

Financial Statements and Independent Auditor's Report

Enhanced 911 Fund

June 30, 2013

October 4, 2013

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, 2013. The audit was performed in accordance with our engagement letter dated July 18, 2013.

Objective of the audit

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 and for the year ended June 30, 2013.

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, 2013.

Organization of the report

This report is organized into four parts:

- PART I. FINANCIAL STATEMENTS
- PART II. SUPPLEMENTARY INFORMATION
- PART III. REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
- PART IV. SCHEDULE OF FINDINGS AND RESPONSES

At this time, we wish to thank the E911 Fund'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,

PKF PACIFIC HAWAII LLP

Contents

	Page
PART I FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Balance Sheet	8
Statement of Revenues, Expenditures and Changes in Fund Balance	9
Notes to Financial Statements	10
PART II SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) - Special Revenue Fund	16
Note to Budgetary Comparison Schedule	17
PART III REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
PART IV SCHEDULE OF FINDINGS AND RESPONSES	22

PART I
FINANCIAL STATEMENTS

Independent Auditor's Report

To the Directors
Enhanced 911 Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Enhanced 911 Fund (the "E911 Fund") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the E911 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the E911 Fund, as of June 30, 2013, 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 B, the financial statements of the E911 Fund, are intended to present the financial position and the changes in financial position of the State of Hawaii that is attributable to the transactions of the E911 Fund. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2013, and the changes in its financial position 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 the management's discussion and analysis and budgetary comparison information on pages 3–7 and 16–17 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 October 4, 2013 on our consideration of the 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 Fund's internal control over financial reporting and compliance.

PKF PACIFIC HAWAII LLP

Honolulu, Hawaii
October 4, 2013

Enhanced 911 Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

This section of the annual financial report represents an analysis of the E911 Fund's financial performance during the fiscal year ended June 30, 2013. 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 effective 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 representing PSAPs, wireless and Voice over Internet Protocol (VoIP) communications service companies, Hawaii's regulated wireline service provider, and the City & County of Honolulu 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, §138, Hawaii Revised Statutes (HRS) requires that the funds administered by the Board be held outside 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 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 fiscal year are as follows:

- Payments to the State for Department of Budget and Finance assessments amounted to \$455,181 and \$243,631 for the fiscal year which are required under §36-27, HRS for Central Services, and under §36-30, HRS for Administrative Expenses, respectively.
- During the year, E911 Fund funded \$1,344,027 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.

Enhanced 911 Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2013

Financial highlights (continued)

- Revenue increased by \$130,000 during the fiscal year ended June 30, 2013 due mainly to the increase in wireless subscribers and communication service connections.

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 Informational System services, Master Street Address Guide (MSAG) services, database synchronization, and complete wireless database services. These services amounted to \$1,767,027 for the fiscal year.
- Hawaiian Telecom (HT), the only regulated telecommunication company in the State, continues to be funded by the E911 Fund and accounts for a major portion of the PSAP expenditures. HT provides equipment and communications link from the E911 caller to the dispatch centers for all county PSAPs. Total expenditures for the year were \$1,682,745.

Overview of the basic financial statements

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

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, 2013

Overview of basic financial statements (continued)

Fund Financial Analysis

The balance sheet reflects the E911 Fund's financial condition at the end of the fiscal year. As of June 30, 2013 and 2012, the E911 Fund's fund balances were \$9,781,000 and \$10,619,000, respectively.

Tables 1 and 2 present a comparative view of fund balance and changes in fund balance as of June 30, 2013 and 2012.

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

	<u>June 30,</u>		<u>2013-2012</u>	
	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>	<u>% Change</u>
Assets	\$10,408,000	\$11,998,000	\$ (1,590,000)	(13.25)
Total assets	<u>\$10,408,000</u>	<u>\$11,998,000</u>	<u>\$ (1,590,000)</u>	<u>(13.25)</u>
Total liabilities	\$ 627,000	\$ 1,379,000	\$ (752,000)	(54.53)
Fund balance				
Restricted for enhanced 911	<u>9,781,000</u>	<u>10,619,000</u>	<u>(838,000)</u>	<u>(7.89)</u>
Total liabilities and fund balance	<u>\$10,408,000</u>	<u>\$11,998,000</u>	<u>\$ (1,590,000)</u>	<u>(13.25)</u>

