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**BUREAU OF EMERGENCY SYSTEM 9-1-1
A DIVISION OF THE PUERTO RICO PUBLIC SECURITY DEPARTMENT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

BUREAU OF EMERGENCY SYSTEM 9-1-1
Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Puerto Rico Public Security Department
To the Bureau of Emergency System 9-1-1
San Juan, Puerto Rico

We have audited the accompanying financial statements of Bureau of Emergency System 9-1-1 (A Division of the Puerto Rico Public Security Department), (the Bureau), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Bureau'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Bureau adopted with certain departures the requirements of Statement No. 68 *"Accounting and Financial Reporting for Pensions of the Governmental Accounting Standards Board"* and Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"* with the audited Schedules of Employers Allocations and Schedules of Pension Amounts by Employer of the Employee's Retirement System of the Commonwealth of Puerto Rico as of June 30, 2016. The GASB 68 requires that the total net pension liability should be determined by an actuarial valuation as of the measurement date (net pension liability that is measured as of a date no earlier than the end of its prior fiscal year, June 30, 2017) or the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year end. The Bureau did not apply the required procedures to roll forward the net pension liability and other amounts in the financial statements to present updated information as of June 30, 2018.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 73.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau, as of June 30, 2018, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability, the schedule of Bureau's Contribution on pages 4 through 9 and 35 through 36 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.

San Juan, Puerto Rico
September 17, 2019

The stamp number 2767044
was affixed to the original report



González Torres, CPA, PSC

GONZÁLEZ TORRES & CO., CPA, PSC
License #96
Expires December 1, 2020

BUREAU OF EMERGENCY SYSTEM 9-1-1

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

As Management of 9-1-1 Emergency System (the Bureau), we offer readers the following discussion and analysis of the Bureau's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Entity Reorganization

The Bureau of Emergency System 9-1-1 (the Bureau), is a division of the Puerto Rico Public Security Department, created by Law No. 20 Law of the Puerto Rico Public Security Department (Law No. 20), on April 10, 2017. Initially the 9-1-1 Service Government Board was created by Law No. 144 on December 22, 1994. The Puerto Rico Public Security Department is an umbrella agency in charge of others Bureaus.

The Law No. 20 established the follow Bureaus: Emergency System 9-1-1, Police, Fire Body, Forensic Sciences, Emergency and Disaster Administration, Medical Emergency Body and Special Crime Investigation.

The Bureau manage the operations of the following: 1) the call center 9-1-1 for public safety and emergencies, and 2) the 3-1-1 call center that provides information related to services offered by governmental agencies and attend claims and request made by citizens on such agencies. Also, is responsible for the distribution of said calls to the Bureaus of the Public Security Department, other agencies or instrumentalities, other emergency service providers or any other that are authorized by the Department for their effective attention. The Secretary of the Public Security Department of the Commonwealth of Puerto Rico is responsible for the administration and direct supervision of the Bureau. The Law No. 20 created the position of Commissioner for the Bureau, which is in charge of the daily operations of the Bureau. The Commissioner is appointed by the Governor with the advice and consent of the Senate of Puerto Rico.

The Law No. 20 established an Executive Committee to design, implement, establish, and manage the fiscal and operating procedures for the Bureaus to achieve the objectives of the Law.

Previous to the Law No. 20 mentioned before, the Bureau was operated by a Board of Directors in accordance with previous Law No. 144 of December 22, 1994, which was superseded by the Law No. 20. Thus, the previous Board was disposed with the new Law and the Bureau (previously the 9-1-1 Service Government Board) is a division of the Puerto Rico Public Security Department.

Financial Highlights

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for the fiscal year 2018 deserve special mention:

BUREAU OF EMERGENCY SYSTEM 9-1-1

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

- The Bureau's net deficit decreased from \$(24,133,342) to \$(23,627,681), a change of \$505,661, when compared with the 2017 fiscal year, as restated.
- Total operating revenues decreased by \$2,822,079 or 12.44%. This reduction was mainly due to the closure of several cell phone companies and the effect of hurricane María.
- Operating expenses decreased by \$6,557,260 or 24.47%. This reduction was mainly due to a decreases in pension expense and allowance for uncollectible accounts.

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 Bureau. The basic financial statements include notes that explain in more detail the information contained in the basic financial statements.

The financial statements of the Bureau report information using accounting methods similar to those used by private sector companies. The statements offer short-term and long-term financial information about its activities. The statement of net position (deficit) is the first required statement; it includes all of the Bureau'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 Bureau and assessing the liquidity and financial flexibility of the Bureau.

All of the current revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position (deficit), which is the second required financial statement. This statement measures the profitability of the Bureau's operations over the current year and can be used to determine whether the Bureau 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 Bureau'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.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

Financial Analysis of the Bureau

The statement of revenues, expenses and changes in net position (deficit) provides a broad view of the Bureau's operations in a manner similar to a private business sector, while the statement of net position (deficit) provides both short-term and long-term information about the Bureau's financial position, which assists in assessing the Bureau'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 (deficit) presents all of the Bureau's assets and liabilities, with the difference between the two reported as "net position (deficit)". Over time, increase or decrease in the Bureau's net position (deficit) may serve as a useful indicator of whether the financial position of the Bureau is improving or deteriorating.

