

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

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BUREAU OF FORENSIC SCIENCES
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BUREAU OF FORENSIC SCIENCES
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bureau of Forensic Sciences
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bureau of Forensic Sciences as of and for the year ended June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in note 12 to the financial statements, management has not recorded the related deferred outflows of resources, deferred inflows of resources, pension expense, and the proportionate share of the collective net pension liability reported by the pension plan trust. Accounting principles generally accepted in the United States of America require that the pension related liability, deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would affect the deferred outflows of resources, deferred inflows of resources, pension expense and the net position of the governmental activities. The amount by which this departure would affect the deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities has not been determined.

In addition, we were unable to obtain a discussion or evaluation from the outside legal counsel of the pending or threatened litigation described in Note 13, *Contingencies*, and if exist any new pending or threatened litigation in which the Bureau is a plaintiff or a defendant. We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures.

Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Bureau of Forensic Sciences, as of June 30, 2017, and the respective changes in the financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matters

Financial Deterioration of the Commonwealth of Puerto Rico (The Commonwealth)

As discussed in Note 3 to the financial statements, the Bureau is reported as part of the Commonwealth financial statements. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Bureau depends completely on appropriations from the Commonwealth, the financial condition and liquidity of the Bureau could be similarly affected. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information Omitted

Management has omitted required supplementary information related to new pensions standards that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 9 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018, on our consideration of the Bureau of Forensic Sciences' internal

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control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bureau of Forensic Sciences' internal control over financial reporting and compliance.

San Juan, Puerto Rico
September 20, 2018

Ortiz, Rivera, Rivera & Co.

The stamp E357759 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of the Bureau of Forensic Sciences include all financial activities and include notes to the financial statements that explain and provide detail data on information in the financial statements.

The following is management's discussion and analysis of the Bureau of Forensic Sciences' financial performance for the year ended June 30, 2017. It should be read in conjunction with the accompanying financial statements.

Financial Highlights

- The Bureau's liabilities increased by \$508,232 during 2017. The Bureau's net asset decreased \$1,172,148 during 2017.
- The total revenues of the Bureau increased by \$20,711 during 2017. This increase is primarily due to a slightly increase in legislative appropriations.
- The operation's expenses in 2017 decreased by \$1,055,929 from 2016.

The Bureau of Forensic Science's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when a liability is incurred, and include all of the financial activities of the Bureau of Forensic Sciences. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. See notes to financial statements for a summary of significant accounting policies.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Bureau's basic financial statements. The Bureau's basic financial statements consist of the Statement of Net Assets, Statements of Activities, Balance Sheet-Governmental Funds, Balance Sheet to Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement Activities, Statement of Revenues and Expenditures-General Fund. The first statements report the Bureau's net assets and how they have changed. Net assets are the difference between the Bureau's total assets and liabilities.

Governmental Activities

The following table summarizes the net assets of the Bureau at June 30, 2017:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Increase (Decrease)</u>
Assets			
Cash and cash equivalents	\$ 1,737,526	\$ 1,659,084	\$ 78,442
Other receivables	62,935	113,048	(50,113)
Due from other agencies	837,979	345,628	492,351
Capital assets, net	19,027,709	20,212,305	(1,184,596)
Total assets	<u>\$ 21,666,149</u>	<u>\$ 22,330,065</u>	<u>\$ (663,916)</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued liabilities	\$ 503,656	\$ 505,186	\$ (1,530)
Due to other agencies	554,143	537,851	16,292
Non-current liabilities:			
Accrued compensated absences – due within one year	724,851	691,101	33,750
Accrued compensated absences – due in more than one year	9,987,858	9,528,138	459,720
Total liabilities	<u>11,770,508</u>	<u>11,262,276</u>	<u>508,232</u>
Net Assets			
Investment in capital assets, net of related Restricted for:	19,027,709	20,212,305	(1,184,596)
Capital Projects	518,593	518,593	-
Unrestricted	(9,650,661)	(9,663,109)	12,448
Total net assets	<u>\$ 9,895,641</u>	<u>\$ 11,067,789</u>	<u>\$ (1,172,148)</u>

REVENUES

Operating and non-operating revenues for the Bureau of Forensic Sciences totaled \$18,123,461 for the year ended June 30, 2017. Of this total, general fund totaled \$18,088,052 or 99.80 percent of total revenues. Other governmental funds totaled \$35,409 or 0.20 percent of total revenues.