Total assets and liabilities decreased by 13.25% and 54.53%, respectively in 2013. Total fund balance decreased by 7.89% in 2013. 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, 2013

Overview of basic financial statements (continued)

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

	June 30,		2013-2012	
	2013	2012	Increase (decrease)	% Change
Revenues				
Enhanced 911 surcharge collections	\$ 8,321,000	\$ 8,270,000	\$ 51,000	0.62
VoIP surcharge collections	781,000	705,000	76,000	10.78
Interest	6,000	3,000	3,000	100.00
Total revenues	9,108,000	8,978,000	130,000	1.45
Expenditures				
PSAP cost reimbursements	8,709,000	9,574,000	(865,000)	(9.03)
Administrative	1,070,000	1,092,000	(22,000)	(2.01)
WSP cost reimbursements	167,000	150,000	17,000	11.33
Total expenditures	9,946,000	10,816,000	(870,000)	(8.04)
Changes in fund balance	(838,000)	(1,838,000)	1,000,000	(54.41)
Beginning fund balance	10,619,000	12,457,000	(1,838,000)	(14.75)
Ending fund balance	\$ 9,781,000	\$10,619,000	\$ (838,000)	(7.89)

Total revenues increased by \$130,000, or 1.45%, and expenditures decreased by \$870,000, or 8.04%, in 2013. Revenue growth was due mainly to the increase in VoIP connections during the year, while expenditures decreased as the result of expenditures related to CAD upgrades for Kauai County and Oahu PSAP were incurred during the prior year.

Capital asset and debt administration

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

Enhanced 911 Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 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 \$97,023, or 101.1%, above budget, and total expenditures differed by \$1,600,673, or 17.8%, 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.

Enhanced 911 Fund

BALANCE SHEET

June 30, 2013

ASSETS	
Cash	\$ 9,347,748
Accounts receivable	978,178
Accounts receivable - others	<u>81,997</u>
Total assets	<u>\$ 10,407,923</u>
LIABILITIES	
Accounts payable	<u>\$ 627,294</u>
Total liabilities	627,294
Fund Balance	
Restricted for enhanced 911	<u>9,780,629</u>
Total fund balance	<u>9,780,629</u>
Total liabilities and fund balance	<u>\$ 10,407,923</u>

The accompanying notes are an integral part of this statement.

Enhanced 911 Fund

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year ended June 30, 2013

Revenues	
Enhanced 911 surcharge collections	\$ 8,321,174
VoIP surcharge collections	781,498
Interest	<u>6,305</u>
Total revenues	9,108,977
Expenditures	
PSAP cost reimbursements	8,708,926
Budget and finance assessments	698,812
Consulting	333,125
WSP cost reimbursements	167,109
Travel and meetings	27,838
Others	<u>11,286</u>
Total expenditures	<u>9,947,096</u>
Net change in fund balance	(838,119)
Fund balance at June 30, 2012	<u>10,618,748</u>
Fund balance at June 30, 2013	<u><u>\$ 9,780,629</u></u>

The accompanying notes are an integral part of this statement.

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - NATURE OF THE ORGANIZATION

The Enhanced 911 Board (the "Board") of the State of Hawaii (the "State") was effective on July 1, 2011. The Board supersedes the Wireless Enhanced 911 Board that was created 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 service as well as develop and fund future enhanced 911 technologies.

The Board consists of thirteen members, eleven members representing PSAPs, wireless and Voice over Internet Protocol (VoIP) connection service providers, City & County of Honolulu, and the only regulated wireline connection service provider in the State. Those eleven positions 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 (DAGS); however, §138, Hawaii Revised Statutes (HRS) requires that the funds administered by the Board be held outside 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 into 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 conflict with or 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 Procedures. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 did not have any impact on the E911's financial statements. The more significant accounting policies established by GAAP and used by the E911 Fund is discussed below.

1. 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, 2013 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 include the E911 Fund's financial activities.

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 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.

3. 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 changes 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 and VoIP surcharges and interest earnings on cash received within 60 days of year end. Expenditures are recognized when the liabilities are incurred, if measurable.

4. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

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.

