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

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

SISTEMA DE EMERGENCIA 9-1-1

JUNTA DE GOBIERNO
DEL SERVICIO 9-1-1
ESTADO LIBRE ASOCIADO DE PUERTO RICO
POR LA SEGURIDAD DE PUERTO RICO

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1-3
Financial Statements:	
Management's Discussion and Analysis	4-11
Statement of Net Position	12-13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15-16
Notes to Financial Statements	17-31
Independent Auditors' 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	32-33

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

9-1-1 Service Government Board
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying basic financial statements **of 9-1-1 Service Government Board (A Component Unit of the Commonwealth of Puerto Rico)**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **9-1-1 Service Government Board'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 - Tel. (787) 777-8044 / Fax (787) 764-9377

Auditors' Responsibility (Continued)

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 9-1-1 Service Government Board as of June 30, 2014 and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on **pages 4 through 11** 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 the 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 of 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 December 19, 2014, on our consideration of 9-1-1 Service Government Board's internal control over financial reporting and 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 9-1-1 Service Government Board's internal control over financial reporting and compliance.

López Vega, CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
December 19, 2014
Stamp No. 2675862 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

The Management of 9-1-1 Service Government Board (The Board) provides this Management's Discussion and Analysis for the readers of the Board's basic financial statements. This narrative provides our analysis of the Board's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements, which follows this section.

Financial Highlights

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for the fiscal year 2014 deserve special mention:

- The Board's net position decreased from $27.48 million to $25.06 million, a decrease of $2.42 million, when compared with the 2013 fiscal year, as restated.
- Net operating revenues increased by $2.21 million or 21.48%, mainly as a result of a decrease of distribution to emergency agencies by $1.95 million.
- Operating expenses decreased by $2.60 million or 18.01% mainly due to a decrease in personnel services by $2.37 million and administrative expense by $.29 million.
- Transfers to emergency agencies and municipalities decreased by $6.22 million from $9.50 million during 2013 to $3.28 million during 2014.

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 using accounting methods similar to those used by private sector companies. The statements offer short-term and the long-term financial information about its activities. The statement of net position 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 obligation (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 revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position, which is the second required financial statement. This statement measures the profitability of the Board's operations over the current 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 financial 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 revenues, expenses and changes in net position provides a broad view of the Board's operations in a manner similar to a private business sector, while the statement of net position provides both short-term and long-term information about the Board's financial position, which assists in assessing the Board's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to those used by most businesses. This method takes 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 position presents all of the Board's assets and liabilities, with the difference between the two reported as "net position". Over time, increase or decrease in the Board's net position 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 a 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 telephone service provider companies, who at the end of each month reimburse the amounts collected to the Board. Law No. 144 of December 22, 1994, as amended, and bylaws and resolutions, obligate the Board to transfer no less than 40% of the funds collected from the provider companies to those agencies that provide the emergency services (Fire Department, Police Department, Family Department's Social Emergency Program, Municipal Offices for Emergency Management and State Agency for Emergency Management).

The net position reported in the financial statements by the Board show categories of restricted and unrestricted net position.

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

- **Contingencies** – As required by Law No. 144 of December 22, 1994, as amended, the Board has to deposit in a contingency reserve no more than 15% of its budgeted annual collections.

- **Expansion and Equipment Replacement** – As required by Law No. 144 of December 22, 1994, as amended, the Board has to deposit in an expansion and equipment replacement fund no less than 10% of its budgeted annual collections.

- **Distribution to Emergency Agencies** – As required by Law No. 144 of December 22, 1994, as amended, the Board has to deposit in a distribution to emergency agencies fund no less than 40% of its budgeted annual collections.

- **Telephone Companies Billing Fees** – As required by Law No. 144 of December 22, 1994, as amended, the Board has to deposit in a telephone companies billing fees fund no more than 2% of its budgeted annual collections.

Financial Analysis of the Board (Continued)

Unrestricted net position includes funds that have constraints imposed by the Board's management that can be removed or modified. These constraints indicate that management does not consider those resources available for general operations. The Board has the following constraints on net position:

- **Mechanization Fund -** In June 2001, the Board's management established a mechanization fund for the purpose of implementing a mechanization plan for the telephone calls received at the Public Safety Answering Point. The balance constrained by the Board for the Mechanization fund amounted to $75 as of June 30, 2014.

- **Public Education Fund -** The Board's management created this fund during the fiscal year ended June 30, 2007. This fund was created for the purpose of providing funding for educational campaigns to Puerto Rico citizenship about the use of the 9-1-1 Service. The balance constrained by the Board for the Public Education Fund amounted to $485,794 as of June 30, 2014.