A summary of revenues is provided in the following tabulation:

	2017			2016	
	General	Other	Total	Total	Increase (Decrease)
		Governmental Funds	Governmental Funds	Governmental Funds	
REVENUES					
Legislative appropriations	\$ 17,687,927	\$ -	\$ 17,687,927	\$ 17,382,547	\$ 305,380
Federal financial assistance		35,409	35,409	152,464	(117,055)
Charges for service	397,149		397,149	560,754	(163,605)
Interest	2,976		2,976	3,208	(232)
Other	-		-	3,777	(3,777)
Total Revenues	<u>\$ 18,088,052</u>	<u>\$ 35,409</u>	<u>\$ 18,123,461</u>	<u>\$ 18,102,750</u>	<u>\$ 20,711</u>

EXPENSES

Operating and non-operating expenses totaled \$17,651,293 the year ended June 30, 2017. Of this amount, salaries and payroll taxes totaled \$10,904,858 fringe benefits totaled \$1,805,925, equipment and materials totaled \$1,240,627, utilities totaled \$1,198,391, professional services totaled \$671,129, repairs and maintenance totaled \$566,876, representation and travel totaled \$39,028, rent totaled \$113,898, insurance totaled \$105,745, printing totaled \$7,901 and others totaled \$996,915.

Summary data is presented in the following tabulation:

	2017			2016	
	General	Other	Total	Total	Increase (Decrease)
		Governmental Funds	Governmental Funds	Governmental Funds	
EXPENDITURES					
Salaries and payroll taxes	\$ 10,898,074	\$ 6,784	\$ 10,904,858	\$ 11,044,802	\$ (139,944)
Fringe benefits	1,797,591	8,334	1,805,925	1,731,943	73,982
Equipment and materials	1,235,035	5,592	1,240,627	2,351,372	(1,110,745)
Utilities	1,198,391		1,198,391	1,076,390	122,001
Professional services	671,129		671,129	431,148	239,981
Repairs and maintenance	566,876		566,876	574,168	(7,292)
Representation and travel	36,495	2,533	39,028	67,107	(28,079)
Rent	113,898		113,898	13,579	100,319
Transportation	-		-	24	(24)
Insurance	105,745		105,745	111,514	(5,769)
Printing	7,901		7,901	2,477	5,424
Others	988,084	8,831	996,915	1,302,698	(305,783)
Total Expenditures	<u>\$ 17,619,219</u>	<u>\$ 32,074</u>	<u>\$ 17,651,293</u>	<u>\$ 18,707,222</u>	<u>\$ (1,055,929)</u>

Financial Analysis of Bureau of Forensic Sciences

The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when incurred, and include all of the financial activities of the Bureau of Forensic Sciences. Assets are designated as restricted in accordance with debt and other agreements.

Bureau's operations ended the year with a total of net assets of \$9,895,641. Net asset decreased \$1,172,148 during 2017.

Budget Variances in the General Fund

The following tabulation compared the differences between the original budgets for the general fund, the final amended budget actual amounts for the year ended June 30, 2017.

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Legislative appropriations	\$ 16,878,000	\$ 18,533,003	\$ 17,669,345
Miscellaneous			-
Interest			2,976
Total revenues	<u>\$ 16,878,000</u>	<u>\$ 18,533,003</u>	<u>\$ 17,672,321</u>
EXPENDITURES			
Salaries and payroll taxes	\$ 10,071,000	\$ 10,134,003	\$ 10,898,074
Fringe Benefits	2,635,000	2,635,000	1,797,591
Equipment and materials	1,435,000	1,435,000	1,235,035
Utilities	67,000	1,659,000	1,198,391
Professional services	683,000	683,000	671,129
Repairs and maintenance	598,000	598,000	566,876
Representation and travel	213,000	213,000	36,495
Rent	97,000	97,000	113,898
Transportation	52,000	52,000	-
Insurance	-	-	105,745
Printing	23,000	23,000	7,901
Others	1,004,000	1,004,000	988,084
Total expenditures	<u>\$ 16,878,000</u>	<u>\$ 18,533,003</u>	<u>\$ 17,619,219</u>
Excess of revenues over expenditures			<u>\$ 53,102</u>

