

**FINANCIAL STATEMENT AUDIT REPORT  
NORTH CAROLINA 911 FUND  
Raleigh, North Carolina**

For the year ended June 30, 2010

Performed under contract with  
The North Carolina Office of the State Auditor  
Beth A. Wood, CPA

NORTH CAROLINA 911 FUND  
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## INDEPENDENT AUDITORS' REPORT

To the North Carolina 911 Board  
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, 2010, 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, 2010, 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 23, 2011, 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 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.

*Thomas S. Gilbo CMA, PCC*

Durham, North Carolina  
March 23, 2011

NORTH CAROLINA 911 FUND  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2010

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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 Fund for the fiscal year ended June 30, 2010.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$43,834,998 all of which is unreserved.
- The Fund's total fund balance increased by \$19,565,829 for the fiscal year.

**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**

	<b>2010</b>	<b>2009 Unaudited</b>	<b>Variance</b>
Assets	\$ 59,493,867	\$ 56,416,376	\$ 3,077,491
Liabilities	15,658,869	32,147,207	(16,488,338)
Fund Balance			
Unreserved	43,834,998	24,269,169	19,565,829
Total Fund Balance	43,834,998	24,269,169	19,565,829
Total Liabilities and Fund Balance	\$ 59,493,867	\$ 56,416,376	\$ 3,077,491

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.

NORTH CAROLINA 911 FUND  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2010

Total assets increased from \$56,416,376 to \$59,493,867 for the year. The increase is the result of an increase in overall revenues over expenditures of the Fund.

Total liabilities decreased from \$32,147,207 to \$15,658,869 for the year. The decrease is the result of a decision by the 911 Board to allocate 100% of the unspent PSAP funds at June 30, 2010 to the Grant Account in compliance with General Statute 62A-46(b).

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

	<b>2010</b>	<b>2009 Unaudited</b>	<b>Variance</b>
Revenues			
Service Charge Revenues	\$ 85,559,893	\$ 87,738,108	\$ (2,178,215)
Other Revenues	1,219,594	585,992	633,602
Total Revenues	86,779,487	88,324,100	(1,544,613)
Expenditures			
Statutory Distributions	66,642,424	91,361,924	(24,719,500)
Other Expenditures	571,234	798,813	(227,579)
Total Expenditures	67,213,658	92,160,737	(24,947,079)
Revenues Over (Under) Expenditures	19,565,829	(3,836,637)	23,402,466
Fund Balance			
Beginning of Year	24,269,169	28,105,806	(3,836,637)
End of Year	\$ 43,834,998	\$ 24,269,169	\$ 19,565,829

As of June 30, 2010, the North Carolina 911 Board was disbursing monthly 911 funds to 125 Public Safety Answering Points (PSAPs) in North Carolina including the Eastern Band of the Cherokee Indians. The primary PSAPs located in Burke County of Morganton Police Dept and Valdese Fire Dept are allocated funds from the 911 fund but are actually collected and disbursed by Burke County. The same is true in Granville County where a second primary PSAP is located in Butner. Funds are received by Granville County and then disbursed to the Butner PSAP.

NORTH CAROLINA 911 FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010

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The enactment of General Assembly of North Carolina Session Law (SL) 2007-383, allowed for the awarding of grants to PSAPs located in rural and other high cost areas. At the September 25, 2009 meeting, the 911 Board awarded a total of \$16,758,145 to six PSAPs. The Board voted to transfer \$7,291,844 from the PSAP Distribution fund and \$9,466,301 from the CMRS Cost Recovery Fund to the PSAP Grant account.

The transferred funds were considered excess in both the PSAP Distribution Fund and the CMRS Cost Recovery Fund and did not impact either funds ability to meet their fiscal responsibilities.

Since an amount greater than three million dollars was transferred from the CMRS Cost Recovery Fund, the 911 Board considered lowering the 911 fee from \$ .70. The Board voted to delay any change in the fee until the Comprehensive Statewide 911 Plan had been completed which was anticipated to be completed in the first quarter of calendar year 2010.

