

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## NORTH CAROLINA 911 FUND

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016



**NC**  **OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, 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, 2016, 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



Beth A. Wood, CPA  
State Auditor

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# INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **INDEPENDENT AUDITOR'S REPORT**

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North Carolina 911 Board  
North Carolina 911 Fund  
Raleigh, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina 911 Fund (911 Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 911 Fund's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 911 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 911 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 911 Fund, as of June 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the 911 Fund are intended to present the financial position and changes in financial position that are attributable to the transactions of the 911 Fund. They do not purport to, and do not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles general accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 our audit of the basic financial statements. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017 on our consideration of the 911 Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 911 Fund's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

June 20, 2017



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the North Carolina 911 Fund (911 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 911 Fund for the fiscal year ended June 30, 2016.

**Financial Highlights**

- The assets of the 911 Fund exceeded its liabilities at the close of the fiscal year by \$58,542,995 all of which is committed.
- The 911 Fund's total fund balance increased by \$14,126,256 for the fiscal year.

**Overview**

This discussion and analysis is intended to serve as an introduction to the 911 Fund's financial statements. The 911 Fund's financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

- The Balance Sheet presents the 911 Fund's assets, deferred outflows, liabilities, and deferred inflows that are considered relevant to an assessment of near-term liquidity. The difference between assets (plus deferred outflows of resources) and liabilities (plus deferred inflows of resources) is reported as fund balance.
- The Statement of Revenues, Expenditures, and Changes in Fund Balance reports the resource flow (revenues and expenditures) of the 911 Fund.

Notes to the financial statements are designed to give the reader additional information concerning the 911 Fund and further supports the statements noted above.

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the Governmental Accounting Standards Board (GASB) and includes 911 Fund's budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balance at fiscal year-end.

The following schedules reflect condensed financial information for the 911 Fund.

Condensed Balance Sheet  
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015 Unaudited	Change
Assets	\$ 67,553,500	\$ 52,909,446	\$ 14,644,054
Deferred Outflows of Resources	0	0	0
Total Assets and Deferred Outflows	<u>\$ 67,553,500</u>	<u>\$ 52,909,446</u>	<u>\$ 14,644,054</u>
Liabilities	\$ 9,010,505	\$ 8,492,707	\$ 517,798
Deferred Inflows of Resources	0	0	0
Fund Balance			
Committed	<u>58,542,995</u>	<u>44,416,739</u>	<u>14,126,256</u>
Total Fund Balance	<u>58,542,995</u>	<u>44,416,739</u>	<u>14,126,256</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 67,553,500</u>	<u>\$ 52,909,446</u>	<u>\$ 14,644,054</u>



The focus of the 911 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 911 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 \$52,909,446 to \$67,553,500 for the year. Assets increased because the 911 Fund is holding cash for Next Generation 911 (NG911) reserve and grants to Public Safety Answering Points (PSAPs) that had not requested reimbursement as of June 30, 2016.

Total liabilities increased from \$8,492,707 to \$9,010,505 for the year. The increase is due to cost recovery reimbursements payable at year end.

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balances  
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015 Unaudited	Change
<b>Revenues</b>			
Service Charge Revenues	\$ 84,189,459	\$ 77,679,273	\$ 6,510,186
Other Revenue	1,170,041	1,006,024	164,017
Total Revenue	<u>85,359,500</u>	<u>78,685,297</u>	<u>6,674,203</u>
<b>Expenditures</b>			
Statutory Distributions	56,437,528	59,215,401	(2,777,873)
Grant Payments	12,814,229	23,807,736	(10,993,507)
Other Expenditures	1,981,487	1,438,296	543,191
Total Expenditures	<u>71,233,244</u>	<u>84,461,433</u>	<u>(13,228,189)</u>
Revenues Over (Under) Expenditures	14,126,256	(5,776,136)	19,902,392
Fund Balance Beginning of Year	<u>44,416,739</u>	<u>50,192,875</u>	<u>(5,776,136)</u>
Fund Balance End of Year	<u>\$ 58,542,995</u>	<u>\$ 44,416,739</u>	<u>\$ 14,126,256</u>

Service charge revenue increased by \$6,510,186 from the prior year. Sources of revenue changed due to a change in legislation, *North Carolina General Statute 143B-1414*, resulting in the collection of 911 service fees for Prepaid Wireless sales that became effective July 1, 2013. Since this is a point of sale collection by retail outlets statewide, a portion of the noted increase in revenues is believed to come from better education and collection efforts by the Department of Revenue with impacted retailers. The increase is also attributable to an increase in the amount of service charge fees remitted to the 911 Fund from voice communication service providers. Service charge revenue and interest earned on the Short-Term Investment Fund (STIF) continue to be the only revenue source of the 911 Fund.

