

STATE OF NORTH CAROLINA

NORTH CAROLINA 911 FUND

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA 911 FUND

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

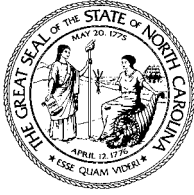
FOR THE YEAR ENDED JUNE 30, 2012

NORTH CAROLINA 911 BOARD

GEORGE A. BAKOLIA, CHAIRMAN

ADMINISTRATIVE OFFICERS

RICHARD TAYLOR, EXECUTIVE DIRECTOR



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
North Carolina 911 Board

We have completed a financial statement audit of the North Carolina 911 Fund for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

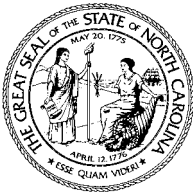
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

North Carolina 911 Board
North Carolina 911 Fund
Raleigh North Carolina

We have audited the accompanying basic financial statements of the North Carolina 911 Fund (the Fund), as of and for the year ended June 30, 2012, as listed in the table of contents. 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 the 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 North Carolina 911 Fund as of June 30, 2012, and the respective changes in its financial position 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 February 26, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

February 26, 2013

**NORTH CAROLINA 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the North Carolina 911 Fund (the "Fund"), we are providing the readers of these financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$45,352,561 all of which is committed.
- The Fund's total fund balance increased by \$10,085,184 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

	2012	2011 Unaudited	Variance
Assets	\$ 54,134,133	\$ 44,129,330	\$ 10,004,803
Liabilities	\$ 8,781,572	\$ 8,861,953	\$ (80,381)
Fund Balance			
Committed	45,352,561	35,267,377	10,085,184
Total Fund Balance	45,352,561	35,267,377	10,085,184
Total Liabilities and Fund Balance	\$ 54,134,133	\$ 44,129,330	\$ 10,004,803

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, fund balance can be a useful measure of the resources that are available for spending at the end of the fiscal year.

Total assets increased from \$44,129,330 to \$54,134,133 for the year. The increase is the result of a significant decrease in distributions of the Fund due to the implementation of a revised Public Safety Answering Point (PSAP) funding method as discussed later.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2012</u>	<u>2011</u> <u>Unaudited</u>	<u>Variance</u>
Revenues			
Service Charge Revenues	\$ 70,048,910	\$ 71,662,747	\$ (1,613,837)
Other Revenues	<u>910,484</u>	<u>1,293,143</u>	<u>(382,659)</u>
Total Revenues	<u>70,959,394</u>	<u>72,955,890</u>	<u>(1,996,496)</u>
Expenditures			
Statutory Distributions	60,368,516	81,058,330	(20,689,814)
Other Expenditures	<u>505,694</u>	<u>465,181</u>	<u>40,513</u>
Total Expenditures	<u>60,874,210</u>	<u>81,523,511</u>	<u>(20,649,301)</u>
Revenue Over/(Under) Expenditures	10,085,184	(8,567,621)	18,652,805
Fund Balance			
Beginning of Year	<u>35,267,377</u>	<u>43,834,998</u>	<u>(8,567,621)</u>
End of Year	<u>\$ 45,352,561</u>	<u>\$ 35,267,377</u>	<u>\$ 10,085,184</u>

Revenues decreased by \$1,996,496 from the prior year due to a continued decrease in wireline subscribers and the moving of contract wireless subscribers to prepaid status. Collection of prepaid wireless subscriber fees is in moratorium until July 1, 2013 (SL 2011-122). Service charge revenues continued to be the primary revenue source of the Fund.

Expenditures for the fiscal year were \$60,874,210 and included statutory distributions, other operating expenditures, and transfers. Statutory distributions and other operating expenditures decreased by \$20,649,301. The FY2011 PSAP distribution was \$63,273,118. The PSAP distribution for FY2012 utilizing the new funding method is \$46,454,644.

