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MEMBER FIRM OF THE AMERICAN INSTITUTE AND THE
PUERTO RICO SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

9-1-1 SERVICE GOVERNMENT BOARD
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

AND

INDEPENDENT AUDITORS' REPORT

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9-1-1 SERVICE GOVERNMENT BOARD
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

JUNE 30, 2009

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Management's and Discussion Analysis

The Management of 9-1-1 Service Government Board (The Board) provides this Management's Discussion and Analysis for the readers of the Board basic financial statements. This narrative provides our analysis of the Board's financial performance during the fiscal year ended June 30, 2009. Please read it in conjunction with the financial statements, which follows this section.

Financial Highlights-Fiscal Year-2009

- The Board net assets increased from \$41,317,415 to \$44,397,117 or 7.5% as a result of a decrease in transfers out to emergency agencies.
- Operating revenues, increased by \$3,150,096 or 27% mainly as a result of non-routine billing made to one of the telephone companies that remit emergency telephone service charges to the Board.
- Operating expenses increased by \$3,028,672 or 23% mainly due to an increase in bad debts expense.

Overview of the Financial Statements

This annual report includes the management's discussion and analysis report, the independent auditors' report, and the basic financial statements of the Board. The basic financial statements include notes that explain in more detail the information contained in the basic financial statements.

The Financial Statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets is the first required statement; it includes all of the Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities). It also provides the basis for computing the rates of return, evaluating the capital structure of the Board and assessing the liquidity and financial flexibility of the Board.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets, which is the second required financial statement. This statement measures the profitability of the Board's operations over the past year and can be used to determine whether the Board has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Board's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

Financial Analysis of the Board

The Statement of Net Assets provides a broad view of the Board operations in a manner similar to a private business sector. The statements provide both short-term and long-term information about the Board financial position, which assists in assessing the Board's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, similar to those used by most businesses. This method take into account all revenues and expenses related with the fiscal year even if cash involved has not been received or paid. The statement of net assets presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increase or decreases in the Board's net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The operations of the Board are intended to recover all or a significant portion of their costs through the imposition of monthly charge of \$0.50 for residential and cellular telephone accounts, and \$1.00 for commercial telephone accounts. The charges are billed and collected by provider companies who at the end of each month reimburse the amount collected to the Board. Law 144 of December 22, 1994, as amended, obligates the Board to transfer no less than 40% of the funds collected from the provider companies to those agencies that provide the service (Fire Department, Police Department, Family Department-Social Emergency Program, State Medical Emergency, Municipalities Medical Emergency and State Emergency Management Agency).

Analysis of Financial Results

The following table provides a summary of the Board net assets as of June 30, 2009 and 2008:

	June 30		Change
	2009	2008	
Current and other assets	\$ 51,936,870	\$ 47,571,480	4,365,390
Capital assets, net	2,073,862	3,021,428	(947,566)
Total assets	<u>54,010,732</u>	<u>50,592,908</u>	<u>3,417,824</u>
Current liabilities	8,944,356	8,759,659	184,697
Noncurrent liabilities	669,259	515,834	153,425
Total liabilities	<u>9,613,615</u>	<u>9,275,493</u>	<u>338,122</u>
Net assets:			
Invested in capital assets, net of related debt	2,073,862	2,935,598	(861,736)
Restricted	18,717,031	18,439,163	277,868
Unrestricted	23,606,224	19,942,654	3,663,570
Total net assets	<u>\$ 44,397,117</u>	<u>\$ 41,317,415</u>	<u>3,079,702</u>

Net Assets June 30, 2009 and 2008

The Board net assets as of June 30, 2009 were \$44,397,117. This is an increase of \$3,079,702 from net assets as of June 30, 2008 of \$41,317,415. Total assets increased by \$3,417,824 during the fiscal year ended June 30, 2009. This increase is a result of (1) an increase in cash (unrestricted and restricted) of \$5,147,031 and (2) a decrease in capital assets of \$947,566 or 31%, mainly due to the net effect of an increase in capital assets of \$15,795 (additions of \$133,213 and retirements of \$117,418) and an increase in accumulated depreciation of \$963,361 (depreciation expense of \$1,070,715 and retirements of \$107,354).