Capital Assets

Operating assets with a cost of \$100 or more are capitalized and depreciated over their useful lives using the straight-line method. As of June 30, 2017, capital assets and accumulated depreciation totaled \$43,724,674 and \$24,696,965, respectively. Summary data is presented in the following tabulation:

	Balance June 30, 2016 as restated	Increase	Decrease	Balance June 30, 2017
Capital assets:				
Building and building improvements	\$ 28,868,657	\$ -	\$ -	\$ 28,868,657
Equipment, furniture and fixtures	13,905,793	256,863	-	14,162,656
Vehicles	693,361	-	-	693,361
Total capital assets	43,467,811	256,863	-	43,724,674
Less accumulated depreciation for:				
Building and building improvements	10,809,445	721,716	-	11,531,161
Furniture and fixtures	11,819,148	712,944	-	12,532,092
Vehicles and equipment	626,913	6,799	-	633,712
Total accumulated depreciation	23,255,506	1,441,459	-	24,696,965
Total capital assets, net	\$ 20,212,305	\$(1,184,596)	\$ -	\$ 19,027,709

Other Liabilities

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 of Forensic Sciences. 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 Retirement System and will consists 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 in the Retirement System.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Bureau's financial statements of a liability of \$4,504,567 in the statement of net position as of June 30, 2017. At June 30, 2017, unpaid long-term benefits granted on this program were discounted at 2.25%.

Request for Information

This financial report is designed to provide interested parties with a general overview of the Bureau of Forensic Science's finances. Should you have any questions about this report or need additional information, please contact the Director of Budget and Finance Division, Call Box 11878, Caparra Heights Station, San Juan, PR 00922

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
STATEMENT OF NET POSITION
JUNE 30, 2017**

Assets

	<u>Governmental Activities</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 1,737,526
Other receivables	62,935
Due from other agencies	837,979 ✓
Capital assets, net (Notes 2 and 8)	<u>19,027,709</u>
Total assets	<u>21,666,149</u>

Liabilities and Net Position

Liabilities

Accounts payable and accrued liabilities	503,656
Due to other agencies (Note 9)	554,143
Noncurrent liabilities (Note 10):	
Due within one year	724,851
Due in more than one year	<u>9,987,858</u>
Total liabilities	<u>11,770,508</u>

Commitments and Contingencies (Note 13)

Net Position

Investment in capital assets, net of related debt	19,027,709
Restricted for:	
Capital projects	518,593
Unrestricted	<u>(9,650,661)</u>
Total net position	<u>\$ 9,895,641</u>

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
 BUREAU OF FORENSIC SCIENCES
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Criminal investigation	\$ 19,295,609	\$ 397,149	\$ 17,723,336	\$ (1,175,124)
General revenues:				
Interest income				2,976
Total general revenues				2,976
Change in net position				(1,172,148)
Net position as restated (Note 15)				11,067,789
Net position at end of year				\$ 9,895,641

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
 BUREAU OF FORENSIC SCIENCES
 BALANCE SHEET-GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 1,552,738	\$ 154,754	\$ 30,034	\$ 1,737,526
Other receivables	62,935			62,935
Due from other agencies (Note 6)	-		837,979	837,979
Due from other funds (Notes 2 and 7)	<u>1,045,754</u>	<u>363,839</u>	<u>267,478</u>	<u>1,677,071</u>
Total assets	<u>\$ 2,661,427</u>	<u>\$ 518,593</u>	<u>\$ 1,135,491</u>	<u>\$ 4,315,511</u>

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
 BUREAU OF FORENSIC SCIENCES
 BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2017