As of June 30, 2012, the Commercial Mobile Radio Service (CMRS) Cost Recovery Fund balance was \$2.9 million with an average monthly disbursement of \$714 thousand. As of the same date, the average monthly disbursement for the PSAP was \$4.0 million. Average monthly revenues to the PSAP fund as of June 30, 2012 were \$5.1 million.

Revised PSAP Funding Method: G.S. §62A-46.(a)(1) states that “The Board must determine a method for establishing distributions that is equitable and sustainable and that ensures distributions for eligible operating costs and anticipated increases for all funded PSAPs. The Board must establish a formula to determine each PSAP's base amount.”

The Board approved a revised PSAP fund distribution method on December 7, 2010 to be effective July 1, 2011. This method distributed funds to eligible PSAPs based on an average of the most recent five years of eligible 911 expenditures. Each year going forward, the oldest expenses would be removed from the average and the most current year added, creating a “rolling average.”

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Each PSAP was notified by December 31, 2010 of the new funding amounts and were given the opportunity to request a reconsideration of the allocated amounts if the PSAP believed the proposed amount to not be adequate to provide sustainable funding for the fiscal year.

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, 2011, PSAP Fund Balances (the amount that PSAPs have on hand locally) totaled over \$108.6 million.

Twenty-nine PSAPs expressed interest in a funding reconsideration for FY2012, twenty made formal requests and four were given an increase from the proposed amount after careful review of past expenditures and fund balances within the individual PSAP.

As of June 30, 2012, the North Carolina 911 Board was disbursing 911 funds to 125 PSAPs in North Carolina each month, including the Eastern Band of the Cherokee Indians. The primary PSAPs located in Burke County, 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.

Grants and Statewide Projects: The enactment of SL 2010-158 (codified in G.S. 62A-47), expanded the Board's grant authority in two significant ways: to consolidate one or more PSAPs with a primary PSAP, and to fund statewide projects. At the September 30, 2011 meeting, the 911 Board awarded a total of \$19,549,792 to six PSAPs. Of those six, two grants were awards to counties undertaking projects that qualified for the PSAP consolidation grant. Rockingham County was awarded \$7,826,000 to consolidate with Eden PD and Reidsville PD. Burke County was awarded \$7,280,000 to consolidate with Morganton PD and Valdese Fire. The Board voted to transfer \$11,019,984.74 from the PSAP Distribution fund to the PSAP Grant account at the August 26, 2011 911 Board meeting.

The transferred funds were considered excess in the PSAP Distribution Fund and did not impact the fund's ability to meet its fiscal responsibilities.

911 Fee: The 911 Board reviewed the PSAP and CMRS Cost Recovery Fund balances at the March 23, 2012 meeting. The staff presented the financial forecast for FY2013 and recommended that the 911 fee remain at \$.60 for the next year. The Board approved the staff recommendation.

Future Highlights

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

Moving the North Carolina 911 system to a Next Generation 911 platform is probably the single most important challenge facing the 911 Fund. Next Generation 911 is difficult to define but can be simply described as moving from an analog system focused on delivering 911 calls to a single PSAP to a digital network allowing seamless transfer of call information among PSAPs. Initial reports from several PSAP managers to the 911 Board indicate that individual PSAP costs will double with Next Generation 911 deployment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The transition period from analog to digital will necessitate the need for two systems, the legacy analog and the next generation, to operate simultaneously. Because PSAPs operate independently and without a statewide coordinated effort, these costs not only will be high but also will have to be incurred over a longer period of time. The North Carolina 911 Board should take immediate steps to create a Next Generation 911 plan and begin implementation of that plan.

Funding for secondary PSAPs continues to be an issue that “bubbles under the surface” for the 911 Fund. While there are procedures in place from the 911 Board that would allow primary PSAPs to share funding with secondary PSAPs within the primary’s operations, there continues to be an effort among secondary PSAPs to receive direct funding which would require a statutory change.