Total liabilities increased by \$338,122 due to the net effect of an increase in due to emergency agencies and accrued compensated absences and sick leave obligations of \$396,214 and \$248,896, respectively, and a decrease in accounts payable trade of \$483,527.

The net assets reported in the financial statements by the Board shows categories of restricted and designated (unrestricted) net assets.

Restricted net assets result when constraints, on the use of net assets are either externally imposed by creditors, grantors, or imposed by law through constitutional provisions or enabling legislation. The Board has the following restricted net assets:

- **Contingencies**-As required by Law 144 of December 22, 1994, as amended, the Board has to deposit in a contingency reserve no less than 15% of their annual collections.
- **Expansion and Equipment Replacement**-As required by Law 144 of December 22, 1994, as amended, the Board has to deposit in an Expansion and Equipment Replacement fund no less than 10% of their annual collections.

Designated net assets are unrestricted net assets that have constraints imposed by the Board management that can be removed or modified. The designation indicates that management does not consider those resources available for general operations. The Board has the following designated net assets:

- **Mechanization Fund**-In June 2001 the Board Management established a mechanization fund for the purpose of implementing a mechanization plan for the telephone calls received at the Public Safety Answering Point.
- **Public Education Fund**-The Board Management created the fund during the fiscal ended June 30, 2007. This fund was created for the purpose of providing funding for education campaigns to Puerto Rico citizenship about the use of the 9-1-1 Service.

Statement of Revenues, Expenses and Changes in Net Assets

The following table provides a summary of the Board changes in net assets for the year ended June 30, 2009 and 2008:

	Years ended June 30,		Change
	2009	2008	
Operating revenue:			
Emergency telephone service charges, net	\$ 14,589,747	\$ 11,439,651	3,150,096
Operating expenses:			
Personnel services	6,647,824	5,659,372	988,452
Administrative	4,260,792	1,816,832	2,443,960
Depreciation	1,070,715	1,474,455	(403,740)
Total operating expenses	<u>11,979,331</u>	<u>8,950,659</u>	<u>3,028,672</u>
Operating income	2,610,416	2,488,992	121,424
Non-operating revenue (expenses), net	<u>601,512</u>	<u>1,981,276</u>	<u>(1,379,764)</u>
Net loss before transfers	3,211,928	4,470,268	(1,258,340)
Transfer to emergency agencies and municipalities	<u>(132,226)</u>	<u>(5,318,280)</u>	<u>5,186,054</u>
Increase (decrease) in net assets	3,079,702	(848,012)	3,927,714
Net assets, beginning of year	41,317,415	42,165,427	(848,012)
Net assets, end of year	<u>\$ 44,397,117</u>	<u>\$ 41,317,415</u>	<u>3,079,702</u>

**Analysis of Changes in Net Assets
June 30, 2009 and 2008**

Net assets increased by \$3,079,702 and from \$41,317,415 in 2008 to \$44,397,117 in 2009 due to the results of current year operations. This increase is mainly due to the following current year operating results:

Net operating revenue, increased by \$3,150,096 and mainly due to an additional amount billed to a telephone company as a result of an examination made by the internal audit department which concluded that the telephone company did not remitted \$2,423,596 during the period from January 2001 to December 2004. The entity has provided an allowance of 50% to the \$2,423,596 due to the fact that the amount is under negotiation and management believes that the amount might not be collected during the next fiscal year.

Operating expenses increased by \$3,028,672 or 34%, due to the net effect of an increase in personnel services and administrative expenses of \$988,452 and \$2,443,960, respectively, and a decrease in depreciation expense of \$403,740.

Personnel services increased by \$988,452 or 17%, due to the combined effect of an increase in headcount and an increase in salaries and related fringe benefits.

Administrative expenses increased by \$2,443,960 or 134%, mainly due to an increase in bad debts expense of \$2,424,222 related to an allowance provided to the amount billed (\$2,423,596) related to a telephone company internal audit examination and to a loan receivable from the State Medical Emergencies amounting to \$1 million.

Non-operating revenue (expenses) decreased by \$1,379,764 or 69%, mainly due to a decrease in interest income of \$1,086,339 due to a decrease in the interest yield from the certificates of deposit with the Government Development Bank.