As of June 30, 2016, the North Carolina 911 Board (NC 911 Board) was disbursing funds to 119 Primary and 8 Secondary PSAPs in North Carolina each month, including the Eastern Band of the Cherokee Indians.

Expenditures for the fiscal year were \$71,233,244 and included statutory distributions and other operating expenditures. Grant payment expenditures decreased by \$10,993,507. The decrease is due to ongoing projects to which grant recipients have not yet submitted request for reimbursement.

As of June 30, 2016, the Commercial Mobile Radio Service (CMRS) Cost Recovery fund balance was \$3.7 million with an average monthly disbursement of \$524,734. As of the same date, the average monthly disbursement for the PSAP Distribution fund was \$4.1 million. Average monthly revenue to the PSAP fund as of June 30, 2016 was \$5.8 million.

### **Budget Variations**

Data for the budget variances is presented in Exhibit B-1: Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) of this report.

The 911 Fund budget is based on receipts received from access lines as noted in G.S.143B-1400. It is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate changes in NC 911 Board activity. Under current state budget management practice, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

### **Variations – Original and Final Budget:**

In general, the variance between the Grant Payments original and final budget is attributable to the timing issue between when the NC 911 Board approves the budget and when it is processed along with the State budget. Grant payments are fluid and the NC 911 Board approval of grant carry forward amounts can change based on payments made by fiscal year close. In addition, the amount budgeted for new awardees, is based on an estimated figure of the PSAP and CMRS funds that will be available for transfer, so the amount budgeted will not be updated until the NC 911 Board approves what, if any, funds are to be moved from the PSAP and CMRS fund to the Grant fund. This is completed in September of the following fiscal year.

Additionally, the variance between the original and final budgeted amounts for Contracted Services was due the awarding of three Statewide projects totaling \$3 million during the fiscal year.

The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved by the NC 911 Board Executive Director during the fiscal year.

### **Variations – Final Budget and Actual Results:**

A variance between final and actual occurs as changes are made throughout the year due to new or changing activities. Other changes occurred due to the following:

- 1) Statutory Distribution – CMRS providers decreased reimbursement requests. The NC 911 Board prepares an estimated figure based on prior years' request, however; the CMRS provider is not guaranteed to submit requests. Additionally, the PSAP reconsiderations were less than expected, so this caused the decrease in payments to the PSAPs.
- 2) Grant Payments – Grant recipient's reimbursement requests are based on the recipient's project schedule so the request may or may not occur within the fiscal year; however, it must be budgeted as such to be sure funds are available if requested.
- 3) Contracted Services – Statewide grants were awarded to recipients; however, invoices were not received for payment in the fiscal year funds were budgeted.

### **PSAP Funding Method**

*North Carolina General Statute* 143B-1406 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 NC 911 Board approved the current PSAP funding distribution method on December 7, 2010 to be effective July 1, 2011. This method distributes 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.”

Twenty-two PSAPs made formal funding reconsideration request for fiscal year 2016. Of the twenty-two requests only 12 were increased from the proposed amount after careful review of past expenditures and fund balances within the individual PSAP.

The approved PSAP distribution for fiscal year 2016 was \$49,866,260.

In performing the annual review of revenue/expenditure reports from the PSAPs, the NC 911 Board staff noted that at June 30, 2016, PSAP fund balances (the amount that PSAPs have on hand locally) totaled over \$66.5 million.

### **Grant and Statewide Projects**

The enactment of SL 2010-158 (codified in G.S. 62A-47), expanded the NC 911 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 July 31, 2015 meeting, \$11,025,952 was awarded in grants to three PSAPs. Graham County received \$3,401,528 for construction of a new facility on property provided by Graham County and will meet the needs of the regional PSAP initiative with Swain and Jackson counties.

Hyde County was granted \$1,266,887 for the consolidation of 911 operations currently administered by the Hyde County Sheriff's office with similar operations of Dare County and Tyrrell County within a new unified administrative structure within Dare County 911 Communications.

Richmond County was granted \$6,357,537 for construction of a new facility on property provided by Richmond County which will house the 911 system and for the consolidation of 911 operations currently administered by the Richmond County Sheriff's office, Rockingham Police Department, and Hamlet Police Department with similar operations of Richmond County within a new unified administrative structure within Richmond County Emergency Communications.