- **Administrative and Operating Fund -** The Board's management created this fund during the fiscal year ended June 30, 2011. This fund was created for the purpose of providing funding for non-recurrent expenses related to the administration and operation of the 9-1-1 Service. As of June 30, 2014, the Board did not constrain funds for the Administrative and Operating Fund.

- **Voluntary Termination Benefits Fund -** The Board's management created this fund during the fiscal year ended June 30, 2011. This fund was created for the purpose of providing funding for termination benefits for those employees opting for voluntary retirement under the provisions of by Law No. 70 of July 6, 2010. As of June 30, 2014, the Board did not constrain funds for the Voluntary Termination Benefits Fund.

- **3-1-1 Center Fund -** The Board's management created this fund during the fiscal year ended June 30, 2012. This fund was created for the purpose of providing funding for the development and establishment of the 3-1-1 Government Service and Information Answering Center. The balance constrained by the Board for the 3-1-1 Center Fund amounted to $826,931 as of June 30, 2014.

The following table provides a summary for the Board's statements of net position as of June 30, 2014 and 2013 (millions omitted):

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Financial Analysis of the Board (Continued)

	2014	2013, as restated	Change
Current assets	$ 2.19	$ 14.83	$ (12.64)
Noncurrent assets	31.65	20.02	11.63
Capital assets	4.06	4.92	(0.86)
Total assets	37.90	39.77	(1.87)
Current liabilities	11.18	10.61	0.57
Noncurrent liabilities	1.66	1.68	(0.02)
Total liabilities	12.84	12.29	0.55
Net investment in capital assets	3.23	4.27	(1.04)
Restricted	9.17	9.99	(0.82)
Unrestricted	12.65	13.22	(0.57)
Total net position	$ 25.06	$ 27.48	$ (2.42)

Statement of Net Position

The Board's net position as of June 30, 2014 amounted to $25.06 million, resulting in a net decrease of $2.42 million from net position as of June 30, 2013 amounting to $27.48 million, as restated. Total assets decreased by $1.87 million during the fiscal year ended June 30, 2014. This decrease is mainly due to the net effect of (1) an increase in restricted cash of $23.62 million (2) a decrease in unrestricted cash of $12.76 million (3) a decrease of certificate of deposits of $12.17 million and (4) a decrease in capital assets of $.86 million.

The net increase in unrestricted cash and restricted cash amounted to $10.85 million for the fiscal year ended June 30, 2014. This increase was mainly caused by the net effect of cash provided by operating activities and by investing activities amounting to $1.86 million and $12.57 million, respectively, and cash used by capital and related financing activities amounting to $3.57 million.

Capital assets decreased principally due to the net effect of the acquisition of equipment and furniture by $.31 million and $.97 million of depreciation expense.

Total liabilities increased by $.55 million, mainly due to the net effect of an increase in due to emergency management agencies and obligation under capital lease of $.74 million and $.20 million, respectively, and a decrease in accounts payable and accrued voluntary termination benefits of $.13 million and $.16 million, respectively.

Statement of Revenues, Expenses and Changes in Net Position

The following table provides a summary of the Board's changes in net position for the year ended June 30, 2014 and 2013 (millions omitted):

	2014	2013, as restated	Change
Operating revenues:			
Emergency telephone service charges, net	$ 12.50	$ 10.07	$ 2.43
Operating expenses:			
Personnel Services	9.15	11.52	(2.37)
Administrative	1.72	2.01	(0.29)
Depreciation	0.96	0.89	0.07
Provision for bad debts	0.00	0.02	(0.02)
Total operating expenses	11.83	14.44	(2.61)
Operating income (loss)	0.67	(4.37)	5.04
Non-operating revenues	0.19	0.55	(0.36)
Income (loss) before transfers	0.86	(3.82)	4.68
Transfers to emergency management agencies and municipalities	(3.28)	(9.50)	6.22
Decrease in net position	(2.42)	(13.32)	10.90
Net position, beginning of the year, as restated	27.48	40.80	(13.32)
Net position, end of the year	$ 25.06	$ 27.48	$ (2.42)

Analysis of Changes in Net Position

Net position decreased by $2.42 million, from $27.48 million in 2013, as restated, to $25.05 million in 2014 due to the result of current year operation, as follows:

Net operating revenue increased by $2.43 million, mainly due to the decrease of distribution to emergency agencies amounting to 1.94 million, as follows:

Analysis of Changes in Net Position (Continued)

	2014	2013, as restated	Change
Revenues	$ 20.84	$ 20.35	$0.49
Distributions to agencies	(8.34)	(10.28)	1.94
Net revenues	$ 12.50	$ 10.07	$ 2.43

