

Financial Statements and Report of Independent Certified  
Public Accountants

**Enhanced 911 Fund**

June 30, 2012

October 5, 2012

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 fiscal year ended June 30, 2012. The audit was performed in accordance with our agreement dated July 18, 2012.

**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 fiscal year ended June 30, 2012.

**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 fiscal year ended June 30, 2012.

**Organization of the report**

This report is organized into five 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 AUDIT FINDINGS
- PART V. RESPONSE

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
<b>PART I FINANCIAL STATEMENTS</b>	
Report of Independent Certified Public Accountants	5
Management's discussion and analysis	7
Basic financial statements	
Balance Sheet	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Notes to financial statements	14
<b>PART II SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) - Special Revenue Fund	20
Note to Budgetary Comparison Schedule	21
<b>PART III REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS</b>	
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>	23
<b>PART IV SCHEDULE OF AUDIT FINDINGS</b>	26
<b>PART V RESPONSE</b>	28

**PART I**  
**FINANCIAL STATEMENTS**

## **Report of Independent Certified Public Accountants**

To the Directors  
Enhanced 911 Board

We have audited the accompanying balance sheet and the related statement of revenues, expenditures and changes in fund balance of the Enhanced 911 Fund (the "E911 Fund") as of and for the year ended June 30, 2012, which collectively comprise the E911 Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the E911 Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the E911 Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 B, the financial statements of the E911 Fund, are intended to present the financial position, and the changes in financial position of only that portion 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, 2012, 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the E911 Fund, as of June 30, 2012, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 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* and should be considered in assessing the results of our audit.



To the Directors  
Enhanced 911 Board

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7-11 and 20-21 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.

**PKF PACIFIC HAWAII LLP**

Honolulu, Hawaii  
October 3, 2012

## Enhanced 911 Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

This section of the annual financial report presents an analysis of the E911 Fund's financial performance during the fiscal year ended June 30, 2012. 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 (State) which 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 continues to deploy and sustain enhanced 911 service 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 consists of the State Comptroller and 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 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 of Hawaii for Department of Budget and Finance assessments amounted to \$448,922 and \$281,679 for the fiscal year which are required under §36-27, HRS for Central Services and under §36-30, HRS for Administrative Expenses.
- During the year, the E911 Fund funded \$1,259,913 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, 2012

#### Financial highlights (continued)

- Revenue increased approximately \$808,000 during the fiscal year ended June 30, 2012 due mainly to the addition of VoIP surcharge revenues beginning July 1, 2011 from the enactment of Act 168(11).

Although emergency 911 caller services to the PSAPs are utilized by prepaid mobile phone users as well as wireless and VoIP services 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 cost 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 \$1,704,120 for the fiscal year.
- 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 year were \$1,679,437.

#### 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.

##### Fund Financial Analysis

The balance sheet reflects the E911 Fund's financial condition at the end of the fiscal year. As of June 30, 2012 and 2011, the E911 Fund's fund balance was \$10,619,000 and \$12,457,000, respectively.



Enhanced 911 Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2012

**Overview of basic financial statements (continued)**

Tables 1 and 2 present a comparative view of fund balance and changes in fund balance as of June 30, 2012 and 2011.

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

	<u>June 30,</u>		<u>2012-2011</u>	
	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>	<u>% Change</u>
Assets	<u>\$11,998,000</u>	<u>\$14,068,000</u>	<u>\$ (2,070,000)</u>	<u>(14.71)</u>
Total assets	<u><u>\$11,998,000</u></u>	<u><u>\$14,068,000</u></u>	<u><u>\$ (2,070,000)</u></u>	<u><u>(14.71)</u></u>
Total Liabilities	\$ 1,379,000	\$ 1,611,000	\$ (232,000)	(14.40)
Fund Balance				
Restricted for enhanced 911	<u>10,619,000</u>	<u>12,457,000</u>	<u>(1,838,000)</u>	<u>(14.75)</u>
Total liabilities and fund balance	<u><u>\$11,998,000</u></u>	<u><u>\$14,068,000</u></u>	<u><u>\$ (2,070,000)</u></u>	<u><u>(14.71)</u></u>

Total assets and liabilities decreased and decreased by 14.71% and 14.34%, respectively in 2012. Total fund balance decreased by 14.75% in 2012. The fund balance is restricted by legislation for the purposes of ensuring adequate funding to deploy and sustain enhanced 911 service, 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, 2012