<u>Liabilities and Fund Balances</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 388,865	\$ -	\$ 114,791	\$ 503,656
Due to other agencies (Note 9)	554,143		-	554,143
Due to other funds (Note 7)	631,317		1,045,754	1,677,071
Other liabilities (Note 10)	724,851		-	724,851
Total liabilities	<u>2,299,176</u>	<u>-</u>	<u>1,160,545</u>	<u>3,459,721</u>
Fund Balances (Note 11)				
Restricted	-	518,593	-	518,593
Assigned	443,740			443,740
Unassigned	(81,489)		(25,054)	(106,543)
Total fund balances (deficit)	<u>362,251</u>	<u>518,593</u>	<u>(25,054)</u>	<u>855,790</u>
Total liabilities and fund balance	<u>\$ 2,661,427</u>	<u>\$ 518,593</u>	<u>\$ 1,135,491</u>	<u>\$ 4,315,511</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Total fund balances - governmental funds \$ 855,790

Amounts reported for governmental activities in the statement of net position are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 19,027,709

- Accrued compensated absences, claims and judgments, and accounts payable, are not due and payable in the current period and therefore are not reported in the funds. (9,987,858)

Net position of governmental activities \$ 9,895,641

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$ 17,687,927	\$ -	\$ -	\$ 17,687,927
Federal financial assistance			35,409	35,409
Charges for service	397,149			397,149
Interest	2,976			2,976
Total revenues	<u>18,088,052</u>	<u>-</u>	<u>35,409</u>	<u>18,123,461</u>
EXPENDITURES				
Salaries and payroll taxes	10,898,074		6,784	10,904,858
Fringe benefits	1,797,591		8,334	1,805,925
Equipment and materials	1,235,035		5,592	1,240,627
Utilities	1,198,391			1,198,391
Professional services	671,129			671,129
Repairs and maintenance	566,876			566,876
Representation and travel	36,495		2,533	39,028
Rent	113,898			113,898
Insurance	105,745			105,745
Printing	7,901			7,901
Others	988,084		8,831	996,915
Total expenditures	<u>17,619,219</u>	<u>-</u>	<u>32,074</u>	<u>17,651,293</u>
Net change in fund balances	468,833	-	3,335	472,168
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR AS RESTATED (NOTE 15)	<u>(106,582)</u>	<u>518,593</u>	<u>(28,389)</u>	<u>383,622</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 362,251</u>	<u>\$ 518,593</u>	<u>\$ (25,054)</u>	<u>\$ 855,790</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Net change in fund balances - total governmental funds \$ 472,168

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 256,863
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,441,459)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (459,720)

Changes in net position of governmental activities \$ (1,172,148)

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Legislative appropriations	\$ 16,878,000	\$ 18,533,003	\$ 17,669,345	\$ (863,658)
Interest			2,976	2,976
Total revenues	<u>16,878,000</u>	<u>18,533,003</u>	<u>17,672,321</u>	<u>(860,682)</u>
EXPENDITURES				
Salaries and payroll taxes	10,071,000	10,134,003	10,898,074	(764,071)
Fringe benefits	2,635,000	2,635,000	1,797,591	837,409
Equipment and materials	1,435,000	1,435,000	1,235,035	199,965
Utilities	67,000	1,659,000	1,198,391	460,609
Professional services	683,000	683,000	671,129	11,871
Repairs and maintenance	598,000	598,000	566,876	31,124
Representation and travel	213,000	213,000	36,495	176,505
Rent	97,000	97,000	113,898	(16,898)
Transportation	52,000	52,000	-	52,000
Insurance		-	105,745	(105,745)
Printing	23,000	23,000	7,901	15,099
Others	1,004,000	1,004,000	988,084	15,916
Total expenditures	<u>16,878,000</u>	<u>18,533,003</u>	<u>17,619,219</u>	<u>913,784</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,102</u>	<u>\$ 53,102</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. ORGANIZATION

The Bureau of Forensic Sciences (the Bureau) was created by Act 13 of July 24, 1985, as amended, for the purpose of guaranteeing objectivity in the criminal justice system through participation and scientific investigation as key role in clarifying beyond any reasonable doubt, the causes, means, and circumstances of deaths and crimes by forensic sciences.