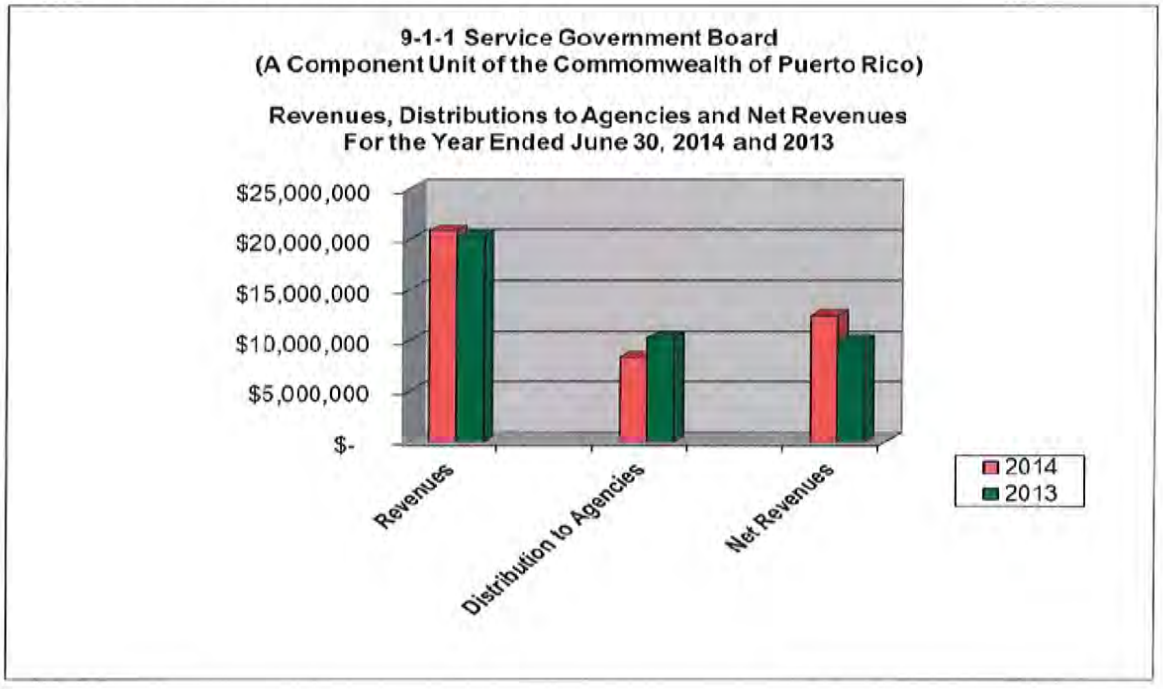
Operating expenses decreased by $2.61 million or 18%, due to the net effect of a decrease in personnel services and administrative expenses of $2.37 million and $.29 million, respectively.

Non-operating revenues decreased by $.36 million, principally due to the fact that during fiscal year 2013, the Board received a federal award amounting to $500,000. This award was not received during the fiscal year 2014. Also, interest revenues decreased by $.10 million.

Also, transfers to emergency management agencies decreased by $6.22 million. Transfers to emergency management agencies, includes vehicles and ambulances donated to agencies and municipalities and are based on the agencies' needs and the approval by the Board.

