

ENHANCED 911 FUND
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

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PART I
TRANSMITTAL

March 17, 2015

To the Directors
Enhanced 911 Board
Honolulu, Hawaii

We have completed our financial audit of the Enhanced 911 Fund (the "E911 Fund") as of and for the year ended June 30, 2014. The audit was performed in accordance with our agreement dated January 14, 2015 with the Enhanced 911 Board ("E911 Board").

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the E911 Fund's financial statements as of June 30, 2014. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the E911 Fund.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the E911 Fund is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the E911 Board the proper information to plan, evaluate, control and correct program activities.
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting, operational and internal controls, and to recommend improvements to such systems and procedures.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the E911 Fund for the year ended June 30, 2014.

ORGANIZATION OF THE REPORT

This report is organized into seven parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

PART III - presents the financial section which includes the E911 Fund's financial statements and the auditors' report on such statements.

PART IV - presents the budgetary comparison schedule (non-GAAP budgetary basis)
- special revenue fund.

PART V - contains the report on internal controls over financial reporting and compliance.

PART VI - presents the schedule of audit findings and questioned costs.

PART VII - contains the corrective action plan.

At this time, we wish to thank the E911 Board's personnel for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

A handwritten signature in black ink, appearing to read "Egami & Osamu CPAs Inc." with a stylized flourish at the end.

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This section of the annual financial report presents an analysis of the E911 Fund's financial performance for the year ended June 30, 2014. Please read it in connection with the financial statements which follow this section.

SUMMARY OF THE ORGANIZATION

The Enhanced 911 Board ("the Board") of the State of Hawaii was established on July 1, 2011. The Board supersedes the Wireless Enhanced 911 Board (the "Wireless Board") of the State of Hawaii (the "State") which was established in 2004 to oversee the deployment of an enhanced wireless 911 system, designed to route 911 calls from a wireless telephone to Public Safety Answering Points (PSAPs) along with the caller's identification and location. The Board continues to deploy and sustain enhanced 911 services as well as developing and funding future enhanced 911 technologies.

The Board consists of thirteen voting members; eleven members representing PSAPs, wireless and Voice over Internet Protocol (VoIP) communications service companies, Hawaii's regulated wireline service providers, and the City & County who are appointed by the Governor; the remaining two members consist of the State Chief Information Officer and the Consumer Advocate or their designees.

For administrative purposes, the Board is included with the State Department of Accounting and General Services; however, the §138, Hawaii Revised Statutes (HRS) requires that the funds administered by the Board be held outside of the State Treasury.

FINANCIAL HIGHLIGHTS

The financial status of the E911 Fund remains well positioned to provide the necessary funding to meet the legal requirements under §138, HRS. The E911 Fund is self-sustaining through user surcharges and receives no subsidies from the State General Fund. The E911 Fund cannot incur debt and disbursements are controlled by the E911 Board of Directors' approved 5 year Strategic Budget Plan. The Strategic Budget Plan ensures the stability of the E911 Fund for future years. Some of the outstanding events and expenditures during the period are as follows:

- Payments to the State of Hawaii for Department of Budget and Finance assessments for the fiscal year were \$118,719 and \$456,388, which are required under §36-27, HRS for Central Services and under §36-30, HRS for Administrative Expenses.
- Revenues increased by approximately \$19,000 for the fiscal year, primarily due to increase in wireless subscribers and communication service connections.

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014

FINANCIAL HIGHLIGHTS (Continued)

Although emergency 911 caller services to the PSAPs are utilized by prepaid mobile phone users as well as wireless and VoIP service providers, current law excludes prepaid phones from surcharge assessments. This potential revenue becomes more significant during periods of economic recession where there is movement from traditional wireless mobile phones to more effective prepaid mobile phones.

- Program Management Consulting Services by Akimeka, LLC continued to provide vital services for state-wide counties. The services rendered includes: program management support to PSAPs; PSAP day-to-day operational support, Geographic Information System services, Master Street Address Guide (MSAG) services, database synchronization, and complete wireless database services. These services amounted to \$1,527,459 for the period.
- Hawaiian Telecom (HT), the only regulated telecommunication company in the State of Hawaii, continues to be funded by the E911 Fund and accounts for a major portion of the PSAP expenditures. HT provides equipment and the communications link from the E911 caller to the dispatch centers for all county PSAPs. Total expenditures for the period were \$1,762,941.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The basic financial statements include the fund financial statements and related notes.

