

WIRELESS ENHANCED 911 BOARD
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Period From July 1, 2009 to June 30, 2011

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PART I
TRANSMITTAL

December 4, 2011

To the Directors
Wireless Enhanced 911 Board
Honolulu, Hawaii

We have completed our financial audit of the Wireless Enhanced 911 Board (the Board) as of June 30, 2011 and for the period from July 1, 2009 to June 30, 2011. The audit was performed in accordance with our agreement dated October 17, 2011.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Board's financial statements as of June 30, 2011 and for the period from July 1, 2009 to June 30, 2011. 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 Board.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Board 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 and the Federal Government.
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 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 Board for the period from July 1, 2009 to June 30, 2011.

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 Board's financial statements and the auditors' report on such statements.

PART IV - presents the budgetary comparison statement (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 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,

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Michael Y. Ichikawa
Principal

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

This section of the annual financial report presents an analysis of the Board's financial performance during the period from July 1, 2009 to June 30, 2011 (the period). Please read it in connection with the financial statements which follow this section.

SUMMARY OF THE ORGANIZATION

The Wireless Enhanced 911 Board (the Board) of the State of Hawaii was established by the Hawaii State Legislature 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 consists of eleven members; eight members representing PSAPs and Wireless Service Providers (WSPs) who are appointed by the Governor; the remaining three members consist of the State Comptroller and Consumer Advocate or their designees, and a representative from the current Wireline Service Provider of enhanced 911 services.

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 Board remains well positioned to provide the necessary funding to meet the legal requirements under §138, HRS. The Board is self-sustaining through user surcharges and receives no subsidies from the State General Fund. The Board cannot incur debt and disbursements are controlled by the Board of Directors' approved 5 year Strategic Budget Plan. The Strategic Budget Plan ensures the stability of the Board 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 amounted to \$329,403 and \$813,964 for the period which are required under §36-27, HRS for Central Services and under §36-30, HRS for Administrative Expenses.
- During the period the Board funded \$3,724,159 for Pictometry software, which is a powerful tool for first responders that provides detailed imagery for every square foot of a region and allows first responders to navigate quickly and easily between views of a map to images associated with its specific features contained within images such as doors, manholes, fences, and fire hydrants. With this capability, first responders may be directed to the emergency in the most direct route and in the case of high rise buildings, the software will acknowledge any obstacles that may impede a rapid response.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

- Revenue growth has not been significant during the period due primarily to slower growth in the wireless sector and the existing lower market interest rates earned on deposits. Although emergency 911 caller services to the PSAPs are utilized by Voice over Internet Protocol (VoIP), prepaid mobile phones, as well as wireless mobile phone users, surcharge assessments were limited by law to only wireless mobile phone users during the audit period. Due to economic conditions, there has been movement away from traditional wireless mobile phones to prepaid mobile phones, thereby slowing wireless mobile phone revenue growth.
- Program Management Consulting Services by Akimeka, LLC continued to provide vital services for all neighbor island counties, and beginning in FY 2012, to the City & County of Honolulu. 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 \$2,320,916 for the period.
- Hawaiian Telecom (HT), the only regulated telecommunication company in the State of Hawaii, continues to be funded by the Board 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 \$3,488,359.

OVERVIEW OF ANNUAL REPORT

This annual report consists of seven parts: Transmittal letter; management's discussion and analysis; financial section; supplementary information; internal control and compliance; schedule of audit findings and questioned costs; and corrective action plan.

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 Board maintains a special fund (E911 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 Board's special fund.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

OVERVIEW OF ANNUAL REPORT (Continued)

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.

Supplementary Information

The budgetary comparison statement (non-GAAP budgetary basis) - special revenue fund, provides a reconciliation of the budgetary to GAAP basis operating results for the period.

Other Reports

Following the supplementary information are the 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; schedule of audit findings and questioned costs; and corrective action plan.

Fund Financial Analysis

The Balance sheets reflect the Board's financial condition at the end of the fiscal year. As of June 30, 2011 and 2010, the Board's fund balance was \$12,457,000 and \$10,617,000, respectively.