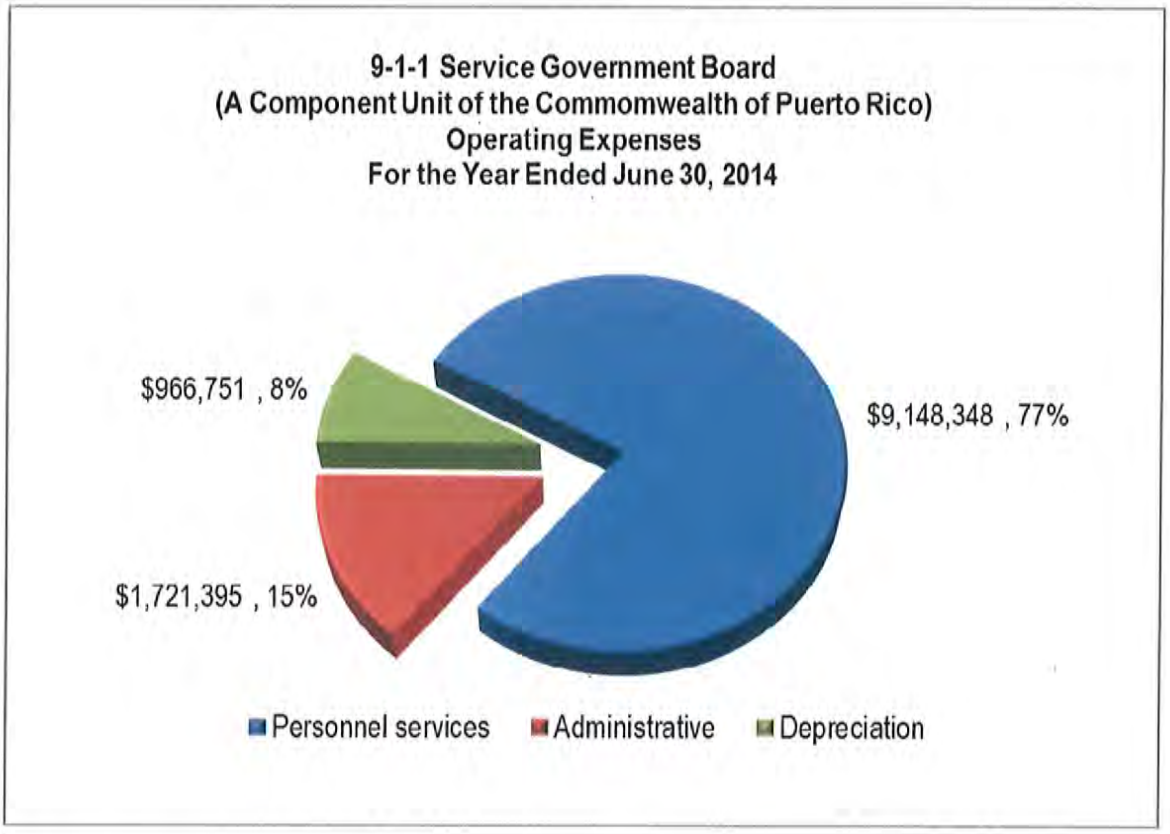
The Board as a Whole

The following chart presents a comparison of revenues, distributions to agencies and net revenues of the Board's activities for the years ended June 30, 2014 and 2013:



The Board as a Whole (Continued)

The following chart presents the composition of operating expenses of the Board for the year ended June 30, 2014:



Capital Assets

At the end of June 30, 2014, the Board had $4.06 million invested in equipment, furniture, and motor vehicles (net of depreciation). The following table summarizes the amounts invested in capital assets as of June 30, 2014:

Capital Assets at Year-End
(Net of Accumulated Depreciation, in Millions)

Leasehold improvements	$ 1,841,019
Equipment	7,733,819
Furniture and fixtures	939,000
Vehicles	101,795
Total depreciable assets	10,615,633
Less accumulated depreciation and amortization	(6,555,488)
Total capital assets, net	$ 4,060,145

Debt Administration

The Board is authorized to incur in long-term debt as described in Article 4, Clause (f) of December 22, 1994, as amended. As of June 30, 2014, the Board has no long-term debt other than the accrued compensated absences, voluntary termination benefits and obligation under capital lease 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, P.R. 00927-0200.

Assets	
Current Assets	
Accounts receivable:	
Trade	$ 2,132,108
Other	26,975
Prepaid expenses	899
Supplies inventory	30,194
Total current assets	2,190,176
Noncurrent assets:	
Restricted assets	
Cash restricted for current obligation	8,651,387
Other cash restricted	22,812,860
Total restricted assets	31,464,247
Deposit on purchase of property	190,000
Total noncurrent assets	31,654,247
Capital assets:	
Depreciable assets	10,615,633
Less: accumulated depreciation and amortization	(6,555,488)
Total capital assets, net	4,060,145
Total assets	**$ 37,904,568**

Continues

Liabilities and Net Position	
Current Liabilities:	
Liabilities from restricted assets:	
Due to emergency agencies	$ 8,340,742
Due to telephone companies	310,645
Total liabilities from restricted assets	8,651,387
Current portion of long-term obligations:	
Obligation under capital lease	83,331
Voluntary termination benefits	179,707
Compensated absences	623,920
Accounts payable	1,154,810
Accrued expenses	491,805
Total current liabilities	2,533,573
Noncurrent liabilities:	
Obligation under capital lease, net of current portion	116,664
Voluntary termination benefits, net of current portion	556,884
Compensated absences, net of current portion	990,240
Total noncurrent liabilities	1,663,788
Total liabilities	$ 12,848,748
Net position:	
Net investment in capital assets	$ 3,860,150
Restricted for:	
Expansion and equipment replacement	9,620,669
Telephone companies billing fees	552,770
Unrestricted	11,022,231
Total net position	**$ 25,055,820**

See accompanying notes to basic financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Fiscal Year Ended June 30, 2014

Operating revenues:	
Emergency telephone service charges	$ 20,838,225
Distribution to emergency agencies	(8,335,290)
Net operating revenues	12,502,935
Operating expenses:	
Personnel services	9,148,348
Administrative	1,721,395
Depreciation	966,751
Total operating expenses	11,836,494
Operating income	666,441
Non-operating revenues and expenses:	
Interest revenues	169,452
Other income from telephone service claims	177,531
Loss on disposition of capital assets	(194,686)
Other	39,578
Total non-operating revenues	191,875
Income before transfers	858,316
Transfers to emergency management agencies and municipalities	(3,280,432)
Change in net position	(2,422,116)
Net position, beginning of year	27,705,319
Prior period adjustment	(227,383)
Net position, end of year	**$ 25,055,820**

See accompanying notes to basic financial statements.