The 911 Board revisited the discussion at their February 19, 2010 meeting and voted to reduce the 911 fee to \$0.60 effective July 1, 2010. This reduction would reduce total revenues to an estimated \$76.8 million dollars.

Revenues decreased by \$1,544,613 from the prior year due to a decrease in wireline subscribers. Service charge revenues continued to be the primary revenue source of the Fund.

Expenditures for the fiscal year were \$67,213,658 and included statutory distributions, other operating expenditures, and transfers. Statutory distributions and other operating expenditures decreased by \$24,947,079.

NC 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 made distributions to PSAPs in FY 2009-2010 in accordance with the statute.

In reviewing the annual revenue/expenditure reports from the PSAPs, the 911 Board staff noted that at the end of the fiscal year of June 30, 2009, PSAP Fund Balances (the amount that PSAPs have on hand locally) totaled over \$91.9 million.

The challenge of collecting the 911 fee from the mostly unregulated VoIP providers continues to be questionable as to whether or not all VoIP providers are remitting. In discussion with 911 Administrators from other states, there are several major providers such as Magic Jack and Skype that are not remitting. The amount of revenue not being collected is not possible to measure simply because the number of subscribers in North Carolina is unknown.

As of June 30, 2010, the CMRS Cost Recovery Fund balance was \$8,103,271 with an average monthly disbursement of \$691 thousand. As of the same date, the average monthly disbursement for the PSAP was \$5.3 million. Average monthly revenues to the PSAP fund as of June 30, 2010 were \$6.8 million.

NORTH CAROLINA 911 FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010

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**Future Highlights**

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

The North Carolina General Assembly passed legislation, SL2010-158, requiring the 911 Board to develop a new PSAP funding method. It is the understanding that the intent of the new method is to reduce local PSAP fund balances and to bring 911 revenues in line with the actual costs of 911 service.

Implementation of the new method will likely require a lengthy transition time as PSAPs adjust to the change in their revenues. The legislation also expands the PSAP's use of 911 fees. With this expanded use and the potential reduction of PSAP revenues, the 911 Board staff will need to closely monitor to ensure that PSAPs will still be able to maintain their existing level of service.

Implementation of operating standards for PSAPs will be required in the upcoming fiscal year. The cost of implementation is unknown at this point but could prove to be a negative impact on many of the smaller, rural PSAPs. Again, these costs need to be monitored closely by Staff.

SL2010-158 establishes grants for consolidating one or more PSAPs with a Primary PSAP (§62A-47.b.4). Funding for these grants comes from the PSAP Grant and Statewide Projects Account. The 911 Board is targeting implementation during the 2<sup>nd</sup> half of FY 2010/2011, with actual disbursements projected for the first quarter of FY 2011/2012. Funding for these grants will be transferred from the CMRS and PSAP designated funds to the 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**  
June 30, 2010

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**ASSETS**

Cash and Cash Equivalents (Note 2)	\$ 43,450,930
Accounts Receivable (Note 2)	7,266,060
Interest Receivable	48,415
State Treasurer's Security Lending Collateral (Note 2)	<u>8,728,462</u>

Total Assets \$ 59,493,867

**LIABILITIES AND FUND BALANCE**

Liabilities

Accounts Payable (Note 2)	\$ 41,487
Intergovernmental Payables (Note 2)	5,331,362
Other Payables	1,275,247
Obligation Under State Treasurer's Security Lending Agreements (Note 2)	<u>9,010,773</u>

Total Liabilities 15,658,869

Fund Balance

Unreserved:

Designated for Service Provider Payments	8,103,271
Designated for PSAP Grants	9,819,019
Undesignated	<u>25,912,708</u>

Total Fund Balance 43,834,998

Total Liabilities and Fund Balance \$ 59,493,867

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, 2010

**REVENUES**

Service Charge Revenues	\$	84,704,294
Investment Earnings		1,219,594
Administration Fees		855,599

Total Revenues		<u>86,779,487</u>
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**EXPENDITURES**