The NC 911 Board also continued funding for the fourth year of the statewide orthography project in the amount of \$3,719,332.

The NC 911 Board voted to transfer \$18,618,895 from the PSAP Distribution fund to the Grant account at the September 25, 2015 board meeting. The transferred funds were considered excess in the PSAP Distribution fund and did not impact the 911 Fund's ability to meet its fiscal responsibilities.

**911 Fee**

The NC 911 Board reviewed the PSAP and CMRS Cost Recovery fund balances at the March 27, 2016 meeting. The staff presented the financial forecast for fiscal year 2016 and recommended that the 911 fee remain at \$.60 for the next year. The NC 911 Board approved the staff recommendation.

**Future Highlights**

There are several areas in the NC 911 Board's authority that will require additional attention in the near future.

The transition to the NG 911 platform is moving slowly but it is moving forward. Working with our technology consultant, a Cost Analysis was adopted by the NC 911 Board in January 2016. Costs of the present legacy 911 system established a baseline for costs that may be either replaced or impacted by the implementation of an Emergency Services Network (ESInet) and NG911 core services. NG911 replacement costs fall into two categories, costs that will be replaced by NG911 and costs that can be impacted by NG911. Costs that will be replaced by NG911 costs is defined as costs that will shift from the legacy 911 Fund into services provided by the ESInet and NG911 system. These costs will remain but will migrate into the NG911 platform, which offers enhancements and greater reliability over the legacy system.

The cost analysis concludes that \$13,684,110 of the existing annual costs will shift onto the NG911 system once it is operation. An estimated \$22,155,071 of the annual costs is potentially "impacted by NG911" and portions that will shift to the NG911 system. Based on the Concept of Operations the total costs for NG911 network is estimated to be \$27,574,347.

This Cost Analysis is using the best information available and does not reflect the actual costs that may be incurred for implementation until a vendor or vendors are selected. The Request for Proposal was issued in June 2016.

Implementation of operating standards for PSAPs became effective July 1, 2016. PSAPs have been given until July 1, 2017 to make adjustments to their operations before any compliance inspections begin. The cost of implementation remains unknown at this point but could prove to be a negative impact on the PSAP fund. These costs need to be monitored closely by staff.

Implementation of backup plans for all PSAPs has a deadline of July 1, 2017. Because each PSAP has developed its own autonomous plan, the overall financial impact to the 911 Fund is difficult to estimate. However, the 911 Fund staff has been working very closely with each PSAP and their financial needs to accomplish the legislative mandate. At this point it appears the 911 Fund is healthy enough to meet the financial requirements but close attention should be given each month to monitor any significant changes.

**Request for Information**

This report is designed to provide an overview of the 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 located at 3700 Wake Forest Road, Raleigh, North Carolina 27609.



# FINANCIAL STATEMENTS

**North Carolina 911 Fund  
Balance Sheet  
June 30, 2016**

**Exhibit A-1**

**ASSETS**

Cash and Cash Equivalents (Note 2)	\$	54,770,661
Accounts Receivable		7,733,865
Interest Receivable		35,482
Due from Other Funds		1,980,706
Securities Lending Collateral		3,032,786
		<hr/>
Total Assets		67,553,500

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources		<hr/>
		0
		<hr/>
Total Assets and Deferred Outflows	\$	67,553,500

**LIABILITIES**

Accounts Payable and Accrued Liabilities:		
Accounts Payable		641,693
Intergovernmental Payable		5,334,377
Other Payables		1,649
Obligations Under Securities Lending		3,032,786
		<hr/>
Total Liabilities		9,010,505

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources		<hr/>
		0

**FUND BALANCE**

Committed		<hr/>
		58,542,995
		<hr/>
Total Liabilities, Deferred Inflows and Fund Balance	\$	67,553,500

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, 2016**

**Exhibit A-2**

**REVENUES**

Service Charges Revenues	\$ 84,189,459
Investment Earnings	369,381
Administration Fees	800,660
	<hr/>
Total Revenues	85,359,500
	<hr/>

**EXPENDITURES**

Statutory Distributions	56,437,528
Grant Payments	12,814,229
Salaries and Benefits	465,293
Contracted Services	1,345,601
Travel	76,970
Communication	11,017
Data Processing	10,958
Vehicle Lease	22,294
Registration Fees	1,644
Postage and Freight	683
Other	44,359
Capital Outlay	2,668
	<hr/>
Total Expenditures	71,233,244
	<hr/>
Revenues Over Expenditures	14,126,256
	<hr/>