The operations of the Bureau 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 Bureau. Law No. 20 of April 10, 2017, obligate the Bureau to transfer the part 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). On May 25, 2018, the circular letter MCNSE911-18-0024 was issued which amends this procedure indicating that the Bureau must obligate the budgeted part for the distribution of funds to the emergency agencies. On May 29, 2018, Administrative Order DSP-18-001 of the Secretary of Public Security was issued, authorizing the disbursement of \$1,682,264 and \$841,132 for fiscal years 2016 and 2017, respectively.

The net position (deficit) reported in the financial statements by the Bureau 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.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

The following table provides a summary for the Bureau's statements of net deficit as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current assets	\$ 1,310,325	\$ 1,934,290	\$ (623,965)
Noncurrent assets	13,932,616	7,976,619	5,955,997
Capital assets	<u>5,761,935</u>	<u>5,691,659</u>	<u>70,276</u>
Total assets	<u>21,004,876</u>	<u>15,602,568</u>	<u>5,402,308</u>
Deferred outflows of resources	<u>15,968,070</u>	<u>15,353,014</u>	<u>615,056</u>
Current liabilities	7,770,703	2,558,150	5,212,553
Noncurrent liabilities	<u>51,866,488</u>	<u>51,567,338</u>	<u>299,150</u>
Total liabilities	<u>59,637,191</u>	<u>54,125,488</u>	<u>5,511,703</u>
Deferred inflows of resources	963,436	963,436	-
Net investment in capital assets	5,761,935	5,691,659	70,276
Restricted	6,267,520	6,267,520	-
Unrestricted	<u>(35,657,136)</u>	<u>(36,092,521)</u>	<u>435,385</u>
Total net deficit	<u>\$ (23,627,681)</u>	<u>\$ (24,133,342)</u>	<u>\$ 505,661</u>

Statement of Net Position (Deficit)

The Bureau's net position (deficit) as of June 30, 2018 amounted to \$(23,627,681), resulting in a net change of \$505,661 from its net position as of June 30, 2017 amounting to \$(24,133,342). Total assets increased by \$5,402,308 during the fiscal year ended June 30, 2018. This increase is mainly due to the net effect of (1) an increase in cash and deposits of \$5,955,997 because compared to the prior year, less disbursements were made.

Total liabilities increased by \$5,511,703, mainly due to the obligation of funds to be transferred to emergency agencies by \$5,295,189.

BUREAU OF EMERGENCY SYSTEM 9-1-1
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Statement of Revenues, Expenses and Changes in Net Position (Deficit)

The following table provides a summary of the Bureau's changes in net position (deficit) for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating revenues:			
Emergency telephone service charges	\$ 19,858,246	\$ 22,680,325	\$ (2,822,079)
Operating expenses:			
Personnel services	9,424,130	10,718,034	(1,293,904)
Administrative	2,151,814	3,874,683	(1,722,869)
Provision for bad debts	678,016	9,106,630	(8,428,614)
Depreciation	308,190	772,868	(464,678)
Transfers to emergency management agencies and municipalities	<u>7,680,817</u>	<u>2,328,012</u>	<u>5,352,805</u>
Total operating expenses	<u>20,242,967</u>	<u>26,800,227</u>	<u>(6,557,260)</u>
Operating loss	(384,721)	(4,119,902)	3,735,181
Non-operating revenues and expenses	<u>415,507</u>	<u>500,114</u>	<u>(84,607)</u>
Increase (decrease) in net position (deficit)	30,786	(3,619,788)	3,650,574
Net (deficit) position, beginning of the year	(24,133,342)	13,398,018	(37,531,360)
Prior period adjustments	<u>474,875</u>	<u>(33,911,572)</u>	<u>34,386,447</u>
Net deficit, end of the year	\$ <u>(23,627,681)</u>	\$ <u>(24,133,342)</u>	\$ <u>505,661</u>

Analysis of Changes in Net Position (Deficit)

Net position (deficit) change by \$505,661, from \$(24,133,342) in 2017, to \$(23,627,681) in 2018 due to the result of current year operation, as follows:

- Net operating revenue decreased by \$2,822,079.
- Operating expenses decreased by \$6,557,260 or 24.47% mainly due to a decrease in pension expense and an allowance for uncollectible accounts.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Capital Assets

At the end of June 30, 2018, the Bureau had \$5,761,935 invested in land, building, equipment, furniture, and motor vehicles (net of depreciation).