Act 20 of April 10, 2017 known as the "Puerto Rico Public Safety Department Act," as amended, creates the Department consisting of seven (7) bureaus attached to the Department of Public Security of Puerto Rico, under the direct and non-delegable supervision of the Secretary of Public Security. Among these is the Bureau of Forensic Sciences. The Agency is already in the process of transition and integration with the Department of Public Security.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Bureau have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

a. Financial Reporting Entity

The financial reporting entity included in this report consists of the financial statements of the Bureau (the primary government). A primary government is any state government or general purpose local government. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government. Component units are legally separate organizations for which the primary government is financially accountable or organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A

**COMMONWEALTH OF PUERTO RICO
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component unit may be a governmental organization, a nonprofit corporation or a for-profit corporation. The following circumstances set forth a primary government's financial accountability for a legally separate organization:

- 1) The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exists between the primary government and the entity or
 - The primary government can impose its will on the entity.
- 2) The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

In addition, as described above, it would be necessary to include other organizations as a component unit if the exclusion would cause the primary government's financial statements to be misleading or incomplete. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units:

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- 2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Professional judgment should be applied in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet the above criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions and (b) discrete presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is blended with those of the primary government ("blended component units"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

- 1) The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/ burden exists between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary government.
- 2) The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
- 3) The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("discretely component units"). As discussed earlier, other legally separate, tax-exempt organizations that meet the applicable criteria should be included as discretely component units.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

b. Basis of Presentation, Measurement Focus, and Basis of Accounting

The financial report of the Bureau consists of the Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus:

- 1) Management's Discussion and Analysis - This consists of a narrative introduction and analytical overview of the Bureau's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2) Basic Financial Statements - Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

- **Government-Wide Statements**

The government-wide statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

Statement of Net Position - The Statement of Net Position incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Bureau. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating grants and contributions. Program revenues must be directly associated with the function.

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The types of transactions included as program revenues are charges for services and fees and operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Revenues on operating grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Bureau first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Bureau reports a liability for unearned revenues in the government-wide statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Governmental Activities: Most of the Bureau's basic services of criminal investigation are reported here. These activities are primarily finance through legislative appropriations and charges for services. Included in the governmental activities are the governmental funds.

- **Fund Financial Statements**

The financial transactions of the Bureau are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Bureau are financed. The governmental fund statements include a

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Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Bureau's official's criteria if the fund is particularly important to financial statement users.

The Bureau reports the following major governmental funds:

General Fund

This is the operating fund of the Bureau and accounts for all financial resources, except those required to be accounted for in another fund.

Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

The governmental funds reported in the fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bureau considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, allowable expenditures must be incurred on the specific project or purpose (eligibility requirement), before any amounts are paid to the Bureau. Revenue is, therefore, recognized as expenditures are incurred to the extent available.

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In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met.

The Bureau reports a liability for unearned revenues in the governmental funds statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

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- 3) Notes to Financial Statements – The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.
- 4) Required Supplementary Information (RSI) – The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund.

c. Cash and Cash Equivalents

The Bureau's Finance Director is responsible for investing available resources. The Bureau is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

d. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

e. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Bureau, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental column in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

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	<u>Useful Life</u>
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

f. 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/ expenditure) 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 government has only one item, which arises only under a modified accrual basis of accounting that may qualify for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

g. Long-Term Obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

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h. Net Position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Bureau's control) reduced by liabilities and deferred inflows of resources related to those assets. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

i. Fund Balances

The Bureau adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Bureau is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Bureau's highest level of decision making authority (Board of Directors) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Bureau for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Bureau's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

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The Bureau reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Bureau has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2017.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Bureau uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Bureau generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Bureau's individual governmental funds among general, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

j. Compensated Absences

The Bureau employees are entitled to 2.5 days per month, up to maximum of 60 days, for vacation, and 1.5 days per month, up to a maximum of 90 days, for sick leave. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least ten years of services with the government.