**OTHER FINANCING SOURCES (USES)**

Total Other Financing Sources (Uses)	<hr/> 0
Net Change in Fund Balances	14,126,256

**FUND BALANCE**

Fund Balance, July 1, 2015	<hr/> 44,416,739
Fund Balance, June 30, 2016	<hr/> <hr/> \$ 58,542,995

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



# NOTES TO THE FINANCIAL STATEMENTS



## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - 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 *North Carolina General Statute* 62A, creating a North Carolina 911 Fund (911 Fund) and North Carolina 911 Board (NC 911 Board). The NC 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 NC 911 Board continues to provide for an enhanced 911 system for the use of wireless, wireline and Voice over Internet Protocol (VoIP) telephone services. In addition, the 911 Fund provides funding for major improvements in the quality and reliability of statewide 911 services available to the customers of voice communication service providers.

As required by *North Carolina General Statute* 143B-1400, certain elected officials appoint the sixteen members of the NC 911 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 sixteen Board members, three members represent the Commercial Mobile Radio Service (CMRS) providers, four members represent the Local Exchange Carriers, and one member represents VoIP providers and are considered the "Industry" representatives. Of the remaining eight members representing the "Public Sector," there is one member representing a county, one member representing a municipality, one member who is a sheriff, one member who is a police chief, one member who is a fire chief, one member who is rescue or emergency medical services chief, one member representing the NC Chapter of the National Emergency Number Association (NENA), and one member representing the NC Chapter of the Association of Public Safety Communication Officials (ACPO).

During the year, voice communications providers remit monthly service charges to the 911 Fund and Public Safety Answering Points (PSAPs) receive statutory distributions from the fund. The NC 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.

- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their

constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The 911 Fund is part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the 911 Fund is financially accountable. The 911 Fund's accounts and transactions are included in the State's *Comprehensive Annual Financial Report* as part of the State's governmental funds.

- C. Basis of Presentation** - The 911 Fund's records are maintained on a cash basis throughout the year, but adjustments are made at the end of the fiscal year to convert to GAAP for governmental entities. The financial statements are prepared according to GAAP as follows:

The accompanying financials statements are presented in accordance with principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* require the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the 911 Fund. Because the 911 Fund is not a separate legal entity, government-wide financial statements are not prepared.

The 911 Fund reports only one major fund, the Special Revenue Fund. The Special Revenue Fund is the primary operating fund and is used to account for the proceeds of specific revenue sources that are restricted or committed for specified purposes. The primary revenue source is 911 service charge.

- D. Measurement Focus and Basis of Accounting** – Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources.

Under the modified accrual basis, revenues are recognized when both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the 911 Fund considers revenues to be available if they are collected within 35 days of the end of the current fiscal period. 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.

Non-exchange 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.

The 911 Fund recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met.

Since pension liability amounts relating to the 911 Fund are reported only at the statewide level, these amounts are not included in the 911 Fund's financial statements. However, the pension liability is reported in Note 3 in the Notes to the Financial Statements.

- E. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- F. Accounts Receivable** - This classification consists of service charges for voice communication connections. Accounts receivable are expected to be collected within one year. As of June 30, 2016, the 911 Fund had an accounts receivable balance of \$7,733,865. This amount includes \$7,025,820 in service charge fees, \$637,077 Next Generation 911 Reserve fees and \$70,968 in administration fees from the voice communication providers. As of June 30, 2016, the 911 Fund had an interest receivable of \$35,482 based on the STIF account balance.
- G. Due from Other Funds** - As of June 30, 2016, the Department of Revenue owed the 911 Fund \$1,980,706 for prepaid wireless revenues collected for May and June 2016.
- H. Securities Lending** - While the 911 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 911 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 *North Carolina General Statute* 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government and agency securities, 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 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 detailed information on the State Treasurer's securities lending program can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- I. **Accounts Payable** - Accounts payable represent amounts due to vendors, CMRS providers and employees for goods, services or travel provided/incurred by June 30, 2016.
- J. **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 Statute*, 143B-1406. At June 30, 2016, \$5,334,377 is currently due to the PSAPs.
- K. **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 Fund 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, 2016, the 911 Fund has a committed fund balance of \$58,542,995.
- L. **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 NC 911 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 911 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.
- M. **Statutory Distributions** - The 911 Fund is required to use the 911 service charge fees, less a 1% administrative fee and 10% Next Generation 911 Reserve Fund 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

NC 911 Board. A portion of the remaining fees are to be used to reimburse CMRS providers for actual 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.