Economic Factors

The Commonwealth of Puerto Rico is facing a severe fiscal, economic and liquidity crisis. As a result, the U.S. Government enacted Public Law 114-187 known as the *Puerto Rico Oversight, Management and Economic Stability Act* ("PROMESA or the Act") which includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. Pursuant to those provisions, PROMESA established the *Financial Oversight and Management Oversight Board for Puerto Rico* (the Oversight Board), a seven members Oversight Board which provide a broad authority over the Commonwealth and certain of its instrumentalities, designated by the Oversight Board as "covered instrumentalities". The Act requires the Commonwealth and the covered instrumentalities to develop and submit proposed fiscal plans to the Oversight Board.

The Commonwealth fiscal plan is the one having the most significant impact on the Bureau operations and finances, as follows:

Comprehensive pension reform - the Plan includes a comprehensive pension reform which, among other initiatives, propose a 8.5% average pension reduction applicable to all actual retirees with combined retirement plan and Social Security benefits in excess the poverty level of \$1,200 per month. The Commonwealth has announced that it will challenge this specific measure. The Plan recognized that the Commonwealth has started certain critical steps such as (1) switch to a pay-as-you-go model to cover remaining defined benefit obligations, (2) segregate prospective employee contributions into new and separated defined contribution plans.

GDB revised Fiscal Plan was approved by the Oversight Board on April 20, 2018. The amended RSA included as part of the revised Fiscal Plan will require GDB to seek certain conforming amendments to the GDB Restructuring Act No. 109. On May 8, 2018 the Oversight Board recertifies the amended RSA as a Voluntary Agreement under section 104(i)(1) of PROMESA and as a Qualifying Modification pursuant to section 601(g)(2)(A) of PROMESA, among other resolutions included. The federal judge under PROMESA approved this restructuring agreement.

Contacting the Bureau 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 Bureau'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 Bureau of Emergency System 9-1-1, Finance Office, PO Box 270200, San Juan, P.R. 00927-0200.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Statement of Net Position

For the Fiscal Year Ended June 30, 2018

Assets**Current assets**

Accounts receivable:	
Trade, net of allowance	\$ 1,225,482
Other	55,686
Supplies inventory	<u>29,157</u>
Total current assets	<u>1,310,325</u>

Noncurrent assets

Restricted assets:	
Cash	13,913,798
Deposits in GDB, net of reserve for impairment	<u>18,818</u>
Total restricted assets	<u>13,932,616</u>

Capital assets

Non-depreciable assets	489,610
Depreciable assets	13,246,720
Less: accumulated depreciation and amortization	<u>(7,974,395)</u>
Total capital assets, net	<u>5,761,935</u>

Deferred outflows of resources related to pensions	<u>15,968,070</u>
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Total assets and deferred outflows of resources	<u>\$ 36,972,946</u>
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BUREAU OF EMERGENCY SYSTEM 9-1-1
Statement of Net Position (Continued)
For the Fiscal Year Ended June 30, 2018

Liabilities and Net Position

Current liabilities

Liabilities from restricted assets:

Due to emergency agencies	\$ 5,295,189
Due to telephone companies	<u>482,064</u>
Total liabilities from restricted assets	<u>5,777,253</u>

Other current liabilities

Accounts payable	1,143,399
Accrued expenses	<u>850,051</u>
Total other current liabilities	<u>1,993,450</u>

Total current liabilities 7,770,703

Noncurrent liabilities

Voluntary termination benefits	127,681
Compensated absences	968,904
Net pension liability	<u>50,769,903</u>

Total noncurrent liabilities 51,866,488

Total liabilities 59,637,191

Deferred inflows of resources 963,436

Total liabilities and deferred inflows of resources 60,600,627

Net position (deficit)

Net investment in capital assets	5,761,935
Restricted for:	
Contingencies	1,822,562
Expansion and equipment replacement	3,762,000
Telephone companies billing fees	682,958
Unrestricted	<u>(35,657,136)</u>

Total net deficit **\$ (23,627,681)**

See accompanying notes to basic financial statements.

BUREAU OF EMERGENCY SYSTEM 9-1-1Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Operating revenuesEmergency telephone service charges \$ 19,858,246**Operating expenses**

Personnel services 9,424,130

Administrative 2,829,830

Depreciation 308,190

Transfers to emergency management agencies and municipalities 7,680,817**Total operating expenses** 20,242,967**Operating loss** (384,721)**Non-operating revenues and expenses:**

Interest revenue 41,662

Other income from telephone service claims 300,827

Loss on disposition of capital assets (34,034)

Other 107,052**Total non-operating revenues and expenses** 415,507**Change in net position** 30,786**Net deficit, beginning of year** (24,133,342)**Prior period adjustments (Note 12)** 474,875**Net deficit, end of year** \$ (23,627,681)

See accompanying notes to basic financial statements.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

Cash flows from operating activities

Receipts from customers	\$ 19,798,157
Payments to suppliers	(2,613,220)
Payments to employees and related expenses	(8,595,933)
Payments to emergency management agencies and companies	(2,467,492)
Payments for pension benefits to plan members	<u>(615,056)</u>