Transfers to emergency agencies decreased \$5,186,054 or 97% due to the fact that the entity did not make an additional transfer out of the restricted contingency reserve of \$5,318,280 during the fiscal year ended June 30, 2009.

Capital Assets

Capital assets as of June 30, 2009 and 2008 were as follows:

	June 30,		Change
	2009	2008	
Capital assets	\$ 9,273,814	\$ 9,258,019	15,795
Accumulated depreciation	(7,199,952)	(6,236,591)	(963,361)
Capital assets, net	<u>\$ 2,073,862</u>	<u>\$ 3,021,428</u>	<u>(947,566)</u>

Capital assets as of June 30, 2009 decreased when compared with June 30, 2008 due to the net effect of the following:

Capital assets	
Additions	\$ 133,213
Retirements	(117,418)
Increase	<u>15,795</u>
Accumulated depreciation	
Depreciation expense	(1,070,715)
Retired assets accumulated depreciation	<u>107,354</u>
Decrease	<u>(963,361)</u>
Net decrease	<u>\$ (947,566)</u>

Debt Administration

The Board is authorized to incur in long term debt as described in Article 4, Clause (f) of Law 144 of December 22, 1994, as amended. As of June 30, 2009 the Board has no long term debt other than the accrued vacations and sick leave obligations reported in the financial statements.

Contacting the Board Financial Management

This financial report is designed to provide a general overview of the 9-1-1 Service Government Board finances for all of telephone subscribers, Puerto Rico's citizens, customers, and creditors. This financial report seeks to demonstrate the Board's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: 9-1-1 Service Government Board, Finance Office, PO Box 270200, San Juan, PR 00927-0200



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INDEPENDENT AUDITORS' REPORT

**9-1-1 Service Government Board
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

We have audited the accompanying basic financial statements of 9-1-1 Service Government Board (The Board), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009. These basic financial statements are the responsibility of Board's management. Our responsibility is to express an opinion on these basic 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 the Government Auditing Standards, issued by the Controller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects the financial position of the 9-1-1 Service Government Board as of June 30, 2009 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the Unites States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2009, on our consideration of the of the 9-1-1 Service Government Board 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 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.



The management's discussion and analysis, included on pages I through V, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

LLM&D, P.S.C.

September 10, 2009
San Juan, Puerto Rico

License No. 90
Expiration date: December 1st, 2010

Stamp No. 2442782 of the Puerto Rico
Society of Certified Public Accountants was
Affixed to the original of this report.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Assets
June 30, 2009

Assets

Current assets:	
Cash	\$ 25,999,286
Accounts receivable:	
Trade, net of \$1,211,798 of allowance for doubtful accounts	3,447,529
Other	8,281
Prepaid expenses	137,716
Supplies inventory	27,872
Total current assets	29,620,684
Noncurrent assets: Restricted cash	22,316,186
Capital Assets:	
Property and equipment	9,273,814
Less: accumulated depreciation and amortization	(7,199,952)
Total capital assets, net	2,073,862
Other assets:	
Loan receivable, net of \$1,000,000 of allowance for doubtful accounts	-
Total assets	54,010,732

Liabilities and Net Assets

Current liabilities:	
Due to emergency agencies	6,589,753
Accounts payable -Trade	1,233,442
Accrued expenses	704,704
Compensated absences and sick leave obligations	416,457
Total current liabilities	8,944,356
Noncurrent liabilities: Compensated absences and sick leave obligations	669,259
Total liabilities	9,613,615
Net assets:	
Invested in capital assets, net of related debt	2,073,862
Restricted for:	
Contingencies	10,198,836
Expansion	8,518,195
Unrestricted:	
Mechanization fund	574,977
Public Education Fund	297,427
Undesignated	22,733,820
Total net assets	\$ 44,397,117

See accompanying notes to basic financial statements.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2009

Operating revenue:	
Emergency telephone service charges	\$ 24,144,747
Distribution to emergency agencies	(9,555,000)
Net operating revenues	14,589,747
Operating expenses:	
Personnel services	6,647,824
Administrative	4,260,792
Depreciation	1,070,715
Total operating expenses	11,979,331
Operating income	2,610,416
Non-operating revenue and expenses:	
Interest	624,706
Other	(23,194)
Income before transfers	601,512
Income before transfers	3,211,928
Transfers:	
Transfer to emergency agencies and municipalities	(132,226)
Total transfers	(132,226)
Change in net assets	3,079,702
Net assets, beginning of year	41,317,415
Net assets, end of year	\$ 44,397,117

See accompanying notes to basic financial statements.

