the State made the actuarially based required contribution of 3.05% 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.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. For the year ended June 30, 2008, the Board had a total payroll of \$167,913, all of which was covered under the Retirement System. Total employee and employer contributions for pension benefits for the year were \$10,075 and \$5,121, respectively. The Board made one hundred percent of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$5,121, \$4,141 and \$3,644, respectively.

The Teachers' and State Employees' Retirement System's financial information is 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.

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 are 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 Benefits - The North Carolina 911 Fund participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year, the North Carolina 911 Fund contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The North Carolina 911 Fund made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$6,884, \$5,916, and \$5,919, respectively. The North Carolina 911 Fund assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

Additional detailed information about these programs can be located 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.

Disability Income - The Fund participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$873, \$809, and \$810, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.



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**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**

To the Board of Directors
North Carolina 911 Fund
Raleigh, North Carolina

We have audited the financial statements of the North Carolina 911 Fund (the "Fund"), a special revenue fund of the State of North Carolina as of June 30, 2008, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance for the year then ended June 30, 2008, and have issued our report thereon dated December 9, 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.

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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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 deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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*.

The Fund's response to the finding identified in our audit is described in Finding 2008-01 above. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Carolina 911 Board, the management of the Fund, others within the entity, 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 & Gibbs CA, PLLC

Durham, North Carolina
December 9, 2008

AUDIT FINDINGS AND RESPONSES

Finding 2008-01: Significant audit adjustment

Criteria: The Fund should have the knowledge and ability to accurately prepare financial statements in accordance with accounting principles generally accepted in the United States of America that reflect revenues and expenditures for the period presented.

Condition: We noted an ineffective operation of control over a significant account or process. The Fund overpaid \$815,051 in statutory distributions to PSAPs during the year. Refunds of overpayments were not obtained by the Fund.

Effect: Unadjusted expenditures relating to statutory distributions were overstated for the year ended June 30, 2008.

Cause: Information regarding the PSAPs' base amount (the amount the PSAP received in the fiscal year ending June 30, 2007, and deposited in the Emergency Telephone System Fund of its local governing entity, as reported to the State Treasurer's Office, Local Government Division) proved inaccurate. These amounts were used to calculate distribution amounts.

Recommendation: We recommend management seek reimbursements of overpayments.

Management's response: The 911 Board took action to recoup overpayments by reducing the payments to those certain PSAPs for fiscal year 2009 by an amount proportional to the applicable overpayment.

General Statute 62A-46 requires monthly distributions to PSAPs. The basis for the reimbursements is the local government's report to the State Treasurer of the amount received in its Emergency Telephone System Fund for the fiscal year ending June 30, 2007. Such reports are not subject to the Fund's controls. Disparities in reporting to the State Treasurer were discovered and investigated. In order to accurately pay PSAPs, Board staff exercised due diligence in verifying the financial information on these reports. This process was completed by mid September, subsequent to the legislated due date, August 31, Board financial statements to the Office of State Controller.

The financial statements are prepared on the modified accrual basis of accounting which requires revenues to be realized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred, if measurable. The overpayments to the PSAP's were not measurable at August 31st, the due date of the financial statements.

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