Net cash provided by operating activities 5,506,456

Cash flows from investing activities

Interest receipts and other	<u>449,541</u>
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Net cash provided by investing activities 449,541

Net increase in cash 5,955,997

Cash at beginning of the year 7,976,619

Cash at end of the year **\$ 13,932,616**

For purposes of the statement of cash flows, cash includes:

Unrestricted	\$ -
Restricted	<u>13,932,616</u>

Total cash at year end **\$ 13,932,616**

See accompanying notes to basic financial statements.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2018

Reconciliation of operating loss to net cash provided by operating activitiesOperating loss \$ (384,721)**Adjustment to reconcile operating loss to net cash provided by operating activities**Depreciation expense 308,190Bad debt expense 678,016Transfers to emergency management agencies
and municipalities expense 4,903,615**Changes in assets and liabilities**Accounts receivable – trade (59,339)Accounts receivable – other (749)Deferred outflows of resources (615,056)Supplies inventory 6,038Accounts payable (63,423)Amounts due to emergency agencies and telephone companies 309,710Compensated absences 38,771Accrued voluntary termination benefits (171,298)Accrued expenses 556,702**Total adjustments** 5,891,177**Net cash provided by operating activities** \$ 5,506,456

See accompanying notes to basic financial statements.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 1 – Reporting entity

Entity Reorganization

The Bureau of Emergency System 9-1-1 (the Bureau), is a division of the Puerto Rico Public Security Department, created by Law No. 20 Law of the Puerto Rico Public Security Department (Law No. 20), on April 10, 2017. Initially the 9-1-1 Service Government Board was created by Law No. 144 on December 22, 1994. The Puerto Rico Public Security Department is an umbrella agency in charge of others Bureaus.

The Law No. 20 established the follow Bureaus: Emergency System 9-1-1, Police, Fire Body, Forensic Sciences, Emergency and Disaster Administration, Medical Emergency Body and Special Crime Investigation.

The Bureau manage the operations of the following: 1) the call center 9-1-1 for public safety and emergencies, and 2) the 3-1-1 call center that provides information related to services offered by governmental agencies and attends claims and request made by citizens on such agencies. Also, is responsible for the distribution of said calls to the Bureaus of the Public Security Department, other agencies or instrumentalities, other emergency service providers or any other that are authorized by the Department for their effective attention. The Secretary of the Public Security Department of the Commonwealth of Puerto Rico is responsible for the administration and direct supervision of the Bureau. The Law No. 20 created the position of Commissioner for the Bureau, which is in charge of the daily operations of the Bureau. The Commissioner is appointed by the Governor with the advice and consent of the Senate of Puerto Rico.

The Law No. 20 established an Executive Committee to design, implement, establish, and manage the fiscal and operating procedures for the Bureaus to achieve the objectives of the Law.

Previous to the Law No. 20 mentioned before, the Bureau was operated by a Board of Directors in accordance with previous Law No. 144 of December 22, 1994, which was superseded by the Law No. 20. Thus, the previous Board was disposed with the new Law and the Bureau is a division of the Puerto Rico Public Security Department.

Note 2 – Summary of significant accounting policies

The accounting and reporting policies of the Bureau conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Bureau 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 Bureau.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 a statement of cash flows.

b) Measure focus and basis of accounting

The Bureau’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 Bureau’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.

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 Bureau’s policy to use unrestricted resources first, and then restricted resources as they are needed.

As a proprietary fund, the Bureau 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 Bureau considers all highly liquid investments with a maturity of three (3) months or less when purchased to be cash equivalents.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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. Accounts receivables represent amount due from telephone companies in accordance with the charges established in the Law No. 20. As of June 30, 2018, the allowance for uncollectible accounts amounted \$9,784,886.

e) Capital assets

Capital assets are recorded at cost. The Bureau capitalizes its property and equipment with a unit cost of \$500 or higher and with a useful life of more than one 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 straightline 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 equipment is 5 years, improvements 10 years and building 50 years.

f) Accounting for compensated absences

The Bureau'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 according to the Article 2.11 of the Law No. 26 of April 29, 2017. The Article 2.10 of the Law No. 26 of April 29, 2017, established the prohibition to pay the excess sick leave or vacation leave. As of June 30, 2018 the compensated absences were \$968,904.

g) Pension benefits

The Bureau has evaluated the provisions of GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions of the Governmental Accounting Standards Board"* and Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*. The Bureau accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements shall be equal to the Bureau's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Bureau's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

For the purpose of applying the requirements of GASBS Nos. 68, 71 and 73, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Bureau participate. The Bureau is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Bureau's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2018. As a result, the management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68.

The Bureau's employees participate in the Retirement System of the Commonwealth of Puerto Rico, a multiemployer cost sharing plan. Accordingly, pension costs recorded in the accompanying financial statements equals the statutory required contributions with a liability recorded for any unpaid required contributions.