Tables 1 and 2 present a comparative view of fund balance and changes in fund balance as of June 30, 2011 and 2010.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

Fund Financial Analysis (Continued)

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

	June 30,	
	2011	2010
ASSETS		
Current	\$ <u>14,068,000</u>	\$ <u>11,034,000</u>
TOTAL ASSETS	\$ <u>14,068,000</u>	\$ <u>11,034,000</u>
LIABILITIES		
Current	\$ <u>1,611,000</u>	\$ <u>417,000</u>
TOTAL LIABILITIES	<u>1,611,000</u>	<u>417,000</u>
FUND BALANCE		
Restricted for wireless enhanced 911	<u>12,457,000</u>	<u>10,617,000</u>
TOTAL FUND BALANCE	<u>12,457,000</u>	<u>10,617,000</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>14,068,000</u>	\$ <u>11,034,000</u>

Total assets and liabilities increased by 27.50% and 386.06%, respectively in 2011. Total Fund balance increased by 17.33% in 2011. The fund balance is restricted by legislation for the purposes of ensuring adequate cost recovery for the deployment of Phase I and II wireless enhanced 911 services and for expenses of administering the fund.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

Fund Financial Analysis (Continued)

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

	June 30,	
	2011	2010
OPERATING REVENUES		
Wireless surcharge collections	\$ 8,150,000	\$ 8,099,000
TOTAL OPERATING REVENUES	8,150,000	8,099,000
OPERATING EXPENDITURES		
PSAP cost reimbursements	5,268,000	5,617,000
Administrative	907,000	1,019,000
WSP cost reimbursements	155,000	162,000
TOTAL OPERATING EXPENDITURES	6,330,000	6,798,000
INCOME FROM OPERATIONS	1,820,000	1,301,000
NET NON OPERATING REVENUES	20,000	10,000
CHANGE IN FUND BALANCE	1,840,000	1,311,000
BEGINNING FUND BALANCE	10,617,000	8,426,000
PRIOR PERIOD ADJUSTMENT	-	880,000
ENDING FUND BALANCE	\$ 12,457,000	\$ 10,617,000

Total operating revenues increased by \$51,000 (.63%), and operating expenditures decreased by \$468,000 (6.87%) in 2011. Revenue growth was not significant due to slower growth in the wireless sector and PSAP reimbursements decreased by \$349,000 (6.62%) in 2011.

The fund balance at June 30, 2009 was adjusted to reflect the change in the basis of accounting from the cash receipts and disbursements basis to a modified accrual basis.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

There were no capital assets or debt as of June 30, 2011 and 2010.

SPECIAL FUND BUDGETARY ANALYSIS

The annual budget for the Board is detailed in Note 12 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 \$1,155,000 or 6.85% below budget, and total expenditures were \$1,927,000 or 11.99% below budget.

CURRENTLY KNOWN DECISIONS AND FACTS

- The Board encumbered \$3.8M in FY 2011 for the upgrade and modernization of the Kauai Computer Aided Dispatch (CAD) system. The existing Kauai CAD system exceeded its useful life and the change was necessary to maintain the Kauai PSAP at peak efficiency.
- The passage of Act 168(11) has expanded the authority of the Board to include VoIP connection service providers. The E911 Fund revenue is anticipated to increase as a result of the user fees being applied to VoIP users effective July 1, 2011. In addition, two Board seats were added increasing the total Board to 13 members.
- The Board, with the assistance of the State Attorney General's office, recommended that the Hawaii State Legislature refrain from exercising its authority under §138-3, HRS which would have transferred up to \$5M from the E911 Fund to the State General Fund.
- Next Generation 9-1-1 (NG9-1-1) systems 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.

WIRELESS ENHANCED 911 BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2011

CURRENTLY KNOWN DECISIONS AND FACTS (Continued)

- Cash disbursements for the audit period were limited to a legislative imposed budget of \$9.0M per fiscal year. For FY2012 only, this budget will be increased to \$14M to allow for the scheduled replacement of obsolete hardware and software that is necessary to maintain PSAP operations at peak efficiency. A contractual commitment of \$3.8M for computer equipment and software was initiated by the Kauai PSAP in FY 2011 and other procurements of a similar nature are scheduled for Oahu and Hawaii counties in FY 2012. These multimillion dollar procurements will result in disbursements exceeding revenues for FYs 2012 and 2013. These planned expenditures will be absorbed entirely with existing cash reserves and future revenue collections.

- The scope of the biennial financial audit of the Board as required under §138-7(b), HRS was changed from a cash receipts and disbursements audit to an 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. This method of reporting is consistent with audits of other Special Funds under the State of Hawaii and complies with §138-7(b), HRS.

PART III
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Directors
Wireless Enhanced 911 Board
Honolulu, Hawaii

We have audited the accompanying financial statements of the Wireless Enhanced 911 Board (the Board) as of June 30, 2011 and for the period from July 1, 2009 to June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Board's 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, 2011, and the changes in its fund balance for the period from July 1, 2009 to June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board, as of June 30, 2011, and the respective changes in financial position and fund balance thereof for the period from July 1, 2009 to June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2011, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3 – 9 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 principally 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.