Cash flows from operating activities:	
Receipts from customers	$ 20,714,955
Payments to suppliers	(1,842,476)
Payments to employees	(9,477,198)
Payments to emergency management agencies and companies	(7,531,622)
Net cash provided by operating activities	1,863,659
Cash flows from capital and related financing activities:	
Deposit on purchase of property	(190,000)
Capital expenditures	(105,997)
Transfers to emergency management agencies and municipalities	(3,280,432)
Net cash used in capital and related financing activities	(3,576,429)
Cash flows from investing activities:	
Interest receipts and other	386,561
Maturity of certificates of deposit	12,179,788
Net cash provided by investing activities	12,566,349
Net increase in cash	10,853,579
Cash at beginning of the year	20,610,668
Cash at end of the year	**$ 31,464,247**
For purposes of the statement of cash flows, cash includes:	
Unrestricted	$ -
Restricted	31,464,247
	$ 31,464,247

Continues

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 666,441
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	966,751
Changes in assets and liabilities:	
Accounts receivable – trade	(104,194)
Accounts receivable – other	(19,076)
Prepaid expenses	475
Supplies inventory	7,368
Accounts payable – trade	(128,924)
Amounts due to emergency agencies and telephone companies	803,668
Compensated absences	(58,639)
Accrued voluntary termination benefits	(161,442)
Accrued expenses	(108,769)
Total adjustments	1,197,218
Net cash provided by operating activities	**$ 1,863,659**

See accompanying notes to basic financial statements.

Note 1 – Reporting entity

The 9-1-1 Service Government Board (the Board) is a component unit of the Commonwealth of Puerto Rico (The Commonwealth), created by Law No. 144 on December 22, 1994. The Board is appointed by the Commonwealth's Executive Branch and its budget is approved by the Commonwealth's Legislature. 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 Municipal Offices for Emergency Management, the State Agency for Emergency Management, the Fire Department, the Police Department and the Family Department's Social Emergency Program. The Board is led by an Executive Director. During fiscal year 2012, Law No. 144 was amended by Law No. 126 of July 12, 2011 to empower the Board to establish the 3-1-1 Government Service and Information Answering Center (3-1-1 Center). The 3-1-1 Center provides information related to services offered by 14 governmental agencies and attends claims and requests made by the citizens on such agencies.

Note 2 – 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). The Board functions as an enterprise fund and maintains 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.

a) Financial statement presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments" (GASB 34), as amended, which establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position and the statement of cash flows.

b) Measure focus and basis of accounting

The Board's operations are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net position, 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 position is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Note 2 – Summary of significant accounting policies (Continued)

b) Measure focus and basis of accounting (Continued)

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 revenue and expenses.

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

As a proprietary fund, the Board prepares the statement of net position, the statement of revenues expenses and changes in net position 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 equivalents

The Board considers all highly liquid investments with a maturity of three (3) months or less when purchased to be cash equivalents.

d) Trade accounts receivable

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) Capital assets

Capital assets are recorded at cost. The Board capitalizes its property and equipment with a unit cost of $500 or higher and with a useful life of more than one (1) year. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of capital assets 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, expenses and changes in net position.

Depreciation is provided over the estimated useful life of the respective assets using the straight-line method. 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 is five (5) years.

Note 2 – Summary of significant accounting policies (Continued)

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 the previous year.

g) Pension benefits

The Board's employees participate in the Commonwealth of Puerto Rico Employee 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 position

Net position is the difference between assets and liabilities in governmental-wide financial statements. Net position is reported in three (3) categories:

1. **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any long-term debt that is attributable to the acquisition, construction or improvement of those assets.