Overview of basic financial statements (continued)

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

	June 30,		2012-2011	
	2012	2011	Increase (decrease)	% Change
Revenues				
Enhanced 911 surcharge collections	\$ 8,270,000	\$ 8,150,000	\$ 120,000	1.47
VoIP surcharge collections	705,000	-	705,000	N/A
Interest	3,000	20,000	(17,000)	(85.00)
Total revenues	8,978,000	8,170,000	808,000	9.89
Expenditures				
PSAP cost reimbursements	9,574,000	5,268,000	4,306,000	81.74
Administrative	1,092,000	907,000	185,000	20.40
WSP cost reimbursements	150,000	155,000	(5,000)	(3.23)
Total expenditures	10,816,000	6,330,000	4,486,000	70.87
Changes in fund balance	(1,838,000)	1,840,000	(3,678,000)	(199.89)
Beginning fund balance	12,457,000	10,617,000	1,840,000	17.33
Ending fund balance	<u>\$ 10,619,000</u>	<u>\$ 12,457,000</u>	<u>\$ (1,838,000)</u>	(14.75)

Total revenues increased by \$808,000 (9.89%), and expenditures increased by \$4,486,000 (70.87%) in 2012. Revenue growth was due mainly to first time VoIP surcharge revenue receipts, while expenditures increased as the result of expenditures related to CAD upgrades for Kauai County and the Oahu PSAP.

**Capital asset and debt administration**

There were no capital assets or debt as of June 30, 2012.

## Enhanced 911 Fund

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2012

#### 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 \$5,093,878 or 36.4% below budget, and total expenditures differed by \$3,063,587 or 21.9% below budget.

#### Currently known decisions and facts

- The E911 Fund encumbered \$2,178,933 in FY 2012 for the upgrade and modernization of the Honolulu Fire Department/Emergency Medical Services and the Honolulu Police Department's Computer Aided Dispatch (CAD) systems. The existing CAD systems exceeded its useful life and the change was necessary to maintain both Public Service Answering Point (PSAP) operations 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 increased \$705,000 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 to thirteen.
- 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.
- Cash disbursements for the audit period were limited to \$14.0M for the audit period. Although cash outflow remained below that limit, the net cash flow was negative where cash receipts were insufficient to entirely offset cash disbursements. The negative cash flow was absorbed entirely by existing cash reserves that is being managed to meet current and future needs of the recipients of E911 funding. The enactment of Act 168(11) increased cash receipts by \$705,000 from VoIP connection service providers during the audit period which will assist in eliminating annual cash deficit spending and allow the E911 Fund to build reserves for capital improvements for future CAD upgrades for all counties.

Enhanced 911 Fund

Balance Sheet

June 30, 2012

ASSETS	
Cash	\$10,859,535
Accounts receivable	966,225
Accounts receivable - others	<u>172,617</u>
Total assets	<u><u>\$11,998,377</u></u>
LIABILITIES	
Accounts payable	<u>\$ 1,379,629</u>
Total liabilities	1,379,629
Fund Balance	
Restricted for enhanced 911	<u>10,618,748</u>
Total fund balance	<u>10,618,748</u>
Total liabilities and fund balance	<u><u>\$11,998,377</u></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, 2012

Revenues	
Enhanced 911 surcharge collections	\$ 8,270,374
VoIP surcharge collections	704,928
Interest	<u>3,152</u>
Total revenues	8,978,454
Expenditures	
PSAP cost reimbursements	9,574,076
Budget and finance assessments	730,601
Consulting	325,000
WSP cost reimbursements	149,860
Travel and meetings	24,212
Others	<u>12,775</u>
Total expenditures	<u>10,816,524</u>
Net change in fund balance	(1,838,070)
Fund balance at June 30, 2011	<u>12,456,818</u>
Fund balance at June 30, 2012	<u><u>\$ 10,618,748</u></u>

The accompanying notes are an integral part of this statement.



## Enhanced 911 Fund

### NOTES TO FINANCIAL STATEMENTS

June 30, 2012

#### NOTE A - NATURE OF THE ORGANIZATION

The Enhanced 911 Board (the Board) of the State of Hawaii (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 of Hawaii. Those eleven positions are appointed by the Governor. The remaining two members consist of the State Comptroller 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, 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). 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 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 only that portion 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, 2012 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, 2012

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 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 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, 2012

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 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 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, 2012, cash of \$10,859,535 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, 2012, there were no amounts in excess of the federally insured limits.