Fund Financial Statements

A fund is an account that is used to maintain control over resources that have been segregated for specific activities or objectives. The E911 Fund is a special fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The E911 Fund was established by the Hawaii State Legislature in 2004. The fund financial statements provide detailed information about the E911 Fund.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the Fund Financial Statements.

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014

OVERVIEW OF BASIC FINANCIAL STATEMENTS (Continued)

Fund Financial Analysis

The Balance sheets reflect the E911 Fund's financial condition at the end of the fiscal year. As of June 30, 2014 and 2013 the E911 Fund's fund balances were \$12,815,000 and \$9,781,000, respectively.

Tables 1 and 2 present a comparative view of fund balance and changes in fund balance as of June 30, 2014 and 2013.

TABLE 1
BALANCE SHEETS
(Rounded to nearest \$1,000)

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets	\$ <u>13,601,000</u>	\$ <u>10,408,000</u>
 TOTAL ASSETS	 \$ <u>13,601,000</u>	 \$ <u>10,408,000</u>
LIABILITIES		
Current Liabilities	\$ <u>786,000</u>	\$ <u>627,000</u>
TOTAL LIABILITIES	<u>786,000</u>	<u>627,000</u>
FUND BALANCE		
Restricted for enhanced 911	<u>12,815,000</u>	<u>9,781,000</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>13,601,000</u>	 \$ <u>10,408,000</u>

Total assets increased by 30.68% and liabilities increased by 25.36%, respectively in 2014. Total Fund balance increased by 31.02% in 2014. The fund balance is restricted by legislation for the purposes of ensuring adequate funding to deploy and sustain enhanced 911 services, developing and funding future enhanced 911 technologies and for expenses of administering the fund.

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014

Fund Financial Analysis (Continued)

TABLE 2
CHANGES IN FUND BALANCE
(Rounded to nearest \$1,000)

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
REVENUES		
Enhanced 911 surcharge collections	\$ 8,303,000	\$ 8,321,000
VoIP surcharge collections	822,000	781,000
Interest	<u>2,000</u>	<u>6,000</u>
TOTAL REVENUES	<u>9,127,000</u>	<u>9,108,000</u>
EXPENDITURES		
PSAP cost reimbursements	5,068,000	8,709,000
Administrative	948,000	1,070,000
WSP cost reimbursements	<u>77,000</u>	<u>167,000</u>
TOTAL EXPENDITURES	<u>6,093,000</u>	<u>9,946,000</u>
NET CHANGE IN FUND BALANCE	3,034,000	(838,000)
BEGINNING FUND BALANCE	<u>9,781,000</u>	<u>10,619,000</u>
ENDING FUND BALANCE	<u>\$ 12,815,000</u>	<u>\$ 9,781,000</u>

Total revenues increased by \$19,000 (.21%), and expenditures decreased by \$3,854,000 (38.74%) in 2014. Revenue growth was due mainly to the increase in VoIP connections during the year, while expenditures decreased as a result of expenditures relating to the Imagery License Agreement and CAD upgrade and maintenance.

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

There were no capital assets or debt as of June 30, 2014 and 2013.

SPECIAL FUND BUDGETARY ANALYSIS

The annual budget for the Board is detailed in Note J to the financial statements. The significant differences between budgeted and actual revenues and expenditures in the Special Fund were primarily due to accrued revenues, expenditures, and encumbrances. Total revenues differed by \$104,911 or 1.17% above budget, and total expenditures were \$1,680,501 or 18.67% below budget.

CURRENTLY KNOWN DECISIONS AND FACTS

- Next Generation 9-1-1 (NG9-1-1) system is the future national communications standard to be used to report emergencies. This system utilizes VoIP technology to receive and transmit data to the PSAPs and enable receipt of data in the form of text messages, pictures, video and Automatic Collision Notification. In anticipation of this transition, the Board has increased funding for training to provide the PSAPs with exposure to the technical challenges in converting to this new system.
- Legislation has been introduced and currently going through the legislative process to employ staff exempt from chapters 76 and 89. This proposed legislation also allows the board to retain independent, third-party accounting firms and consultants.
- Additional proposed bills have been introduced in the 2015 Hawaii State Legislative session and will directly impact the operations of the Enhanced 911 Board:

Prepaid wireless surcharge - The current statute exempts a surcharge fee on prepaid wireless connections. The proposed bill will assess a surcharge fee on prepaid wireless connections at the point-of-sale at a fee yet to be determined. The intent of this legislation is to establish parity with surcharge fees already assessed on postpaid wireless and VoIP connections. The additional revenue received from prepaid wireless connections will be offset by an equitable reduction in the surcharge fees assessed on postpaid wireless and VoIP connections so the overall financial impact on the E911 Fund will be "revenue neutral." The timing of the proposed surcharge reduction on postpaid wireless and VoIP connections will be accomplished at the earliest opportunity after the proposed bill is passed.