The Public Service Personnel Law requires the executive agencies of the Commonwealth to annually pay employees accumulated vacation and such leave earned in excess of the limits mentioned above.

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and

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liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period.

I. Pensions

For purpose of measuring, the net pension liability, deferred outflows of resources and deferred inflows of resources and pension expenses, information about fiduciary net position of the employee's retirement system of the Government of the Commonwealth of Puerto Rico (ERS) and addition to reductions from ERS's liabilities net position should have been determined on the same basis as they are reported by the ERS. However, as of the date that financial statement has been issued, the ERS has not issued the financial statements as of June 30, 2015 and 2016. Accordingly, the information related to the pensions plan is not available and is not included in the accompanying financial statements of the Bureau for the year ended June 30, 2017.

m. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Bureau has not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
75	Accounting and Financial Reporting for Postemployment Benefits other the Pensions	2017-18
81	Irrevocable Split-Interest Agreements	2017-18
83	Certain Assets Retirement Obligations	2018-19
84	Fiduciary Activities	2019-20
85	Omnibus 2017	2017-18

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Statement Number	Statement Name	Adoption Required in Fiscal Year
86	Certain Debt Extinguishment Issues	2017-18
87	Leases	2019-20
88	Certain Disclosures related to debt, including direct borrowings and direct placements	2018-19
89	Accounting for Interest Cost Incurred before the end of a Construction Period	2020-21

The impact of these statements on the Bureau's financial statements has not yet been determined.

3. GOING CONCERN CONSIDERATION

As part of its normal operating activities, the Bureau is completely dependent on appropriations from Commonwealth. As of June 30, 2017, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk of not having sufficient liquid financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth has provided to the Bureau may be affected in the near future. The Bureau has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its statements and operations and has concluded that, as of June 30, 2017, the Bureau will continue to operate as a going concern for a period not less than twelve months after such date.

4. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

The Bureau is required by state law to adopt an annual budget for the general fund. The budget is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. As of September of the preceding year, the Bureau prepares a budget for the next fiscal year beginning July 1. The

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operating budget includes proposed expenditures and the means of financing them.

The proposed budget is submitted to the Office of Management and Budget (OMB). Once approved by OMB then it is submitted to the legislative bodies of the Commonwealth of Puerto Rico. Prior to July 1, the annual budget is legally enacted through passage of legislative appropriations.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2017 is presented below for the general fund:

Revenues over expenditures - budgetary basis	\$ 53,102
Entity differences:	
Non-budgeted funds, net	<u>415,731</u>
Excess of revenues over expenditures - GAAP basis	<u>\$ 468,833</u>

c. Legal Compliance

The legal level of budgetary control is at the individual expense object.

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, 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 Puerto Rico.

The Bureau maintains its deposits in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies.

Other Governmental Funds	Amount
National Institute of Justice	\$ 837,979

The Bureau expects to receive these federal funds once the criteria established by the grantor are met. See note 13

7. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2017 are summarized as follows:

Receivable Fund	Payable Fund	Amount
Capital Project	General	\$ 363,839 ^A
Other Governmental Funds	General	267,478 ^A
General	Other Governmental Funds	1,045,754 ^A
		\$ 1,677,071

The outstanding balance of \$363,839 of loans granted by the capital project fund to general funds were used to financed related cost of building improvements.

Recognized the outstanding balance of \$267,478 granted by other governmental funds to general fund for reimbursement of funds used, and \$1,045,754 of short-term loans granted by the general fund to other governmental funds to temporarily finance the payroll and other operating costs of several federal programs. These funds are expected to be reimburse to the general fund once the Bureau complies with the grantor recent requirements. See note 13.