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.

The restricted net position consists of the following reserves: Contingencies, Expansion and Equipment Replacement and Telephone Companies Billing Fees. These reserves were stated by the 9-1-1 Service Government Board and were transferred to the new Bureau under the Law No. 20. As of June 30, 2018, these restricted reserves amounted \$6,267,520.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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) Risk management

The Bureau 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.

j) Use of estimates

Management of the Bureau 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.

k) 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 Bureau has two items 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.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

- **Deferred outflows/inflows of resources related to pensions** - Amounts reported for changes in calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the Bureau’s contributions and proportionate share contributions; and e) Bureau’s contributions subsequent to the measurement date.

Note 3 – Cash

Deposits

The Bureau is authorized to deposit only in bank institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Bureau. Under the Commonwealth’s statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

Custodial credit risk

Custodial credit risk – deposits: is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Bureau maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Bureau are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Bureau’s name. The total deposits in commercial and Governmental Development Bank, at June 30, 2018, amounted to \$25,986,027.

Deposits in commercial banks

The Bureau has the depository accounts in one commercial bank. All deposits are carried at cost plus accrued interest, if any.

	As of June 30, 2018	
<u>Depository Account</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Deposits insured by the FDIC	\$ 250,000	\$ 250,000
Deposits subject to the collateral requirements	<u>25,736,027</u>	<u>13,682,617</u>
Total deposits	\$ <u>25,986,027</u>	\$ <u>13,932,617</u>

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Deposits in Government Development Bank (GDB)

Deposits in GDB, all of which are uninsured and uncollateralized, are exposed to custodial credit risk. At June 30, 2018, the Bureau's bank balance in the GDB, the Commonwealth's governmental bank, net of a reserve for impairment, amounted to \$18,818, as follows:

<u>Depository Account</u>	<u>Bank Balance at June 30, 2018</u>
Deposits with fiscal agent	\$ 11,328,558
Reserve for impairment	<u>(11,309,740)</u>
Total deposits	\$ <u>18,818</u>

The Bureau has determined that due to bankruptcy of the GDB, to account and report an estimated impairment loss reserve resulting from the decline in fair value of deposits held in custody by the GDB for the fiscal year ended June 30, 2018.

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BUREAU OF EMERGENCY SYSTEM 9-1-1
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 4 – Capital assets

Capital assets' activity of the Bureau for fiscal year ended June 30, 2018 was as follows:

	Balance as of July 1, 2017	Additions	Retirements	Reclassifications and Other Adjustments	Balance as of June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 489,610	\$ -	\$ -	\$ -	\$ 489,610
Total capital assets, not being depreciated	<u>489,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>489,610</u>
Capital assets, being depreciated:					
Building	3,341,742	-	-	-	3,341,742
Leasehold improvements	1,939,881	-	-	-	1,939,881
Equipment	6,820,809	3,595	(117,586)	17,503	6,724,321
Equipment under capital lease	199,995	-	-	-	199,995
Furniture and fixtures	911,980	595	(34,149)	(332)	878,094
Vehicles	162,687	-	-	-	162,687
Total capital assets, being depreciated	<u>13,377,094</u>	<u>4,190</u>	<u>(151,735)</u>	<u>17,171</u>	<u>13,246,720</u>
Less accumulated depreciation and amortization:					
Building	(141,930)	(56,772)	-	-	(198,702)
Leasehold improvements	(1,425,731)	(87,774)	-	211,702	(1,301,803)
Equipment	(5,754,391)	(78,802)	-	223,858	(5,609,335)
Equipment under capital lease	(110,497)	(33,999)	-	342	(144,154)
Furniture and fixtures	(648,658)	(35,369)	-	65,086	(618,941)
Vehicles	(93,838)	(15,474)	-	7,852	(101,460)
Total accumulated depreciation and amortization	<u>(8,175,045)</u>	<u>(308,190)</u>	<u>-</u>	<u>508,840</u>	<u>(7,974,395)</u>
Total capital assets, being depreciated, net	<u>5,202,049</u>	<u>(304,000)</u>	<u>(151,735)</u>	<u>526,011</u>	<u>5,272,325</u>
Total capital assets, net	<u>\$ 5,691,659</u>	<u>\$ (304,000)</u>	<u>\$ (151,735)</u>	<u>\$ 526,011</u>	<u>\$ 5,761,935</u>

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The Bureau follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34. This Statement establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The Bureau did not recognize any impairment loss during the fiscal year ended June 30, 2018.

Note 5 - Due to emergency agencies and telephone companies

Emergency agencies

The operations of the Bureau 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 Bureau. Law No. 20 of April 10, 2017, obligate the Bureau to transfer the a part 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). On May 25, 2018, the circular letter MCNSE911-18-0024 was issued which amends this procedure indicating that the Bureau must obligate the budgeted part for the distribution of funds to the emergency agencies. The funds 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. On May 29, 2018, Administrative Order DSP-18-001 of the Secretary of Public Security was issued, authorizing the disbursement of \$1,682,264 and \$841,132 for fiscal years 2016 and 2017, respectively. As of June 30, 2018, there is a balance payable to the emergency agencies of \$5,295,189.