This report is intended 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.

COPY

**Original document signed by
Egami & Ichikawa CPAs, Inc.**

Honolulu, Hawaii
December 4, 2011

WIRELESS ENHANCE 911 BOARD
BALANCE SHEET
June 30, 2011

CURRENT ASSETS	
Cash	\$ 13,028,477
Accounts receivable	898,156
Accounts receivable - others	141,568
TOTAL CURRENT ASSETS	<u>14,068,201</u>
TOTAL ASSETS	<u><u>\$ 14,068,201</u></u>
CURRENT LIABILITIES	
Accounts payable	\$ 1,611,383
TOTAL CURRENT LIABILITIES	<u>1,611,383</u>
TOTAL LIABILITIES	<u>1,611,383</u>
FUND BALANCE	
Restricted for wireless enhanced 911	12,456,818
TOTAL FUND BALANCE	<u>12,456,818</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 14,068,201</u></u>

See accompanying notes to financial statements.

WIRELESS ENHANCE 911 BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE PERIOD FROM JULY 1, 2009 TO JUNE 30, 2011

OPERATING REVENUES	
Wireless surcharge collections	\$ 16,249,161
TOTAL OPERATING REVENUES	<u>16,249,161</u>
OPERATING EXPENDITURES	
PSAP cost reimbursements	10,884,845
Budget and finance assessments	1,143,368
Consulting	727,516
WSP cost reimbursements	317,514
Travel and meetings	45,777
Others	9,014
TOTAL OPERATING EXPENDITURES	<u>13,128,034</u>
INCOME FROM OPERATIONS	<u>3,121,127</u>
NONOPERATING REVENUES	
Interest	18,573
Other income	11,555
TOTAL NONOPERATING REVENUES	<u>30,128</u>
CHANGE IN FUND BALANCE	3,151,255
FUND BALANCE, JUNE 30, 2009	8,425,542
PRIOR PERIOD ADJUSTMENT	<u>880,021</u>
FUND BALANCE, JUNE 30, 2011	<u><u>\$ 12,456,818</u></u>

See accompanying notes to financial statements.

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

1. NATURE OF THE ORGANIZATION

The Wireless Enhanced 911 Board (the Board) of the State of Hawaii was established by the Hawaii State Legislature 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 consists of eleven members; eight members representing PSAPs and Wireless Service Providers (WSPs) who are appointed by the Governor; the remaining three members consist of the State Comptroller and Consumer Advocate or their designees, and a representative from the current Wireline Service Provider of enhanced 911 services.

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.

2. 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). Governments are required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncement. The more significant accounting policies established by GAAP and used by the Board is discussed below.

Reporting Entity

The financial statements reflect only the Board's financial activities. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State of Hawaii (State) annually, which include the Board's financial activities.

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Board maintains a special fund (E911 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 Board's special fund.

Measurement Focus and Basis of Accounting

The E911 Fund is a Special Revenue Fund as defined by the Governmental Accounting Standards Board (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 increase (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 and interest earnings on cash received within 60 days of year end. Expenditures are recognized when the liabilities are incurred, if measurable.

The method of accounting was changed effective July 1, 2009 from the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America to the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America. See Note 10 - Prior Period Adjustments for the change's net effect on the restricted fund balance.

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.

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

3. FUND BALANCE

The Board has implemented the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," for the period ending June 30, 2011. 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 Board 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 cost recovery for the deployment of Phase I and II wireless enhanced 911 services and for expenses of administering the fund.

4. CASH

§138-3, HRS requires the Wireless 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, 2011, cash of \$13,028,477 were 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.

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

5. RISK MANAGEMENT

The Board 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 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 for flood and earthquake which individually is \$175 million aggregate loss, and terrorism 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, nonincremental 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.

6. STATE DEPARTMENT OF BUDGET AND FINANCE ASSESSMENTS

§36-27, HRS requires that the Board be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Board's receipts. Amounts representing 5% of the gross receipts of the Board were transferred to the General Fund of the State of Hawaii. Total revenue assessments for the period from July 1, 2009 to June 30, 2011 were \$329,403.

§36-30, HRS requires that the Board be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. Amounts ranging from 2.65% to 2.84% of adjusted expenditures were transferred to the General Fund of the State of Hawaii. Total administrative expense assessments for the period from July 1, 2009 to June 30, 2011 were \$813,964.

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

7. ENCUMBRANCES

Encumbrances represent commitments of the Board relating to unperformed contracts for goods and services and are not reported as liabilities on the Board's financial statements. At June 30, 2011, there was approximately \$3,800,000 in encumbrances outstanding on contracts for goods and services.