- N. Grant Payments** - The NC 911 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 NC 911 Board for a grant. The NC 911 Board may approve a grant application and enter into agreement with a PSAP if the NC 911 Board determines the estimated costs are reasonable, the expenses are consistent with the 911 plan, 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 NC 911 Board may use funds for a statewide project if the NC 911 Board determines the project is consistent with the 911 plan, the project is cost-effective and efficient, the project is an eligible expense under *North Carolina General Statute* 143B-1407, and the project will have a statewide benefit for 911 Service.

- O. Next Generation 911 Reserve Fund** – The NC 911 Board must allocate 10% of the total service charge to the Next Generation 911 Reserve Fund per *North Carolina General Statute* 143B-1404. This fund may be used to cover cost associated with the implementation of the next generation 911 systems. The NC 911 Board may provide funds directly to PSAPs to implement the next generation 911 systems.

## NOTE 2 - DEPOSITS AND FAIR VALUE MEASUREMENT

- A. Deposits** - Unless specifically exempt, the 911 Fund is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is

established by each depository under the 911 Fund's name and the responsibility of monitoring collateralization rests with each depository. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the 911 Fund to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the 911 Fund's deposits may not be returned to it. As of June 30, 2016, the 911 Fund's bank balance in excess of federal depository insurance coverage was covered under pooling method.

At June 30, 2016, the Balance Sheet reported cash and cash equivalents of \$54,770,661 which represents the 911 Fund's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Fair Value Measurements** - To the extent available, the 911 Fund's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active

- markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
  - Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

**Short-Term Investment Fund** – At year-end, all of the 911 Fund's cash and cash equivalents valued at \$54,770,660 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

### NOTE 3 - PENSION PLANS

#### Defined Benefit Plan

Pension contributions to cost sharing plans are recognized as expenditures in the period to which the payment relates, even if the payment is not due until the subsequent period. Consequently, the net pension liability is not reported on the face of the fund financial statements.

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible

beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The 911 Fund's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The 911 Fund's contributions to the pension plan were \$32,024 and employee contributions were \$20,999 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2016, the 911 Fund's proportionate share of the collective net pension liability was \$81,175. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The 911 Fund's proportion of the net pension liability was based on the present value of future salaries for the 911 Fund relative to the present value of future salaries for all participating



employers, actuarially-determined. As of June 30, 2015, the 911 Fund's proportion was .00220%, which was an increase of .00017 from its proportion measured as of June 30, 2014.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 244,315	\$ 81,175	\$ 57,268

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the 911 Fund recognized pension expense of \$10,216. At June 30, 2016, the 911 Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 0	\$ 9,230
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		8,795
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	10,693	1,829
Contributions Subsequent to the Measurement Date	<u>32,024</u>	
Total	<u>\$ 42,717</u>	<u>\$ 19,854</u>

The amount of \$32,024 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	<u>Amount</u>
2017	\$ (8,263)
2018	(8,263)
2019	(7,793)
2020	<u>15,158</u>
Total	<u>\$ (9,161)</u>

**NOTE 4 - OTHER POSTEMPLOYMENT BENEFITS**

**A. Health Benefits** - The 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 (TSERS). 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, Article 3B, 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 TSERS 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.

For the current fiscal year, the 911 Fund contributed 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015 and 2014, were 5.49%, 5.40%, respectively. The 911 Fund made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$19,599, \$17,078, and \$14,742, respectively. The 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*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The 911 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 TSERS. 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. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the 911 Fund made a statutory contribution of .41% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The 911 Fund made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$1,435, \$1,275, and \$1,201, respectively. The

911 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 5 - RISK MANAGEMENT**

The 911 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, purchase of commercial insurance, and self-retention of certain risks. 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.

**A. Employee Benefit Plans**

**1. State Health Plan**

The 911 Fund employees and retirees are provided comprehensive major medical benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

**2. Death Benefit Plan of North Carolina**

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

The 911 Fund is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (the Fund"), an internal service fund of the State. Such coverage is provided at no cost to the 911 Fund for operations supported by State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The 911 Fund pays

premiums to the North Carolina Department of Insurance for the coverage.

**2. Public Officer’s and Employees’ Liability Insurance**

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$10,000,000 via contract with a private insurance company. The 911 Fund pays the premium, based on a composite rate, directly to a private insurer.