Telephone companies

According to Law No. 20 of April 10, 2017, telephone companies will be reimbursed for the net cost of billing and collection of charges, without exceeding the provisions of the Law. Based on the Department's regulation, they must not exceed .30% of the account receivable from each telephone company. As of June 30, 2018, the balance of the due to telephone comanies was \$482,064.

Note 6 – 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 Bureau. Act No. 70 established that early retirement benefits would be provided to eligible employees that had completed between 15 to 29 years of credited service in the Retirement System and consisted of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Bureau will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Economic incentives were available to eligible employees who had less than 15 years of credited service or who had at least 30 years of credited service and the age for retirement; or who had the age for retirement. Economic incentives consisted of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that chose the economic incentive and had less than 15 years of credited service were eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Bureau.

The financial impact resulting for the benefits granted to participants on this program is the recognition within the Bureau’s financial statements of a liability of \$127,681 in the statement of net position as of June 30, 2018. As of June 30, 2018, the unpaid long-term benefits granted on this program were discounted at 1.80%.

	<u>Balance as of June 30, 2017</u>	<u>Net change</u>	<u>Balances of June 30, 2018</u>
Accrued termination benefits	\$ <u>298,979</u>	\$ <u>(171,298)</u>	\$ <u>127,681</u>

Note 7 – Pension plan benefits

General Information about the Pension Plan

As of June 30, 2018, regular employees of the Bureau contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member’s average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ($\$5,000 \times .25\%$).

On October 30, 2016, the Fiscal Oversight Board for Puerto Rico (the Board) designed to the Government of the Commonwealth of Puerto Rico, the Employees' Retirement System (ERS) and other 21 public corporations as covered entities subject to fiscal supervision, in accordance with the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA Act).

The Board projected that the liquid assets of the ERS would be consumed during the fiscal year 2017-2018. Due to this projected lack of liquidity in the ERS, the government of the Commonwealth, in an attempt to guarantee and safeguard the payment of pensions to retirees adopted a new defined contribution plan denominated as the "Pay-Go System" (Pay-Go).

Under Pay Go, the Government of the Commonwealth of Puerto Rico becomes responsible for paying the pension benefits to retirees. The Puerto Rico Treasury Department perform monthly billings to all governmental entities adhered to the Commonwealth, the public corporations and the municipalities of Puerto Rico, to cover pension benefits to retirees. The government of the Commonwealth of Puerto Rico determines and administers the monthly amounts required to be paid by each governmental entity. Amount billed is denominated as the "Pay-Go Charge". The payments of "Pay-Go Charges" must be remitted to applicable special bank accounts with one commercial bank in Puerto Rico. In addition, the employer contributions to the ERS are eliminated and the source for the payments of "Pay-Go Charge" is a payroll withholding from employees of all governmental entities that are a participant of the ERS.

The last and most recently available actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2016, reflects that the System was severely underfunded. As of June 30, 2016, the System's net pension liability was approximately \$37,699 million, and its net fiduciary position was approximately negative \$1,266 million.

Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27 (GASB 68) became effective during the fiscal year ended June 30, 2015. This Statement replaced the requirements of Statement No. 27, Accounting for Pensions for State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 and 2018 under GASB Statement No. 67 “Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25”. Furthermore, on December 2018 the ERS issued a GASB Statement No. 68 report of audited information including pension amounts by employer and the corresponding employer allocation percentage as of June 30, 2016

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; Actuarial assumptions; Discount Rate; Sensitivity of the Bureau's proportionate share of the net pension asset to changes in the discount rate; Pension Plan Fiduciary Net Position

As stated in the provisions of the GASB Statements No. 67 and 68, the ESR is required, as the pension plan’s administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan’s net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2018, the measurement date is June 30, 2017.

The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 and 2018 under GASB Statement No. 67 “Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25”. Furthermore, on December 2018 the ERS issued a GASB Statement No. 68 report of audited information including pension amounts by employer and the corresponding employer allocation percentage as of June 30, 2016. The Bureau disclosed the following information and amounts based on this audited data reported by ERS June 30, 2016 Actuarial Valuation Report:

At June 30, 2018, the Bureau reported a liability of \$50,769,903 for its proportionate share of the net pension liability, as per last 2016 audited actuarial valuation report of the ERS. The collective net pension liability which amounts to \$37,698,758,000 was measured as of June 30, 2016. The total pension liability as of June 30, 2016 (the measurement date) was determined by an actuarial valuation as of July 1, 2015 that was rolled forward to June 30, 2016 and assuming no gains or losses. There have been no significant changes between the valuation date of July 1, 2015 and the fiscal year end. The Bureau’s proportion of the net pension liability was based on a projection of the Bureau’s long term share of contributions to the pension plan relative to the projected contributions of all ERS participants, actuarially determined. At June 30, 2016, the Bureau’s proportion was 0.13353%.