ENHANCED 911 FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014

CURRENTLY KNOWN DECISIONS AND FACTS (Continued)

Board membership change - The proposed legislation changes Board membership by replacing the CIO or designee with the comptroller or designee.

Fine for misuse of 911 emergency phone service - The proposed legislations establishes a fine of not less than \$500 nor more than \$1,000 for committing an offense of misuse of 911 emergency service.

PART III

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Directors
Enhanced 911 Board
Honolulu, Hawaii

We have audited the accompanying financial statements of the Enhanced 911 Fund (the E911 Fund), as of and for the year ended June 30, 2014, and the related notes to the 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 entity'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 entity'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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the E911 Fund, as of June 30, 2014, and the respective 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 B, the financial statements present only the E911 Fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2014, and the changes in its fund balance for the year then ended in conformity with accounting principles generally 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 management's discussion and analysis and budgetary comparison information on pages 3 – 8 and 21 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 March 17, 2015, on our consideration of E911 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 E911 Funds' internal control over financial reporting and compliance.

This report is solely for the information and use of the management of the Board, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Egonio A. Klemm CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly more formal, blocky style.

Honolulu, Hawaii
March 17, 2015

ENHANCED 911 FUND
BALANCE SHEET
JUNE 30, 2014

ASSETS

Cash	\$ 12,504,198
Accounts receivable	1,001,020
Accounts receivable - others	<u>95,955</u>

TOTAL ASSETS	<u><u>\$ 13,601,173</u></u>
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LIABILITIES

Accounts payable	<u>786,373</u>
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TOTAL LIABILITIES	<u>786,373</u>
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FUND BALANCE

Restricted for enhanced 911	<u>12,814,800</u>
TOTAL FUND BALANCE	<u>12,814,800</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 13,601,173</u></u>
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See accompanying notes to financial statements.

ENHANCED 911 FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014

REVENUES	
Enhanced 911 surcharge collections	\$ 8,303,475
VoIP surcharge collections	821,827
Interest	2,451
TOTAL REVENUES	<u>9,127,753</u>
EXPENDITURES	
PSAP cost reimbursements	5,068,475
Budget and finance assessments	575,107
Consulting	330,823
WSP cost reimbursements	76,856
Travel and meetings	31,536
Others	10,785
TOTAL EXPENDITURES	<u>6,093,582</u>
NET CHANGE IN FUND BALANCE	3,034,171
FUND BALANCE, JUNE 30, 2013	<u>9,780,629</u>
FUND BALANCE, JUNE 30, 2014	<u><u>\$ 12,814,800</u></u>

See accompanying notes to financial statements.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - NATURE OF THE ORGANIZATION

The Enhanced 911 Board (“the Board”) of the State of Hawaii was established on July 1, 2011. The Board supersedes the Wireless Enhanced 911 Board (the “Wireless Board”) of the State of Hawaii (the “State”) which was established in 2004 to oversee the deployment of an enhanced wireless 911 system, designed to rout 911 calls from a wireless telephone to Public Safety Answering Points (PSAPs) along with the caller's identification and location. The Board continues to deploy and sustain enhanced 911 services as well as developing and funding future enhanced 911 technologies.

The Board consists of thirteen voting members; eleven members representing PSAPs, wireless and Voice over Internet Protocol (VoIP) communications service companies, Hawaii’s regulated wireline service providers, and the City & County who are appointed by the Governor; the remaining two members consist of the State Chief Information Officer and the Consumer Advocate or their designees.

For administrative purposes, the Board is included with the State Department of Accounting and General Services; however, the §138, Hawaii Revised Statutes (HRS) requires that the funds administered by the Board be held outside of the State Treasury.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates in the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Practice. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 did not have any impact on the E911 Fund’s financial statements. The more significant accounting policies established by GAAP and used by the E911 Fund are discussed below.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity

The E911 Fund's financial statements are intended to present the financial position and the changes in financial position of the State that are attributable to the transactions of the E911 Fund. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014 and the changes in its financial position for the year then ended. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the state annually, which includes the E911 Fund's financial activities.