8. RELATED PARTIES

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

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

9. SURCHARGES ON WIRELESS CONNECTIONS

In accordance with §138-4, HRS, a monthly wireless enhanced 911 surcharge is imposed upon each commercial mobile radio service connection. As of July 1, 2004, the rate of the surcharge was established at 66 cents per month for each connection. Each WSP or reseller must remit the surcharges to the Board within 60 days after the end of each calendar month. Surcharges on wireless connections consist of approximately 99% of the Board's operating revenues for each fiscal year.

10. PRIOR PERIOD ADJUSTMENTS

The prior period adjustments consist of unrecorded accounts receivable and payable as of June 30, 2009. The audited financial statements as of June 30, 2009 were prepared on the cash receipts and disbursement basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The net effect on the restricted fund balance due to the change from the cash receipts and disbursement basis of accounting to the modified accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America was as follows:

Accounts receivable	\$ 1,494,464
Accounts payable	<u>(614,443)</u>
Change in restricted fund balance at June 30, 2009	<u>\$ 880,021</u>

WIRELESS ENHANCED 911 BOARD
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

11. SUBSEQUENT EVENTS

In preparing the financial statements, the Board has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, the date the financial statements were available.

12. BUDGETING AND BUDGETARY CONTROL

The Board's budget is established through the State of Hawaii's (State) 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.

WIRELESS ENHANCED 911 BOARD
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2011

12. BUDGETING AND BUDGETARY CONTROL (Continued)

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 Department of Accounting and General Services.

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 period from July 1, 2009 to June 30, 2011, appropriated \$18,000,000 in Special Funds for the operation of the Board.

Adjustments necessary to convert the results of operations and fund balance for the period from July 1, 2009 to June 30, 2011 from the GAAP basis to the budget basis are as follows:

Excess revenues over expenditures GAAP basis	\$ 3,151,255
Increase (decrease) in revenues:	
Current year receivables	(1,039,724)
Prior period receivables	1,494,464
	454,740
Increase (decrease) in expenditures:	
Current year accounts payable	(1,611,383)
Prior period accounts payable	614,443
Current year encumbrances	3,800,000
	2,803,060
Excess revenues over expenditures, budgetary basis	\$ 802,935

PART IV

SUPPLEMENTARY INFORMATION

WIRELESS ENHANCE 911 BOARD
 BUDGETARY COMPARISON STATEMENT (NON-GAAP
 BUDGETARY BASIS) - SPECIAL REVENUE FUND
 FOR THE PERIOD FROM JULY 1, 2009 TO JUNE 30, 2011

	Budget	Actual	Variance - Favorable (Unfavorable)
OPERATING REVENUES			
Wireless surcharge collections	\$ 18,000,000	\$ 16,845,469	\$ (1,154,531)
TOTAL OPERATING REVENUES	18,000,000	16,845,469	(1,154,531)
OPERATING EXPENDITURES			
PSAP cost reimbursements		13,687,905	
Budget and finance assessments		1,284,936	
Consulting		727,516	
WSP cost reimbursements		317,514	
Travel and meetings		45,777	
Others		9,014	
TOTAL OPERATING EXPENDITURES	18,000,000	16,072,662	1,927,338
INCOME FROM OPERATIONS	-	772,807	772,807
NONOPERATING REVENUES			
Interest		18,573	
Other income		11,555	
TOTAL NONOPERATING REVENUES	-	30,128	30,128
EXCESS REVENUES OVER EXPENDITURES	\$ -	\$ 802,935	\$ 802,935

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
Wireless Enhanced 911 Board
Honolulu, Hawaii

We have audited the financial statements of the Wireless Enhanced 911 Board (the Board) as of June 30, 2011 and for period from July 1, 2009 to June 30, 2011, and have issued our report thereon dated December 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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*.

This report is intended 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.

COPY

**Original document signed by
Egami & Ichikawa CPAs, Inc.**

Honolulu, Hawaii
December 4, 2011

PART VI

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

WIRELESS ENHANCED 911 BOARD
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD FROM JULY 1, 2009 TO JUNE 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Audit Comments

No matters were reported.

Current Year's Comments

No matters were reported.

PART VII
CORRECTIVE ACTION PLAN

WIRELESS ENHANCED 911 BOARD
CORRECTIVE ACTION PLAN
FOR THE PERIOD FROM JULY 1, 2009 TO JUNE 30, 2011

A corrective action plan is not required since there were no audit findings and questioned costs reported for the period from July 1, 2009 to June 30, 2011.