9-1-1 SERVICE GOVERNMENT BOARD

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Receipts from customers	\$ 22,341,588
Payments to suppliers	(2,081,301)
Payments to employees	(6,222,389)
Payments to emergency agencies	<u>(9,158,786)</u>
Net cash provided by operating activities	<u>4,879,112</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(133,213)
Vehicles donated to emergency agencies	<u>(132,226)</u>
Net cash used in capital financing activities	<u>(265,439)</u>
Cash flows from investing activities:	
Interest income and other	<u>633,358</u>
Net cash provided by investing activities	<u>633,358</u>
Net increase in cash and cash equivalents	5,247,031
Cash at beginning of the year	<u>43,068,441</u>
Cash at end of the year	<u><u>\$ 48,315,472</u></u>
For purposes of the statement of cash flows, cash include:	
Unrestricted	\$ 25,999,286
Restricted	<u>22,316,186</u>
	<u><u>\$ 48,315,472</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>2,610,416</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Bad debts expense	2,524,222
Depreciation expense	1,070,715
Changes in assets and liabilities:	
Accounts receivable-trade	(1,528,661)
Accounts receivable-other	3,094
Prepaid expenses	(137,716)
Supplies inventory	(1,080)
Accounts payable	(483,527)
Amounts due to emergency agencies	396,214
Compensated absences	248,896
Accrued expenses	<u>176,539</u>
Total adjustments	<u>2,268,696</u>
Net cash provided by operating activities	<u><u>\$ 4,879,112</u></u>

See accompanying notes to basic financial statements.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2009

1. Reporting Entity and Summary of Significant Accounting Policies

The 9-1-1 Service Government Board (the Board) is a component unit and an official and autonomous governmental agency of the Commonwealth of Puerto Rico, created by Law 144 on December 22, 1994. The Board is appointed by the Commonwealth of Puerto Rico's Management and its financial budget approved by the same management. The Board does not have component unit in its own. The Board is engaged in the operation of the 9-1-1 Public Safety Answering Point. The Board coordinates efforts of emergency services with the State and Municipal Medical Emergencies, the State Emergency Management Agency, the Fire Department, the Police Department and the Family Department-Social Emergency Program. The Board is assisted by an Executive Director.

a) Summary of Significant Accounting Policies

The accounting and reporting policies of the Board conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 20, the Board has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. The Board functions as an enterprise fund and maintain its accounting records on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The following describes the most significant accounting policies followed by the Board.

b) Measurement Focus and Basis of Accounting

The Board's operations are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Board's activities are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or changes of net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use unrestricted resources first, then restricted resources as they are needed.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2009

As a proprietary fund, the Board prepares the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

c) Cash

The Board considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

d) Trade Accounts Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions, among other factors.

e) Property and Equipment

Property and equipment are recorded at cost. The Board capitalizes its property and equipment of which unit cost is \$500 or higher and with a useful life of one year. Maintenance and repairs are charged to expense as incurred, major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of revenues, expense and changes in net assets.

Depreciation is provided over the estimated useful life of the respective assets on the straight-line basis. Leasehold improvements, if any, are amortized on a straight-line basis over the shorter of the lease term or estimated life of the asset. The estimated useful life of all the capital assets are five (5) years.

f) Accounting for Compensated Absences

The Board's policy allows employees to accumulate unused sick leave up to 90 days and vacation leave up to 60 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten (10) years or more of service who are entitled to sick leave pay up to the maximum allowed. The Board is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. In fiscal year 2009 the changes in accrued compensated absences and sick leave obligations was as follows:

		June 30, 2009					
		Beginning balance	Additions	Reductions	Ending balance	Due within one year	Due thereafter
Accrued compensated absences and sick leave obligation	\$	836,820	553,882	(304,986)	1,085,716	416,457	669,259

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2009

g) Pension Benefits

The Board's employees participate in the Government of Puerto Rico Employees Retirement System (the Plan), a cost-sharing multiple employer plan. The Board recognizes annual pension expense equal to its required contribution to the Plan. The Commonwealth funds any past or future unfunded liability related to the Board's employees.