Fund Financial Statements

A fund is an account that is used to maintain control over resources that have been segregated for specific activities or objectives. The E911 Fund is a special fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The E911 Fund was established by the Hawaii State Legislature in 2004. The fund financial statements provide detailed information about the E911 Fund.

Measurement Focus and Basis of Accounting

The E911 Fund is a Special Revenue Fund as defined by the GASB, and is accounted for on a spending or "financial flow" measurement focus. The statement of revenues, expenditures and change in fund balance generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. The financial statements are prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Revenues susceptible to accrual include enhanced 911 surcharges, VoIP surcharges, and interest earnings on cash received within 60 days of year end. Expenditures are recognized when the liabilities are incurred, if measurable.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE C - FUND BALANCE

Fund balances are classified by the following categories:

Nonspendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the members of the Board.

Assigned Fund Balance - This includes amounts that are designated by the members of the Board for specific purposes.

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications.

The entire fund balance of the E911 Fund has been classified as a restricted fund balance since the Hawaii State Legislature requires the enhanced 911 surcharges to be used only for the purposes of ensuring adequate funding to deploy and sustain enhanced 911 services, developing and funding future enhanced 911 technologies and for funding expenses of administering the fund.

NOTE D - CASH

§138-3, HRS requires the Enhanced 911 Fund to be held outside of the State Treasury at any federally insured financial institution in an interest bearing account. As of June 30, 2014 cash of \$12,504,198 was held at a Hawaii financial institution. Amounts in excess of the federally insured amounts were fully collateralized by securities held in the financial institution's name by its agent.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE E - RISK MANAGEMENT

The E911 Fund may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions. As part of the State Department of Accounting and General Services (DAGS) the Board is insured under the State of Hawaii (the State) as follows: the State generally retains the first \$1 million per occurrence of property losses, the first \$4 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$175 million, except losses for flood and earthquake which individually is \$175 million aggregate loss, and terrorism losses which is \$50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is \$10 million each.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, non-incremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimated.

NOTE F - STATE DEPARTMENT OF BUDGET AND FINANCE ASSESSMENTS

§36-27, HRS requires that the E911 Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the E911 Fund's revenues. Amounts representing 5% of the gross receipts of the E911 Fund were transferred to the General Fund of the State of Hawaii. Total revenue assessments for the year ended June 30, 2014 were \$456,388.

§36-30, HRS requires that the E911 Fund be assessed its pro rata share of administrative expenses incurred by DAGS, based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. Amounts equal to 1.94% of adjusted expenditures were transferred to the General Fund of the State of Hawaii. Total administrative expense assessments for the year ended June 30, 2014 were \$118,720.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE G - ENCUMBRANCES

Encumbrances represent commitments of the E911 Fund relating to unperformed contracts for goods and services and are not reported as liabilities on the E911 Fund's financial statements. At June 30, 2014, there was approximately \$1,170,000 in encumbrances outstanding on contracts for goods and services.

NOTE H - RELATED PARTIES

Certain members of the Board represent PSAPs and communication service providers that receive cost reimbursements from the Board for expenditures as allowed under §138, HRS.

Certain members of the Board represent communications service providers that remit enhanced 911 surcharges in accordance with §138-4, HRS.

NOTE I - SURCHARGES ON COMMUNICATIONS SERVICE CONNECTIONS

In accordance with §138-4, HRS, a monthly enhanced 911 surcharge is imposed upon each communications service connection with certain exceptions. The current rate of the surcharge is a 66 cents per month for each connection. Each communications service provider must remit the surcharges to the E911 Fund within 60 days after the end of each calendar month. Surcharges on communications service connections consist of approximately 99% of the E911 Fund's revenues for each fiscal year.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE J - BUDGETING AND BUDGETARY CONTROL

The E911 Fund's budget is established through the State's budgetary process.

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during each fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during each fiscal year. Amounts reflected as budgeted revenues in the State's General Fund Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act, Supplemental Appropriations Act, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various State Legislative Hearings.

All expenditures of appropriated funds are made pursuant to the appropriations in the biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying general fund statement of revenues and expenditures - budget and actual (budgetary basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the DAGS.