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8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance July 1, 2016 as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Capital assets, being depreciated:				
Building and building improvements	\$ 28,868,657	\$ -	\$ -	\$ 28,868,657
Equipment, furniture, and fixtures	13,905,793	256,863	-	14,162,656
Vehicles	693,361	-	-	693,361
Total capital assets, being depreciated	<u>43,467,811</u>	<u>256,863</u>	<u>-</u>	<u>43,724,674</u>
Less accumulated depreciation for:				
Buildings and building improvements	10,809,445	721,716		11,531,161
Equipment, furniture and fixtures	11,819,148	712,944	-	12,532,092
Vehicles	626,913	6,799	-	633,712
Total accumulated depreciation	<u>23,255,506</u>	<u>1,441,459</u>	<u>-</u>	<u>24,696,965</u>
Total capital assets, being depreciated, net	<u>20,212,305</u>	<u>(1,184,596)</u>	<u>-</u>	<u>19,027,709</u>
Governmental activities capital assets, net	<u>\$ 20,212,305</u>	<u>\$ (1,184,596)</u>	<u>\$ -</u>	<u>\$ 19,027,709</u>

9. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2017 are as follows:

	<u>General Fund</u>
Employees' Retirement System	\$ 316,630 ✓
Puerto Rico Electric Power Authority	120,657 ✓
Puerto Rico General Services Administration	110,492 ✓
Puerto Rico Water and Sewer Authority	6,364 ✓
	<u>\$ 554,143</u>

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10. LONG-TERM DEBTS

Long-term debts outstanding at June 30, 2017 are as follows:

<u>Primary Government</u>	<u>Beginning Balance as restated</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Voluntary termination benefits (Note 14)	\$ 4,971,690	\$ 102,788	\$ 569,911	\$ 4,504,567	\$ 581,266
Employees' Retirement System	1,283,020	1,265,332	-	2,548,352	-
Accrued compensated absences	3,364,069		304,739	3,059,330	143,585
Claims and judgements	600,460	-	-	600,460	-
 Total long-term liabilities	 <u>\$ 10,219,239</u>	 <u>\$ 1,368,120</u>	 <u>\$ 874,650</u>	 <u>\$ 10,712,709</u>	 <u>\$ 724,851</u>

Voluntary termination benefits – Under the early retirement benefit program, the Bureau is required to make the employer contributions to the Retirement System and pay participants pension until the date on which the participant has reached thirty (30) years of services quoted and the age required under the applicable retirement plan to be eligible for retirement.

Retirement System – The debt corresponds to the amount due for the additional uniform contribution for fiscal years 2013-2014, 2014-2015, 2015-2016 and 2016-2017. This debt is in dispute with the Employees' Retirement System Administration ("ERS"), since the Bureau understands that they are being classified incorrectly by the ERS as a public corporation, and therefore understand that they are being improperly billed for Additional Uniform Contribution and Special Laws.

Compensated absences – Includes accrued vacations, sick leave and other benefits with similar characteristics such as compensatory time; represents the Bureau's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.

Claims and judgements – Represents estimated losses of legal cases to be paid subsequent to June 30, 2017. The awarded amount, if any, will be paid with unrestricted funds.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

11. FUND BALANCES

As of June 30, 2017, fund balances are comprised of the following:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:				
Capital projects	\$ -	\$518,593	\$ -	\$ 518,593
Assigned:				
Criminal investigation	443,740			443,740
Unassigned	(81,489)		(25,054)	(106,543)
	<u>\$ 362,251</u>	<u>\$518,593</u>	<u>\$ (25,054)</u>	<u>\$ 855,790</u>

12. RETIREMENT PLAN

a. Plan Description

Substantially all full-time employees of the Bureau participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended (Act 447) and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (Act 447 Participants) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (Act 1 Participants) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (Act 1 of 1990).

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In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

b. Benefits Provided

Retirement benefits for the Bureau employees include retirement, disability, and death, vested and no vested withdrawals. Employees retiring prior to July 1, 2013, annuity benefits are subject to \$500 minimum monthly. Other benefits for qualifying employees include additional minimum pension, ad-hoc cost-of-living adjustment (COLAs), benefits due to death and disability, medical insurance plan contribution, Christmas bonus, and medication bonus.

Plan members were eligible for merit annuity as long as they have 30 years or more of credited service. The annuity is limited to a minimum of 65% and a maximum of 75% of the average compensation.