2. **Restricted net position** – results when constraints placed on net position use are externally imposed by grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

3. **Unrestricted net position** – consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

i) New accounting standards adopted

During fiscal year 2014, the Board adopted the new accounting standards as follows:

- **GASB Statement No. 65, Items Previously Reported as Assets and Liabilities:** This statement establishes accounting and financial reporting standards to reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for periods beginning after December 15, 2012.

i) **New accounting standards adopted (Continued)**

- **GASB Statement No. 66, Technical corrections-2012, an amendment of GASB Statements No. 10 and No. 62:** This statement improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The requirements of this statement are effective for periods beginning after December 15, 2012.

j) **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, which provides compensation to both public and private employees.

k) **Use of estimates**

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

l) **Deferred outflows/inflows of resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has an item that may qualify for reporting in this category:

- **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on the Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

Note 3 – Cash

Deposits include cash placed in the Government Development Bank of Puerto Rico. The carrying amount of deposits in the Government Development Bank of Puerto Rico as of June 30, 2014 consisted of the following:

	Carrying Amount	Bank Balance
Deposits in governmental bank:		
Restricted	$ 31,464,247	$ 31,669,828

Custodial credit risk related to deposits

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

The Board was exposed to custodial credit risk arising from the balance of deposits of **$31,669,828** maintained at GDB as of June 30, 2014, which are uninsured and uncollateralized.

Note 4 – Capital assets

Capital assets' activity of the Board for fiscal year ended June 30, 2014 was as follows:

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Note 4 – Capital assets (Continued)

	Balance as of July 1, 2013	Additions	Retirements	Balance as of June 30, 2014
Depreciable assets:				
Leasehold improvements	$ 1,840,012	1,007		$ 1,841,019
Equipment	8,330,017	104,294	(900,487)	7,533,824
Equipment under capital lease	-	199,995	-	199,995
Furniture and fixtures	943,429	695	(5,124)	939,000
Vehicles	101,795	-	-	101,795
Total depreciable assets	11,215,253	305,991	(905,611)	10,615,633
Less accumulated depreciation and amortization:				
Leasehold Improvements	(943,515)	(23,005)		(966,520)
Equipment	(4,807,121)	(886,539)	707,795	(4,985,865)
Equipment under capital lease	-	(10,000)	-	(10,000)
Furniture and fixtures	(473,847)	(40,476)	3,130	(511,193)
Vehicles	(75,179)	(6,731)	-	(81,910)
Total accumulated depreciation and amortization	(6,299,662)	(966,751)	710,925	(6,555,488)
Total capital assets, net	**$ 4,915,591**	**$ (660,760)**	**$ (194,686)**	**$ 4,060,145**

Note 5 –Purchase option agreement

On March 3, 2014, the Board assigned **$3,800,000** for the acquisition of a building, to relocate its administrative offices and the 9-1-1 and 3-1-1 call centers. On March 25, 2014, the Board entered into a purchase option agreement with Scotiabank of Puerto Rico and issued a down payment for the amount of **$190,000.**

Note 6 – Obligations under capital lease

The Board entered into a capital lease agreement with HP Financial Services Corp. for the acquisition of computer equipment. At the end of the lease, the Board has the option to purchase the equipment at one dollar ($1.00) "as is". The lease is payable in 36 monthly installments of **$5,555**. The balance due as of June 30, 2014 amounted to **$199,995**.

Note 6 – Obligations under capital lease (Continued)

The following is a schedule of future minimum lease payments for the next three years:

Year ending June 30,

2015	$ 83,331
2016	66,665
2017	49,999
Total minimum lease payments	**$ 199,995**

Note 7 - Due to emergency agencies

The operations of the Board are intended to recover almost all 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, which at the end of each month reimburse the amounts 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 Department, Police Department, Municipal Offices for Emergency Management, State Agency for Emergency Management Agency and Department of Family's 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 fund allocated to each agency is made proportionally based on the ratio of transferred calls from the agency to total calls transferred from the service during the current fiscal year. The distribution of the fiscal year 2014 amounted to **$8,335,290** and will be paid after the issuance of the audited financial statements for the fiscal year ended as of June 30, 2014. The total amount payable as of June 30, 2014 amounted to **$8,340,742**.

Note 8 – Accrued compensated absences

The vested compensated absences liability balance at June 30, 2014 consists of the following activity:

	Balance as of June 30, 2013	Net Change	Balance as of June 30, 2014	Due within One year
Accrued vacations and sick leave	$ 1,672,799	$ (58,639)	$ 1,614,160	$ 623,920

Note 9 – Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Board. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Commonwealth's Employees Retirement System (ERS) and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Board will make the employer contributions to the ERS and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service in the ERS; those who have at least 30 years of credited service and the age for retirement; or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Board. The financial impact resulting for the benefits granted to participants on this program was the recognition within the Board's financial statements of a liability of **$736,591** in the statement of net position as of June 30, 2014 and a charge of **$15,450** in the statement of activities for the year ended June 30, 2014. At June 30, 2014, unpaid long-term benefits granted on this program were discounted at 1.3%.