Current Operating		
Statutory Distributions		59,502,613
Grant Payments		7,139,811
Salaries and Benefits		218,159
Contracted Services		175,467
Travel		27,431
Data processing		3,516
Telephone		28,980
Dues and Subscriptions		8,236
Rent		12,586
Registration Fees		8,335
Postage and Freight		1,433
Reimbursements		(5,590)
Others		27,770
Capital Outlay		<u>2,601</u>

Total Expenditures		<u>67,151,348</u>
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Revenues Over Expenditures		19,628,139
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Other Financing Uses

Transfer Out		<u>(62,310)</u>
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Revenues and Other Financing Uses Over Expenditures		19,565,829
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Fund Balance

Beginning of Year		<u>24,269,169</u>
End of Year	\$	<u><u>43,834,998</u></u>

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

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**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.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Note 2 - Summary of Significant Accounting Policies (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.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Note 2 - Summary of Significant Accounting Policies (continued)**

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 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, 2010, the Fund had an accounts receivable balance of \$7,266,060. This amount includes \$7,193,399 in service charge fees, and \$72,661 in administration fees from the voice communication providers.

**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 and earnings arising from these transactions for the year ended June 30, 2010, the Fund’s share of net unrealized State Treasurer’s Securities Lending loss was \$370,265.

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.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**Accounts Payable** – Accounts payable represent amounts due to vendors and employees for goods, services or travel provided/incurred by June 30, 2010. At June 30, 2010, \$41,487 represents the amount due to vendors 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 3, Emergency Telephone Service. The PSAP distribution is based on the amount the PSAP received in the fiscal year ending June 30, 2007, and deposited in the Emergency Telephone System Fund. In addition, any amounts remaining in this fund on June 30th of each year may be distributed per capita to each of the eligible PSAPs. At June 30, 2010, approximately \$5,331,362 is currently due the PSAPs.

**Fund Balance** – Unreserved Fund Balance: Unreserved fund balance is subdivided into designated and undesignated portions. Undesignated funds represent expendable available financial resources. Designations of fund balance represent tentative Board plans that are subject to change. As of June 30, 2010, the Fund has the following unreserved, designated fund balances:

Unreserved, Designated for Service Provider Payments – A portion of the service charges collected by the Fund will be allocated for reimbursement to CMRS providers pursuant to G.S. 62A-45. CMRS providers are eligible for reimbursement from the 911Fund for the actual costs incurred by the CMRS providers in complying with the requirements of enhanced 911 service. If the amount of reimbursements to CMRS providers approved by the 911 Board for a fiscal year is less than the amount of funds allocated for reimbursements to CMRS providers for that fiscal year, the difference may carry forward in the fund, or the 911 Board may reallocate part or all of the excess amount to the PSAP Grant Account established under G.S. 62A-47. As of June 30, 2010, the CMRS Cost Recovery Fund balance was \$8,103,271.

Unreserved, Designated for PSAP Grants Account - a PSAP grant account is established within the 911Fund for the purpose of making grants to PSAPs in rural and other high-cost areas. The account consists of revenue allocated by the 911 Board under G.S. 62A-45(c) and G.S. 62A-46. During September 2009, the Board voted to award grants totaling \$16,758,145 to six PSAPs. Grant payments of \$7,139,811 were approved during the year. As of June 30, 2010 the amount of designated fund balance for the Grant account, including interest is \$9,819,019.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**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 1<sup>st</sup> of each year to ensure full recovery of costs associated with developing and maintaining an enhanced 911 System. The Fund receives a 1% administrative fee from the total service charges remitted by the voice communication providers. The voice communication providers continue to retain an allowance equal to the greater of 1% or fifty dollars (\$50.00) a month of the \$0.70 collected for their administrative costs.

**Statutory Distributions** - The Fund is required to use the 911 service charge fees, less a 1% administrative fee, to cover the costs associated with developing, maintaining and providing technical assistance to primary PSAPs of the enhanced 911 system. A portion 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. The CMRS allocation rate was 25% from July 2009 to September 2009, and 0.5% from October 2009 through the end of the year. A portion of the remaining fees are to be used to make monthly distributions to eligible PSAPs. The PSAP allocation rate was 75% from July 2009 to September 2009, and 99.5% from October 2009 through the end of the year.