At June 30, 2018, the Bureau reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Audited amounts reported by ERS	\$ 12,691,094	\$ 963,436
Bureau's contributions subsequent to measurement date	<u>3,276,976</u>	<u>-</u>
Totals	<u>\$ 15,968,070</u>	<u>\$ 963,436</u>

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The \$3,276,976 reported as deferred outflows of resources related to Bureau's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in future fiscal years based on the average expected remaining service lives of all plan participants or in the case of projected and actual investment earnings in a 5 year period. The detailed components of the deferred outflows of resources and deferred inflows of resources were not informed by ERS.

Actuarial assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	July 1, 2015, projected forward to June 30, 2016
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal method
Actuarial assumptions:	
Compensation increases	3.0 per year, no compensation increases are assumed until July 1, 2021
Investment rate of return	6.55%, net of investment expenses
Discount rate	2.85%
Municipal bond rate	4.29% based on Bond Buyer General Obligation 20-Bond Municipal Bond Index

Mortality

Pre-retirement mortality:
RP-2000 Employee Mortality rates for males and females projected on a generational basis using Scale AA for general employees not covered by Act 127; RP-2000 Employee Mortality rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA for employees covered by Act 127. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement mortality:
Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As generational table, it reflects mortality improvements both before and after the measurement date.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Mortality

Post-retirement disabled mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for the future mortality improvement for disabled retirees.

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2015 census data used in the prior valuation is also used as the July 1, 2015 census data for current valuation. The liability results as of June 30, 2016 are based on projecting the ERS obligations determined as of the census data collection date of July 1, 2015 for one year, using roll-forward methods and assuming no liability or losses. Most demographic assumptions used were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (termination and employment) were impacted by Act 3 reforms and were revised on the new retirement eligibility and expected future experience.

The investment rate of return of 6.55% reflects the asset allocation for the non-loan portion of the portfolio that was adopted by the ERS during December 2013 (as shown below) and the actuary's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and, as provided by the ERS, have an approximate return of 9.1% with no volatility.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected rate of return</u>
Domestic Equity	25%	6.4%
International Equity	10%	6.7%
Fixed Income	64%	6.3%
Cash	1%	3.0%

Discount Rate

The discount rate used to measure the total pension liability was 2.85% as of June 30, 2016. The asset basis for the date of depletion is the ERS's fiduciary net position. On this basis, the fiduciary net position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Sensitivity of the Bureau's proportionate share of the net pension asset to changes in the discount rate

The Bureau's proportionate share of the net pension liability calculated using the discount rate of 2.85% amounts to \$37,698,758,000, as well as what the collective net pension liability would be if was calculated using a discount rate that is 1-percentage-point-lower (1.85%) or 1-percentage-point higher (3.85%) than the current rate.

Pension plan fiduciary net position

Detailed information about the plan's fiduciary net position is not available since the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2018 under GASB Statement No. 67 "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25".

Note 8 – Postemployment benefits

In addition to the pension benefits described in Note 7, the Bureau is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Bureau is required to finance costs related to the application of certain laws issued by the Commonwealth Government. Those laws granted increases in pensions and other benefits to retired employees of the Bureau such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 eliminated certain laws benefits to future retirees.

For the year ended June 30, 2018, the cost related to these post-employment benefits amounted to \$4,000. These benefits are recorded as expenses in the statement of revenues, expenses and changes in net position for the year then ended.

Note 9 – Contingencies

Litigation and claims

The Bureau is a defendant in some arbitration cases at the Public Service Appellate Commission of the Commonwealth of Puerto Rico and the Equal Employment Opportunities Commission (EEOC). The most of these cases were dismissed. However, there are some cases pending for hearing and final resolution. Management has estimated that if any of the cases adversely affect the Bureau it will not have a material impact to the financial position of the Bureau.

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 10 – Commitments

Operating leases

The Bureau has an operating lease agreement for its facilities for a period of 5 years commencing on 2016. Monthly rental payments under this agreement amount to \$24,499. The lease agreement is renewable in periods of five years.

On December 2011, the Bureau entered into an operating lease agreement with a third party for the lease of 3-1-1 Center facilities for a period of 5 years commencing on May 2012. The lease contract is renewable in periods of 5 years. On August 1, 2014, the agreement was amended to extend the period of the contract until May 2020, under the same monthly rental payment established for the first year.

Future minimum non-cancellable lease payments for the next three (3) years are as follow:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$ 540,836
2020	540,836
2021	<u>293,982</u>
	<u>\$ 1,375,654</u>

Rent expense for fiscal year ended June 30, 2018 amounted to \$977,818.