	Balance as of June 30, 2013	Net change	Balances of June 30, 2014	Due within One year
Accrued termination Benefits	$ 898,033	$ (161,442)	$ 736,591	$ 179,707

Note 10 – Contingencies

Pension plan benefits

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Board hired before January 1, 2000 and with less than 55 years of age at the date of employment, became participants of the Retirement System as a condition to their employment. Employees hired after January 2000, were covered by Act No. 305 of 1999, also known as System 2000. Also, employees hired prior that date were also allowed to elect to participate in System 2000, instead of the prior plan. However, on April 4, 2013, the Governor of Puerto Rico signed into Law Act No. 3 of 2013, which represents a comprehensive reform of ERS and which became effective on July 1, 2013.

Note 10 – Contingencies (Continued)

Pension plan benefits (Continued)

A summarized description of the different benefits under each Act is as follows:

a) Act No. 447 of 1951

The Retirement System provides retirement, death and disability benefits pursuant to Act No. 447 enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities.

However, a member must have at least ten years of service to receive non-occupational disability benefits.

Participants who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $400 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive a Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined. Otherwise, they will receive 75% of the average compensation, as defined.

No benefits are payable if the participants receives a refund of his/her accumulated contributions upon termination.

Commonwealth legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% of the excess over $550 of monthly gross salary. The Board is required by the same statute to contribute 10.275% of the participant's gross salary. As required by Act. No. 116 of July 6, 2011, the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

Note 10 – Contingencies (Continued)

Pension plan benefits (Continued)

b) System 2000

The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999, which amends Act No. 447, to establish, among other provisions, a defined contribution savings plan program known as System 2000 (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and employees who are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Employees must contribute an 8.275% of their monthly gross salary to the Program and may elect to increase their contribution up to 10%. Employee contributions are credited to his/her individual account established under the program. Participants may direct their contributions to three different investments options. Investment income is credited to the participant's account semiannually.

Under this Act, the Board is required to contribute 10.275% of the participant's gross salary. The Retirement System will use these contributions to increase its assets level to reduce the unfunded status of the defined pension plan.

Upon retirement, the balance of the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit payable to the participant during his/her life, and upon death of the participant 50% of such benefit to the participant's beneficiaries. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, this lump-sum payment will be made to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

c) Act No. 3 of 2013

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Retirement System. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the Retirement System, including, but not limited to the following:

- For active participants of the contributory defined benefit programs under Act. No. 447 of 1952 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2014 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

Note 10 – Contingencies (Continued)

Pension plan benefits (Continued)

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the Merit Annuity available to participants who joined the Retirement System prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate increased from 8.275% to 10%.
- Employer contribution rate increased to 12.275%. This contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, it will be increased by 1.25% annually until June 30, 2021.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump-sum distribution; instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from $600 to $200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

The following actuarial assumptions were used:

Interest rate	6.4% a year
Salary increases	3% a year
Actuarial frequency	Annual
Inflation	3% every third year

Note 10 – Contingencies (Continued)

Pension plan benefits (Continued)

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of $140 million per year, for the next 20 years, to increase the liquidity and solvency of the Retirement System. An appropriation for such annual contribution was included in the Commonwealth's budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of $140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the Retirement System's current and future obligations. The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The annual employer contribution for the year ended June 30, 2014 amounted to approximately **$656,466**. Total payroll covered was approximately **$5,764,829**.

Additional information on the Administration for the Retirement System of the Commonwealth of Puerto Rico is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained directly from the Administration of Retirement Systems of the Commonwealth of Puerto Rico.

Litigation and claims

The Board has been named as a defendant in various legal claims, arising from the ordinary course of business. As of June 30, 2014, Board's management believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the Board considers that those claims in excess of insurance coverage are filed in amounts far greater than those that can be reasonable expected to be agreed on with claimants or awarded by a court. The accompanying financial statements have an accrual for legal claims of **$142,000** as of June 30, 2014, included within accrued expenses in the accompanying statement of net position.

Note 11 – Commitments

Operating leases

The Board renewed its facilities operating lease agreement for a period of five (5) years commencing on July 2012. Monthly rental payments under this agreement amount to **$27,494** during the first year, $30,388 during the second and third year and **$32,559** during the last two years of that contract. The lease agreement is renewable in periods of five years.

Note 11 – Commitments (Continued)

Operating leases (Continued)

On December 2011, the Board entered into an operating lease agreement with a third party for the lease of 3-1-1 Center facilities for a period of five (5) years commencing on May 2012. The lease contract is renewable in periods of five (5) years. On August 1, 2014, the agreement was amended to extend the period of the contract until May 2021, under the same monthly rental payment established for the first year.