h) Net Assets

Net assets are reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt.
- **Restricted Net Assets** – These result when constraints, on the use of net assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

i) Risk Management

The Board has acquired commercial insurance to mitigate its exposure to certain losses involving casualty, theft, tort claims, damages and injuries caused by automobile accidents and other losses. In the past settlement claims have not exceeded insurance coverage. Worker's compensation insurance coverage is provided by the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, that provides compensation to both public and private employees.

j) Use of Estimates

Management of the Board has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2009

2. Deposits

The carrying amount of deposits with financial institutions of the Board as of June 30, 2009 consisted of the following:

	June 30, 2009	
	Carrying amount	Bank balance
Unrestricted deposits in governmental bank	\$ 25,999,286	\$ 26,046,992
Restricted deposits in governmental bank	22,316,186	22,316,186
Total	\$ 48,315,472	\$ 48,363,178

Custodial Credit Risk Related to Deposits

Pursuant to the laws of Puerto Rico, the Board's cash is required to be held only in banks designated as depository institutions of public funds by the Commonwealth's Secretary of the Treasury. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. Deposits maintained at Government Development Bank for Puerto Rico (GDB) and Economic Development Bank for Puerto Rico (EDB) are exempt from the collateral requirements established by the Commonwealth and thus represent a custodial credit risk that in the event of GDB's or EDB's failure; the Board may not be able to recover these deposits. GDB and EDB are component units of the Commonwealth.

The Board was exposed to custodial credit risk arising from the balance of deposits of \$48,363,178 maintained at GDB as of June 30, 2009, which are uninsured and uncollateralized.

3. Accounts Receivable

During fiscal year 2009, the Internal Audit Department of the Board examined the fiscal operations of a telephone company (the Company) corresponding to the emergency telephone service charges pertaining to the Board for the period from January 1, 2000 to December 31, 2005 and determined an un-remitted amount to the Board of \$2,423,789. Management of the board has determined and recorded an allowance for doubtful accounts of \$1,211,798 in the accompanying financial statements at June 30, 2009.

9-1-1 SERVICE GOVERNMENT BOARD
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2009

4. Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2009.

	June 30, 2009			
	Beginning balance	Increases	Decreases	Ending balance
Capital assets				
Leasehold improvements	\$ 890,553	—	—	\$ 890,553
Equipment	7,597,138	110,633	(50,566)	7,657,205
Furniture and fixtures	629,823	499	—	630,322
Vehicles	140,505	22,081	(66,852)	95,734
Total capital assets	9,258,019	133,213	(117,418)	9,273,814
Less accumulated depreciation and amortization:				
Leasehold improvements	(752,302)	(134,817)	40,502	(846,617)
Equipment	(5,121,379)	(877,712)	—	(5,999,091)
Furniture and fixtures	(248,756)	(52,998)	—	(301,754)
Vehicles	(114,154)	(5,188)	66,852	(52,490)
Total accumulated depreciation	(6,236,591)	(1,070,715)	107,354	(7,199,952)
Total capital assets	\$ 3,021,428	(937,502)	(10,064)	\$ 2,073,862

5. Loan Receivable

In 2008, the Board issued a non-interest bearing loan of \$1,000,000 to its participating agency State Medical Emergencies to acquire 10 additional ambulances and medical equipment. The loan was authorized under Board's Resolution No. 11, Series 2007-08. During 2009 State Medical Emergencies have been negotiating with the Board the condonation of such loan due to a decrease in their annual budget which hinders their ability to repay the loan. Due to this circumstance the Board management has provided an allowance of 100% on such loan as of June 30, 2009.

6. Due to Emergency Agencies

The operations of the Board are intended to recover all or a significant portion of their costs through the imposition of monthly emergency telephone service charge of \$0.50 for residential and cellular telephone accounts, and \$1.00 for commercial accounts. The charges are billed and collected by telephone companies who at the end of each month reimburse the amount collected to the Board. Law 144 of December 22, 1994, as amended, obligates the Board to transfer no less than 40% of the funds collected from the telephone subscribers to the agencies that provide response to 9-1-1 calls (Fire

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Notes to Basic Financial Statements

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Department, Police Department, Family Department, State Medical Emergency Department, Municipalities Medical Emergency, State Emergency Management Agency and Department of Family Social Emergencies Program). Those funds are distributed to the agencies in two installments of 40% and 60%, respectively of the funds to be transferred. The funds allocated to each agency is made proportionally based on the ratio of transferred calls from the agency to total calls transferred calls from the service during the current fiscal year. The first installment was paid on April 2009 amounting to \$3,822,000.