Note 11 – Statement of cash flows

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

BUREAU OF EMERGENCY SYSTEM 9-1-1

Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Note 12 – Prior period adjustment

During 2018, management performed corrections to the financial statements of 2017.

The following summarizes the prior period adjustments referred to 2017:

Balance of net deficit at June 30, 2017, as previously reported		\$ (24,133,342)
Prior period adjustments for:		
Due to telephone companies	(176)	
Voluntary termination benefit	61,164	
Accrued vacation and sick leave	22,725	
Accumulate depreciation	<u>391,162</u>	
Totals		<u>474,875</u>
Balance of net deficit at June 30, 2017, as restated		\$ <u>(23,658,467)</u>

Note 13 – Future adoption of accounting pronouncements

The Governmental Accounting Standards Bureau has issued the following accounting standards that have effective dates after June 30, 2018:

GASB Statement No. 83, Certain Asset Retirement Obligations: The objective of this Statement is to provide financial statements users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations.

This Statement establishes standards of accounting and financial reporting for certain AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, Fiduciary Activities: The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting. This Statement establishes the criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit activities that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87, Leases: The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements: The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statements users with additional essential information about debt.

This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period: The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) simplify accounting for certain interest costs.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61): The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

GASB Statement No. 91, Conduit Debt Obligations: The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Note 14 – Subsequent events

Subsequent events were evaluated through , the date the financial statements were available to be issued. The following events were identified which management decided should be disclosed:

1. GDB Restructuring Support Agreement

Following the certification of GDB’s fiscal plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement (“RSA”), (as amended), which provides for the restructuring of a significant portion of GDB’s financial obligations (“Participating Bond Claims” as defined by the RSA), through a Qualifying Modification pursuant to Title VI of PROMESA. As a result of the impact of Hurricanes Irma and María over Puerto Rico in September 2017, the Oversight Board requested to the covered instrumentalities to submit a proposed amendment of its fiscal plans. In addition, on March 27, 2018 AAFAF announced certain amendments to the RSA after reaching an agreement with a significant portion of the RSA parties. The amended RSA became effective pursuant to its terms on April 6, 2018, after obtaining the signature of the requisite number of holders of GDB’s Participating Bond Claims (as defined in the RSA).

The Commonwealth’s Legislature approved the Act No. 109 of August 24, 2017 in order to establish the legislative framework for the restructuring transaction. Pursuant to this Act , as amended by Act No. 147 of July 18, 2018, the GDB Debt Recovery Authority was created as a statutory public trust and a governmental public instrumentality of the Commonwealth of Puerto Rico for the purpose of (1) issuing Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government of Puerto Rico and (2) owning and managing the Restructuring Property.

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Notes to Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

On August 9, 2018 GDB and AAFAF used the solicitation statement to commence the solicitation of votes seeking creditor approval of the Qualifying Modification, which was concluded in September 2018 with the approval of eligible voters. The U.S. District Court for the District of Puerto Rico approved the Qualifying Modification on November 7, 2018, which was finally closed and executed on November 29, 2018 (“closing date”).

In general, the holders of the Participating Bond Claims undertake a financial restructuring through a Qualifying Modification by receiving on closing date New Bonds having a face amount equal to \$550 for each \$1,000 claim (exchange rate of 55%), paying semiannual interest of 7.5% and maturing on 2040. GDB will transfer to the new Issuer as New Bond Collateral the Recovery Authority Assets which includes its Municipal, Commonwealth and Public Corporation’s loan portfolio, the beneficial interest on certain GDB retained assets, real estate owned assets and cash.

The Bureau evaluated additional subsequent events through , which is the date the financial statements are available to be issued. No additional events are occurred subsequent to the statement of net position and the balance sheet date the financial statements were available to be issued, that would require additional adjustment to, or disclosure in the financial statements.

**BUREAU OF EMERGENCY SYSTEM 9-1-1
FISCAL YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF THE BUREAU'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS**

	Fiscal year 2018
Proportion of the net pension liability	0.13353%
Proportionate share of the net pension liability	\$50,338,226
Covered-employee payroll	\$49,722,118
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	101.24%
Plan's fiduciary net position as a percentage of the total pension liability	0.42%

SCHEDULE OF THE BUREAU'S CONTRIBUTIONS LAST 10 YEARS

	Fiscal year 2018
Statutorily required contribution	\$10,627,276
Contribution in relation to the statutorily required contribution	\$10,627,276
Contribution deficiency (excess)	-0-
Covered-employee payroll	\$49,722,118
Contributions as a percentage of covered-payroll	21.37%

**BUREAU OF EMERGENCY SYSTEM 9-1-1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF THE
BUREAU'S PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF
THE BUREAU'S CONTRIBUTIONS
JUNE 30, 2018**

1. Last 10 Years

The Schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the Bureau's and not the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities as a whole.

2. Fiscal Year

The data provided in the schedule is based as of the measurement date of the net pension liability, which is as of the fiscal year ended June 30, 2016.