**3. Employee Dishonesty and Computer Fraud**

The 911 Fund is protected for losses from employee dishonesty and computer fraud for employees paid in whole or part from state funds. The coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The 911 Fund is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

**4. Statewide Worker’s Compensation Program**

The North Carolina Workers’ Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units 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 911 Fund is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers’ Compensation Act. The 911 Fund retains the risk for workers’ compensation.

Additional details on state-administered risk management programs are disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

**NOTE 6 - COMMITMENTS**

The NC 911 Board sets aside a portion of its fund balance annually to provide grants to local PSAPs and to fund Statewide 911 projects. At June 30, 2016, the 911 Fund had outstanding commitments on these cost-reimbursement grants and contracts totaling \$25.63 million.

**NOTE 7 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2016, the Department implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



# **REQUIRED SUPPLEMENTARY INFORMATION**



**North Carolina 911 Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Budgetary Basis-Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit B-1**

	Budgeted Amounts		Actual (Cash Basis)	Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Service Charges Revenues	\$ 82,800,000	\$ 82,800,000	\$ 82,964,747	\$ 164,747
Investment Earnings	247,000	247,000	341,597	94,597
Administration Fees	810,000	810,000	795,633	(14,367)
Total Revenues	83,857,000	83,857,000	84,101,977	244,977
<b>EXPENDITURES</b>				
Statutory Distributions	69,600,000	69,600,000	56,300,157	13,299,843
Grant Payments	40,023,111	37,064,192	12,576,036	24,488,156
Salaries and Benefits	606,725	606,725	464,768	141,957
Contracted Services	805,000	3,814,420	1,310,050	2,504,370
Travel	98,950	100,400	76,839	23,561
Communication	23,340	23,340	11,303	12,037
Data Processing	17,400	18,670	11,828	6,842
Vehicle Lease	29,549	29,549	22,600	6,949
Registration Fees	4,500	4,500	895	3,605
Postage and Freight	300	875	690	185
Other	123,385	98,879	36,550	62,329
Capital Outlay	11,568	15,278	2,866	12,412
Total Expenditures	111,343,828	111,376,828	70,814,582	40,562,246
Excess of Revenues Over (Under) Expenditures	(27,486,828)	(27,519,828)	13,287,395	40,807,223
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(33,000)			
Total Other Financing Sources (Uses)	(33,000)			
Net Change in Fund Balance	(27,519,828)	(27,519,828)	13,287,395	40,807,223
Fund Balance - July 1, 2015	44,416,739	44,416,739	44,416,739	
Fund Balance - June 30, 2016	\$ 16,896,911	\$ 16,896,911	\$ 57,704,134	\$ 40,807,223

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the 911 Fund. Actual amounts in the schedule are presented on the budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and the GAAP financial data.

**Basis differences:** Budgetary fund balance is accounted for on the cash basis of accounting while GAAP fund balance is accounted for on the modified accrual basis of accounting. Accrued revenues and expenditures are recognized in the GAAP financial statements.

The following table presents a reconciliation of resulting basis differences in the fund balances (budgetary basis) at June 30, 2016 to the fund balance on a modified accrual basis (GAAP).

Fund Balance (Budgetary Basis) June 30, 2016	\$ 57,704,134
<b>Reconciling Adjustments:</b>	
<b>Basis Differences:</b>	
Accrued Revenue	1,246,377
Accrued Expenditures	(407,516)
Total Basis Differences	838,861
Fund Balance (GAAP Basis) June 30, 2016	\$ 58,542,995



# INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**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**

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North Carolina 911 Board  
North Carolina 911 Fund  
Raleigh, North Carolina

We have audited, in accordance with the 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 of the North Carolina 911 Fund (911 Fund), a special revenue fund the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 911 Fund's basic financial statements, and have issued our report thereon dated June 20, 2017.

As discussed in Note 1, the financial statements of the North Carolina 911 Fund are intended to present the financial position and changes in financial position that are attributable to the transactions of the North Carolina 911 Fund. They do not purport to, and to not, present fairly the financial position of the State of North Carolina as of June 30, 2016, or the changes in the financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 911 Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 911 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 911 Fund's internal control.

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 911 Fund's financial statements will not be

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 911 Fund's financial statements are free from 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*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 911 Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 911 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

June 20, 2017

# ORDERING INFORMATION

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This audit required 538.5 audit hours at an approximate cost of \$55,465.50.