Future minimum non-cancellable lease payments are as follow:

Year ending June 30,	Amount
2015	$ 568,323
2016	594,371
2017	594,371
2018	203,658
2019	203,658
Thereafter	186,687
	$ 2,351,068

Rent expense for fiscal year ended June 30, 2014 amounted to **$700,825.**

Note 12 – Statement of cash flows

The Board prepares its statement of cash flows using the direct method. For the purpose of this statement, the Board includes as cash equivalent all unrestricted and restricted highly liquid debt instruments with original maturities of three months or less at time of purchase.

Note 13 – Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2014:

- **GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27:** This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pension and paying benefits to plan members as they come due. The requirements of this statement are effective for periods beginning after June 15, 2014.

Note 13 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68:** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

The impact of these statements on the Board's financial statements, if any, has not yet been determined.

Note 14 – Prior period adjustment

The balance of net position at the beginning of fiscal year 2014 has been adjusted to correct the balance of certain accounts receivable and accrued expenses related to prior years. The effect of this adjustment is a reduction in accounts receivable and revenues by **$213,827** and an increase in accrued expenses and termination benefits expense by **$13,556** as of June 30, 2013 and for fiscal year then ended.

Note 15 – Subsequent events

Subsequent events were evaluated through December 19, 2014, the date the financial statements were available to be issued. Certain significant events that should have been recorded or disclosed in the financial statements were noted, and are described in the following paragraphs.

On June 17, 2014, the Government of Puerto Rico signed into Law the "Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act" (Act 66-2014), which declares a state of emergency for fiscal and economic recovery in order to enable budgetary balance, phase out market financing of operating budgets and maximize liquidity to ensure the payment of debt and continuity of public services. The Act establishes several saving measures and governance provisions for fiscal year beginning on July 1, 2014 and applies to all entities of the Executive Branch of the Commonwealth of Puerto Rico, including agencies, instrumentalities with independent treasury and public corporations.

Pursuant to Section 19 of Chapter 2 of this Act, the Governing Board of the 9-1-1 Service, among others instrumentalities, shall contribute to the Employment Promotion and Economic Activity Fund. The Board was entitled to certify to the Office of Management and Budget the number of employees on its payroll as of June 30, 2014 and the sum paid during the fiscal year then ended to cover Christmas bonus, summer bonus, and other bonus such as attendance, productivity and sick and vacation leave accrued in excess. In the case of the Christmas bonus, the amount presented should be the excess of $600. The corresponding amounts certified by June 30, 2014, shall be considered as the savings generated under this Act for the following fiscal year 2015 and should be transferred to the Department of Treasury, beginning and or before July 31, 2014. Additional transfers in amount equal to that paid for the year 2015, shall be made on every July 31st thereafter during the effective term of this Act. On September 10, 2014, the Board issued a payment for the amount of **$240,917** in order to comply with this requirement.

On July 1, 2014, became effective the Act No. 78 of 2014. This Act created the "Legal Responsibility Fund", which has the purpose of obtaining funds from different public corporations to pay off government legal and judicial liabilities. The Article 6 of the Law 144 was amended to order the Board the transfer of **$12,000,000** to this fund five (5) days after the Act approval. The Board issued a payment for the requested amount on July 24, 2014.

Note 15 – Subsequent events (Continued)

In addition, as described in Note 11, the operating lease agreement for the lease of the 3-1-1 center facilities was amended to extend the term of the lease until May 2021, under the same monthly rental payment established for the first year.

As described in Note 5, the Board entered into a purchase option agreement with Scotiabank of Puerto Rico, for the acquisition of a building to relocate its administrative offices and the 9-1-1 and 3-1-1 call centers facilities. On December 15, 2014, the Board issued to the order of Scotiabank of Puerto Rico, a payment for the amount of **$3,110,000** for the acquisition of this property. Estimated acquisition and rehabilitation costs for this property amounted to **$5,000,000**.

As of December 19, 2014, the date the financial statements were available to be issued, the Board has signed various resolutions which assign funds for the acquisition of equipment, vehicles and improvements to the infrastructure of information systems and communications of the 9-1-1 and 3-1-1 centers, as well as for the agencies that provide response to 9-1-1 calls. These funds amounted to **$7,200,000,** approximately.

Accordingly to the special constraints imposed by law to the Board resources and the subsequent obligations described above, all cash available as of June 30, 2014, is considered restricted.

INDEPENDENT AUDITORS' 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
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited, 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 of America, the financial statements of **9-1-1 Service Government Board (A Component Unit of the Commonwealth of Puerto Rico) (The Board)**, which comprise the Board's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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INDEPENDENT AUDITORS' 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 (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from 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 Board in a separate letter dated December 19, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 19, 2014
Stamp No. 2675863 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.