The current economic environment is believed to be the primary factor for local governments to seek other funding sources. It is that same environment which has driven individual PSAP costs upward while revenues have decreased. The costs of funding Next Generation 911 and increasing the 911 fund distribution to include secondary PSAPs will create a negative impact on the 911 Fund and will require an increase in the 911 fee paid by telephone subscribers or another funding method.

The moratorium on 911 fee collection from prepaid subscribers will end June 30, 2013. With the methodology in place for fee collection and disbursement as part of the Fund, (administrative fees withheld by retail collection sites and by the Department of Revenue) the first of the net prepaid 911 proceeds to the 911 Fund may not be realized until December 2013 or January 2014 at the earliest. Any adjustment of the 911 fee for FY14 will be unlikely due to the potential increase in 911 fees derived from prepaid subscribers. However costs for deploying Next Generation 911 for PSAPs along with rising PSAP operational costs will be a factor to monitor closely during this period for the demands placed on the 911 Fund.

Operating standards for PSAPs are authorized by G.S. § 62A-42.a.4. The proposed standards are going through the rule making process as required by G.S. §150B and have not become effective. Costs of implementing the proposed standards will be forecast as part of the rule making process, but remain unknown at this point. Such costs have a negative impact on the PSAP fund. When implementation does occur, these costs need to be monitored closely by Staff.

Request for Information

This report is designed to provide an overview of the North Carolina 911 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, 2012***

Exhibit A-1

ASSETS

Cash and Cash Equivalents (Note 3)	\$	43,131,063
Accounts Receivable (Note 2)		6,614,400
Interest Receivable		19,695
State Treasurer's Securities Lending Collateral (Note 2)		<u>4,368,975</u>
Total Assets	\$	<u><u>54,134,133</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable (Note 2)	\$	310,712
Intergovernmental Payables (Note 2)		3,871,220
Other Payables		40,480
Obligation Under State Treasurer's Security Lending Agreements (Note 2)		<u>4,559,160</u>
Total Liabilities		<u>8,781,572</u>

Fund Balance

Committed		<u>45,352,561</u>
Total Fund Balance		<u>45,352,561</u>
Total Liabilities and Fund Balance	\$	<u><u>54,134,133</u></u>

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

***North Carolina 911 Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Fiscal Year Ended June 30, 2012***

Exhibit A-2

REVENUES

Service Charge Revenues	\$ 70,048,910
Investment Earnings	202,919
Administration Fees	707,565
	<hr/>
Total Revenues	<u>70,959,394</u>

EXPENDITURES

Statutory Distributions	55,053,466
Grant Payments	5,315,050
Salaries and Benefits	251,245
Contracted Services	130,221
Travel	33,833
Data Processing	8,129
Telephone	19,859
Vehicle Lease	15,587
Registration Fees	627
Postage and Freight	1,625
Other	11,225
Capital Outlay	350
	<hr/>
Total Expenditures	<u>60,841,217</u>
Revenues Over Expenditures	<u>10,118,177</u>

OTHER FINANCING USES

Transfer Out	(32,993)
	<hr/>
Revenues Over Expenditures and Other Uses	<u>10,085,184</u>

FUND BALANCE

Beginning of Year	<u>35,267,377</u>
End of Year	<u><u>\$ 45,352,561</u></u>

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

**NORTH CAROLINA 911 FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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, three 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 balance, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Fund uses the Governmental Fund Type - Special Revenue Fund. The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

this purpose, the Fund considers revenues to be available if they are collected within 45 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 payment is due.

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.

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, 2012, the Fund had an accounts receivable balance of \$6,614,400. This amount includes \$6,548,256 in service charge fees, and \$66,144 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 income and costs arising from the transactions is included on the Statement of Revenues, Expenditures, and Changes in Fund Balance. 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 and agency securities, FNMA's, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government and agency 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.osc.nc.gov/financial/index.html>

Accounts Payable – Accounts payable represent amounts due to vendors, CMRS providers and employees for goods, services or travel provided/incurred by June 30, 2012.

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. At June 30, 2012, \$3,871,220 is currently due to the PSAPs.