**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, 2010, \$62,310 was transferred to ITS.

**Note 3 – Deposits and Investments with State Treasurer**

The amount shown on the Statement of Net Assets as cash and cash equivalents includes \$43,450,930, 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 1.6 years as of June 30, 2010. 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.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
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**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 \$10,000,000 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 \$5,000 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 \$1,000,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$1,000,000 up to \$10,000,000 per occurrence.

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.

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.



NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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**Note 4 – Risk Management (continued)**

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** – Each permanent full-time employee, as a condition of employment, is a member of the Teacher's and State Employees' Retirement System (TSERS), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. Benefit and contribution provisions of the Teacher's and State Employees' Retirement System are established by North Carolina General Assembly Statutes 135-5 and 135-8 and may be amended 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members. For the current fiscal year, the Fund had a total payroll of \$175,810, all of which was covered under the Teacher's and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$10,549 and \$6,276, respectively. Required employer contribution rates for the years ended June 30, 2009 and 2008 were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Fund made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$6,276, \$5,831, and \$5,141, 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 the Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Fund. The voluntary contributions by employees amounted to \$2,100 for the year ended June 30, 2010.

**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.

NORTH CAROLINA 911 FUND  
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June 30, 2010

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**Note 5 – Pension and Deferred Compensation Plans (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 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the year ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The North Carolina 911 Fund made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$7,911, \$7,115, and \$6,911, respectively. The North Carolina 911 Fund assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NORTH CAROLINA 911 FUND  
NOTES TO FINANCIAL STATEMENTS  
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**Note 6 – Other Postemployment Benefits (continued)**

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, 2010, the Fund made a statutory contribution of 0.52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were 0.52% and 0.52%, respectively. The Fund made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$914, \$902, and \$876, respectively. The Fund 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*.

**Note 7 – Changes in Financial Accounting and Reporting**

For the fiscal year ended June 30, 2010, the Fund implemented the following pronouncements issued by the Governmental Accounting Standards Boards (GASB):

*GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets* - *GASB Statement No. 51* provides needed guidance regarding how to identify, account for, and report intangible assets. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This pronouncement provides additional guidance that specifically addresses the unique nature of intangible assets, including 1) establishing a specified conditions approach to recognizing intangible assets that are internally generated. 2) providing guidance on recognizing internally generated computer software, and 3) establishing specific guidance for the amortization of intangible assets. The adoption had no impact on the Fund's Balance Sheet or Statement of Revenues, Expenditures, and Fund Balance.

NORTH CAROLINA 911 FUND  
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**Note 7 – Changes in Financial Accounting and Reporting (continued)**

*GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments - GASB Statement No. 53* addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex arrangements used by governments to manage specific risks or to make investments. The standard was an attempt to improve financial reporting for these instruments by requiring governments to measure derivative instruments at fair value. The adoption of the standard did not have a material impact on the financial statements in the current year.

**Note 8 – Future Accounting and Reporting Standard**

*GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, will be effective for fiscal periods that begin after June 15, 2010, meaning the fiscal year ending June 30, 2011 for most North Carolina governments. The statement has two major areas of discussion: fund balance classifications and fund type definitions. Memorandum #2010-23 was originally issued on March 3, 2010, and discusses *GASB Statement No. 54*, as it relates to fund type definitions. Memorandum #2010-35 addresses *GASB's* guidance on the new components of Fund Balance. Both of these memoranda were updated in September, 2010 to reflect more recent guidance by *GASB*. *GASB Statement No. 54* does not affect the government-wide or accrual-based statement presentations, nor does it change the amount of total fund balance on any fund statements. *Statement No. 54* does, however, significantly change the focus of fund balance reporting from what purposes fund balance is going to be used or appropriated for, to what constraints are placed on how resources within fund balance can be used and the identification of the source of those constraints.

**Note 9 – Subsequent Events**

The Fund has evaluated its subsequent events through March 23, 2011, which is the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.



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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*

To the North Carolina 911 Board  
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, 2010, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance for the year then ended June 30, 2010, and have issued our report thereon dated March 23, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 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's, PLLC*

Durham, North Carolina  
March 23, 2011