ENHANCED 911 FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2014

NOTE J - BUDGETING AND BUDGETARY CONTROL (Continued)

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of each fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the Special Fund are presented in the statement of revenues and expenditures - budget and actual (budgetary basis). The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, acquired through long-term financing (basis difference) and (2) the accounting for transfers of principally related to (1) the encumbrance of purchase order and contract obligations and equipment debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

The State Supplemental Appropriations Act for the year appropriated \$9,000,000 in Special Funds for the E911.

Adjustments necessary to convert the results of operations and fund balance for the year ended June 30, 2014 from the GAAP basis to the budget basis are as follows:

Net change in fund balance GAAP basis	\$ 3,034,171
Increase (decrease) in revenues:	
Current year receivables	(1,096,975)
Prior period receivables	<u>1,060,175</u>
	<u>(36,800)</u>
Increase (decrease) in expenditures:	
Current year accounts payable	(786,373)
Prior period accounts payable	627,294
Current year encumbrances and others	<u>(1,052,880)</u>
	<u>(1,211,959)</u>
Net change in fund balance, budgetary basis	<u>\$ 1,785,412</u>

PART IV

SUPPLEMENTARY INFORMATION

ENHANCED 911 FUND
BUDGETARY COMPARISON SCHEDULE (NON-GAAP
BUDGETARY BASIS) - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
REVENUES			
Enhanced 911 surcharge collections	\$ 9,000,000	\$ 9,102,572	\$ 102,572
Interest	-	2,339	2,339
TOTAL REVENUES	<u>9,000,000</u>	<u>9,104,911</u>	<u>104,911</u>
EXPENDITURES			
PSAP cost reimbursements		6,227,609	
Budget and finance assessments		611,345	
Consulting		341,250	
WSP cost reimbursements		72,301	
Travel and meetings		31,209	
Others		35,785	
TOTAL EXPENDITURES	<u>9,000,000</u>	<u>7,319,499</u>	<u>1,680,501</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 1,785,412</u>	<u>\$ 1,785,412</u>

See accompanying notes to financial statements.

PART V

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Directors
Enhanced 911 Board
Honolulu, Hawaii

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 Enhanced 911 Fund (the E911 Fund) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the E911 fund's basic financial statements, and have issued our report thereon dated March 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the E911 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 E911 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the E911 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 entity'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 E911 Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is solely for the information and use of the management of the Board, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

 Egan & O'Hara CPAs Inc.

Honolulu, Hawaii
March 17, 2015

PART VI

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

ENHANCED 911 FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Audit Comments

Condition/context: E911 records its daily operations on a cash basis then makes the corresponding adjustments at year-end (primarily for accounts payable and accounts receivable) to report the fund balances based on accounting principles generally accepted in the United States of America. As reported in the schedule of audit findings for the year ended June 30, 2012, detailed reviews of the information by someone other than the preparer for the year-end adjustments are still not performed.

Cause: Due to the limited number of personnel the Deputy Executive Director performs most of the accounting and financial reporting functions creating segregation of duties issues.

Effect: Lack of segregation of duties increase the risk of material misstatement of the financial statements.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over the various processes. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight over financial reporting.

Response: We concur with the findings regarding how we can improve the segregation of duties. It is important to note however that we have made significant strides in reducing any risk through implementation of the following Board policies:

ENHANCED 911 FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Audit Comments (continued)

1. Receipts of all checks through a lock box with the E911 Board bank account.
2. Review of detailed financial statements and cash position on a monthly basis with the Finance Committee and the Board.
3. Reconciliation of the E911 Bank statements that includes photocopies of all checks cleared with the bank that is reviewed monthly by the Finance Committee Chair and the Executive Director.
4. Prohibiting any cash transactions and Wire/ACH transfers from the bank account.
5. All disbursements require two authorized signature approvals.
6. Checks require two authorized signatories.
7. Expanding the required CPA audit from a minimum of every two years to annually.

It is also our practice to disclose in detail the proposed fiscal year end accrual with DAGS, Finance Committee and the E911 Board. However, we feel the process can be improved through additional coordination with the PSAPs during the counties close of their fiscal year end and we proposed convening a special meeting of the Finance Committee for a year end fiscal review of accruals in detail.

Current Year's Comments

No matters were reported.

PART VII

CORRECTIVE ACTION PLAN

ENHANCED 911 FUND
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2014.