7. Pension and Postretirement Benefits Plans

The Government of Puerto Rico Employees Retirement System (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth. All regular employees of the Board under the age of 55 at the date of employment become members of the ERS as a consequence of their employment.

The ERS provides retirement, death, and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Disability retirement benefits for occupational and non-occupational disabilities are available to members, enrolled in the plan before January 1, 2000. Employees Benefits are vested after ten years of plan participation.

The amount of the annuity shall be one and one half percent (1.5%) of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case shall the annuity be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive a Merit Annuity. Such participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefits are payable if participants receive a refund of their accumulated contributions.

Commonwealth legislation requires that employees hired before April 1, 1990 contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% of their gross monthly salary in excess of \$550. Employees hired after April 1, 1990 contribute 8.275% of their gross monthly salary. The Board's contributions are 9.275% of gross monthly salary.

Total employer contributions during years ended June 30, 2009, 2008, and 2007 amounted to approximately \$45,494, \$44,283, and \$41,721, respectively, which represented 100% of required contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted for the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999, had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Board on or after January 1, 2000 are only allowed to become members of System 2000.

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System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the defined benefit plan.

Total employer contributions during the fiscal years ended June 30, 2009, 2008, and 2007, amounted to approximately \$343,125, \$304,836, and \$283,413, respectively, which represented 100% of required contributions.

Additional information on the ERS is provided in its financial statements a copy of which can be obtained from the Administrator of the Retirement System, P.O. Box 42003, San Juan, Puerto Rico 00940.

8. Commitments and contingencies

a. Operating leases

In November 2006, the Board renew their facilities operating lease agreement for a period of five (5) years commencing in July 2007. The lease contract is renewable in periods of five (5) years and future minimum noncancelable lease payments are as follows:

Year ending June 30:	
2010	\$ 405,300
2011	417,456
2012	426,576
	<u>\$ 1,249,332</u>

In November 2007, the Board entered in an agreement for technical support and maintenance service amounting to \$1,162,000 for a period of three (3) years ending on November 2010. Annual payments of \$330,000 are due in November of each year commencing in 2007 and additional \$172,000 payable in July 2009.

b. Legal Contingencies

The Board has been named as a defendant in various legal claims, arising from the ordinary course of business amounting to approximately \$13 million. Board's Management believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the

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Board considers that those claims in excess of insurance coverage are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court. Nonetheless, a legal claim provision of \$150,000 has been recorded in the accompanying financial statements at June 30, 2009.

9. Subsequent Events

On July 2009, the Board in accordance with Board Resolution No. 19 Series 2008-09 donated ten vehicles to various municipalities with a cost of \$250,000.

On July 2009, Board Resolution No. 3 Series 2009-10 authorizes the Board to donate ten vehicles to the Fire Department with a cost of approximately \$187,000.

On August 2009, the Board in accordance with Board Resolution No. 19 and 20 Series 2008-09 donated eleven ambulances to eleven municipalities with a cost of \$956,865.



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

**9-1-1 Service Government Board
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

We have audited the accompanying basic financial statements of 9-1-1 Service Government Board (The Board), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, as listed in the table of contents and have issued our report thereon dated September 10, 2009. 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 9-1-1 Service Government Board 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 9-1-1 Service Government Board internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 9-1-1 Service Government Board internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the 9-1-1 Service Government Board in a separate letter dated September 10, 2009.

This report is intended solely for the information and use of management and Board members and is not intended to be and should not be used by anyone other than these specified parties.

LLM&D, P.S.C.

September 10, 2009
San Juan, Puerto Rico

License No. 90
Expiration date: December 1st, 2010

Stamp No. 2442783 of the Puerto Rico
Society of Certified Public Accountants was
Affixed to the original of this report.