Fund Balance – Fund balance for governmental funds is reported in five categories: non-spendable, restricted, committed, assigned, and unassigned. The fund balance for the 911 Board is committed since it can only be used for specific purposes pursuant to constraints imposed by formal action of the N.C. General Assembly, the State's highest level of decision-making authority. The N.C. General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally. As of June 30, 2012, the Fund has a committed fund balance of \$45,352,561.

Service Charge Revenues and Administration 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 Board to ensure full cost recovery for voice communication service providers and for primary PSAP's over a reasonable period of time. A change in the rate may become effective only on July 1. The Fund receives a 1% administrative fee from the total service charges remitted by the voice communication providers. The voice communication providers may retain an allowance equal to the greater of 1% or fifty dollars (\$50.00) a month of the \$0.60 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 and other costs as approved by the 911 Board. A portion of the remaining fees are to be used to reimburse CMRS for actual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

costs incurred in complying with the requirements of enhanced 911 service. The allocation of funds remitted by CMRS providers is 20% to the CMRS portion of the fund and 80% to the PSAP portion of the Fund. Funds received from other voice communication providers are allocated 100% to the PSAP portion of the Fund.

Grant Payments - The Board funds grants to PSAPs in rural and other high-cost areas and projects that provide statewide benefits for 911 Service. A PSAP may apply to the 911 Board for a grant. The Board may approve a grant application and enter into agreement with a PSAP if the Board determines the estimated costs are reasonable, the expenses are consistent with the 911, sufficient funds are available, and the costs are authorized PSAP costs or the costs are for consolidating PSAP's, or the relocation costs of a primary PSAP.

The Board may use funds for a statewide project if the Board determines the project is consistent with the 911 plan, the project is cost-effective and efficient, the project is an eligible expense under G.S.62A-46(c) and the project will have a statewide benefit for 911 service.

Transfers – Transfers represent payments by the Fund to Information Technology Services (ITS) for its share of allocated costs such as facilities, administration, security, and customer support expenses. At June 30, 2012, \$32,993 was transferred to ITS.

NOTE 3 – DEPOSITS AND INVESTMENTS WITH STATE TREASURER

The amount shown on the Balance Sheet as cash and cash equivalents includes \$43,131,063 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 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at cost or 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.osc.nc.gov/financial/index.html>.

NOTES TO THE 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 \$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 employer'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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

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

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

NOTE 5 – PENSION AND DEFERRED COMPENSATION PLANS

Retirement Plan – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members. For the current fiscal year, the Fund had a total payroll of \$196,894, 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 \$11,809 and \$14,649, respectively. Required employer contribution rates for the years ended June 30, 2011 and 2010 were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The Fund made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$14,649, \$8,788, and \$6,276, 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.osc.nc.gov/financial/index.html>.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of the plan participants. No costs are incurred by the Fund. The voluntary contributions by employees amounted to \$1,200.00 for the year ended June 30, 2012.

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 Supplemental Retirement Income Plan (the “Plan”). The Plan permits each participating employee to defer a portion of his or her salary until future years.

The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the 457 plan. All costs 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 original hire date and 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 the legislatively mandated 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the year ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The North Carolina 911 Fund made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$9,845, \$8,734, and \$7,911, respectively. The North Carolina 911 Fund assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

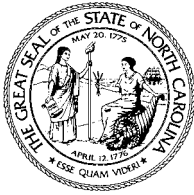
Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

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, 2012, 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, 2011, and 2010, 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, 2012, 2011, and 2010, which were \$1,024, \$927, and \$914, 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*.

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Beth A. Wood, CPA
State Auditor

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

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) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 26, 2013.

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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The Fund's management is responsible for establishing and maintaining effective 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 management of the Fund, the North Carolina 911 Board, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

February 26, 2013

ORDERING INFORMATION

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

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Facsimile: 919/807-7647

This audit required 474 audit hours at an approximate cost of \$34,128. The cost represents .063% of the Fund's total assets and .053% of total expenses subjected to audit.