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

NOTE C - FUND BALANCE (continued)

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 State Legislature requires the enhanced 911 surcharges to be used only for the purposes of ensuring adequate funding to deploy and sustain enhanced 911 service, 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, 2013, cash of \$9,347,748 were held at a Hawaii financial institution. Amounts in excess of the federally insured amounts are to be fully collateralized by securities held in the financial institution's name by its agent. As of June 30, 2013, all amounts in excess of the federally insured limits were fully collateralized.

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 DAGS the E911 Fund is insured under 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 limits 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 indicated that it is probable that a liability has been incurred at the date of the basic financial statements and the amounts of the loss is reasonably estimated.

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

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 revenue. Amounts representing 5% of the gross revenue of the E911 Fund were transferred to the General Fund of the State. Total revenue assessments for the year were \$455,181.

§ 36-30, HRS requires that the E911 Fund be assess 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 2.695% of adjusted expenditures were transferred to the General Fund of the State. Total administrative expense assessments for the year were \$243,631.

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, 2013, there was approximately \$1,662,431 in encumbrances outstanding on contracts for goods and services.

NOTE H - RELATED PARTIES

Certain members of the Board represent PSAPs that receive cost reimbursements from the E911 Fund 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 communication 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 operating revenues for each fiscal year.

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 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 -

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2013

NOTE J - BUDGETING AND BUDGETARY CONTROL (continued)

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, HRS, 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 detailed level of control are maintained by and are available at DAGS.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the 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 represents departures from GAAP.

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

PART II
SUPPLEMENTARY INFORMATION

Enhanced 911 Fund

BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS) - SPECIAL REVENUE FUND

Year ended June 30, 2013

	Original and final budget	Actual	Variance - favorable (unfavorable)
Revenues			
Enhanced 911 surcharge collections	\$ 9,000,000	\$ 9,090,718	\$ 90,718
Interest	-	6,305	6,305
Total revenues	9,000,000	9,097,023	97,023
Expenditures			
PSAP cost reimbursements	-	6,269,155	-
Budget and finance assessments	-	583,279	-
Consulting	-	333,125	-
WSP cost reimbursements	-	169,142	-
Travel and meetings	-	27,696	-
Others	-	16,930	-
Total operating expenditures	9,000,000	7,399,327	1,600,673
Net change in fund balance	\$ -	\$ 1,697,696	\$ 1,697,696

See accompanying note to budgetary comparison schedule.

Enhanced 911 Fund

NOTE TO BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2013

NOTE A – BUDGET TO ACTUAL RECONCILIATION

Adjustments necessary to convert the net change in fund balance for the year from the GAAP basis to the budgetary basis are as follows:

Net change in fund balance, GAAP basis	\$ (838,119)
Increase (decrease) in revenues:	
Current year receivables	(1,060,175)
Prior period receivables	<u>1,138,842</u>
	78,667
Increase (decrease) in expenditures:	
Current year accounts payable	(627,294)
Prior period accounts payable	1,379,629
Expenditure for liquidation of prior fiscal year encumbrances and other	<u>1,704,813</u>
	<u>2,457,148</u>
Net change in fund balance, budgetary basis	<u><u>\$ 1,697,696</u></u>

PART III
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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

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, 2013, 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 October 4, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Finding 2013-01).

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 grant 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*.

E911 Fund's Response to Findings

E911 Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. E911 Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

PKF PACIFIC HAWAII LLP

Honolulu, Hawaii
October 4, 2013

PART IV
SCHEDULE OF FINDINGS AND RESPONSES

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2013

Finding 2013-01 – Material Weakness in Internal Control Over Financial Reporting – Inadequate Segregation of Duties

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control – Integrated Framework" defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The term "reliability" as used with financial reporting objectives involves the preparation of financial statements that are fairly presented in conformity with generally accepted or other relevant and appropriate accounting principles and regulatory requirements for external purposes. Fair presentation is defined as:

- The accounting principles selected and applied have general acceptance.
- The accounting principles are appropriate in the circumstances.
- The financial statements, including the related notes, are informative of matters that may affect their use, understanding and interpretation.
- The information presented in the financial statements is classified and summarized in a reasonable manner, that is, it is neither too detailed nor too condensed.
- The financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practical to attain in financial statements.

Condition/Context: E911 records its daily operation 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 review of the information by someone other than the preparer for year-end accruals 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.

Enhanced 911 Fund

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2013

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 the implementation of the following Board policies:

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 accruals 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.