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 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 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.

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

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 receipts. Amounts representing 5% of the gross receipts of the E911 Fund were transferred to the General Fund of the State. Total revenue assessments for the year were \$448,922.

§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 2.79% of adjusted expenditures were transferred to the General Fund of the State. Total administrative expense assessments for the year were \$281,679.

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, 2012, there was approximately \$2,179,000 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 at 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 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

Enhanced 911 Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2012

NOTE J - BUDGETING AND BUDGETARY CONTROL (continued)

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 DAGS.

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 \$14,000,000 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, 2012

	Original and Final Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Enhanced 911 surcharge collections	\$14,000,000	\$ 8,906,122	\$(5,093,878)
Interest	-	3,152	3,152
Total revenues	14,000,000	8,909,274	(5,090,726)
Expenditures			
PSAP cost reimbursements	-	9,687,112	-
Budget and finance assessments	-	730,538	-
Consulting	-	325,000	-
WSP cost reimbursements	-	155,000	-
Travel and meetings	-	25,989	-
Others	-	12,774	-
Total operating expenditures	14,000,000	10,936,413	3,063,587
Net change in fund balance	\$ -	\$(2,027,139)	\$(2,027,139)

See accompanying note to budgetary comparison schedule.

Enhanced 911 Fund  
Note to Budgetary Comparison Schedule  
Year Ended June 30, 2012

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 budget basis are as follows:

Net change in fund balance, GAAP basis	\$ (1,838,070)
Increase (decrease) in revenues:	
Current year receivables	(1,138,842)
Prior period receivables	<u>1,039,724</u>
	(99,118)
Increase (decrease) in expenditures:	
Current year accounts payable	(1,379,629)
Prior period accounts payable	1,611,383
Other	<u>(321,705)</u>
	<u>(89,951)</u>
Net change in fund balance, budgetary basis	<u><u>\$ (2,027,139)</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 the financial statements of the Enhanced 911 Board (the "E911 Fund") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. 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**

Management of the E911 Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the E911 Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the E911 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the E911 Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of audit findings as 2012-01 that we consider to be significant deficiency in internal control over financial reporting. 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.

**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*.



To the Directors  
Enhanced 911 Board

The E911 Fund's response to the finding identified in our audit is described in the accompanying response. We did not audit E911 Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the E911 Fund, the Department of Accounting and General Services and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

**PKF PACIFIC HAWAII LLP**

Honolulu, Hawaii  
October 3, 2012

**PART IV**  
**SCHEDULE OF AUDIT FINDINGS**

Enhanced 911 Fund  
SCHEDULE OF AUDIT FINDINGS

June 30, 2012

**Finding 2012-01 – Error Corrections**

**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:** Since the E911 Fund keeps its records on a cash basis, accurate and timely information is needed in order to account for receivables and payables on a modified accrual basis. One error was identified as a result of our audit procedures.

**Cause:** The above finding was caused primarily by the lack of a detailed review of the information.

**Effect:** As a result of our audit procedures, an adjustment to increase accounts receivable – other for \$30,000 was proposed, which management recorded.

**Recommendation:** We recommend that management ensure that all transactions in the E911 Fund's financial statements are properly reported in accordance with accounting principles generally accepted in the United States of America.

**PART V**  
**RESPONSE**

NEIL ABERCROMBIE  
GOVERNOR



Dean H. Seki  
Comptroller  
  
Maria E. Zielinski  
Deputy Comptroller

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING  
AND GENERAL SERVICES  
P.O. BOX 119  
HONOLULU, HAWAII 96810-0119

October 3, 2012

To the Board of Directors  
Enhanced 911 Board

The Enhanced 911 Fund respectfully submits the following response for the year ended June 30, 2012. The findings from the June 30, 2012 Schedule of Audit Findings is discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2012-01 – Error Corrections

Recommendation:

Management should ensure that all transactions in the E911 Fund's financial statements are properly reported in accordance with accounting principles generally accepted in the United States of America.

Response:

We concur with the audit findings of the independent auditor. Management considers any error correction noted on the audit report as a high priority. Therefore internal control procedures addressing the prevention of the error noted in the audit report will be presented to the Finance Committee and the Board for review and approval within 60 days.

Sincerely yours,

A handwritten signature in black ink, reading "Thera G. Bradshaw". The signature is stylized with a large, flowing "T" and "B".

Thera Bradshaw  
Executive Director