The ERS provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable

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to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Bureau. The System Administered Pension Benefits corresponding to former employees of the Bureau are obligations of the Bureau. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

Act No. 3, as enacted by legislation in April 4, 2013, constituted a comprehensive a reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

- 1) For active participants of the contributory defined benefit program under Act No. 447 of 1951 and Act No. 1 of 1990, all requirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid a retirement through lifetime annuity.
- 2) Increased the minimum pension for current retirees from \$400 to \$500 per month.
- 3) The retirement age for Act No. 447 participants is gradually increased from age 58 to age 61.
- 4) The retirement age for System 2000 participants is gradually increased from age 60 to age 65.
- 5) Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
- 6) Eliminated the merit annuity available who joined the ERS prior to April 1, 1990.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- 7) The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- 8) The employee contribution rate was increased from 8.275% to 10%.
- 9) For System 2000 participants, the retirement will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- 10) Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution saving will be contributed to the ERS.
- 11) Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- 12) Survivor benefits were modified.

c. Contribution Requirements

Retirement and related benefits provided by the ERS, and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (Act 116), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2017 is 13.275%.

Required employee contributions for the ERS vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

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d. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The ERS actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of Statement No. 67 of the Governmental Accounting Standards Board, "*Financial Reporting for Pension Plans*" (GASB 67). GASB 67 specifies certain significant changes for financial reporting purposes for the ERS.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2015 (most recently available) reflects a fiduciary deficit of \$579 million, total pension liability of \$32.7 billion and a net pension liability of \$33.2 billion.

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 for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by 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.

As of the date of the release of this report, the ERS has not issued its 2015 and 2016 basic financial statements, nor has it provided the Bureau with the required information to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68). Therefore, the accompanying governmental activities financial statements do not have any adjustments that will be necessary for the Bureau to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of July 1, 2016 and June 30, 2017, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2017. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

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The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America.

13. CONTINGENCIES

a. Legal Contingencies

The Bureau is a defendant in various lawsuits which claims for actual damages. Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Bureau only for causes of action set forth in said Act to a maximum amount of \$75,000 or \$150,000 of it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Public Act No. 9 of November 26, 1975, as amended, the Bureau may provide its officers and employees with legal representation as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

The accompanying statement of net position reflects a liability of approximately \$600,460, included as noncurrent liabilities, for the probable amounts of loss associated with these claims.

b. Federal Funds Administration

The Bureau administers several federal financial assistance programs funded by the Federal Government which are subject to financial and compliance audits. For the fiscal year ended June 30, 2017, the Bureau incurred several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls, for which the grantors held the disbursement of the allocated funds until the Bureau complies with solicited requirements from grantor. Management believes the Bureau will be able to comply with the terms of corrective action plans that may be requested by the federal grantors, to obtain the release of the funds and be able to reimburse the general fund.

c. Retirement System Debt

The Retirement System of the Commonwealth of Puerto Rico claims a debt to the Bureau corresponding to the additional uniform contribution for fiscal year

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

2016-17. This debt is in dispute with the Employees' Retirement System Administration ("ERS"), since the Bureau understands that they are being classified incorrectly by the ERS as a public corporation, and therefore understand that they are being improperly billed for Additional Uniform Contribution and Special Laws. As June 30, 2017, the Bureau registered a long-term debt with the amount of \$2,548,352 related to this claim.

14. 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 of Forensic Sciences. 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 Retirement System 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 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 in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System 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 in the Retirement System are 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 was the recognition within the Bureau's financial statements of a liability of \$4,504,567 in the statement of net position as of June 30, 2017. At June 30, 2017, unpaid long-term benefits granted on this program were discounted at 2.25%.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

15. RESTATEMENT OF NET POSITION AND FUND BALANCE

The following table disclosed the net change in net position and fund balances at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

<u>Description</u>	<u>Net Position</u> Governmental Activities	<u>Fund Balance</u> Other Governmental Funds
Beginning net position/ fund balance, as previously reported	\$ 15,561,390	\$ (374,017)
Understatement of long term debt	(1,283,020)	
Overstatement of fixed assets	(3,556,209)	
Understatement of due from other agencies	345,628	345,628
Beginning net position/ fund balance, as restated	<u>\$ 11,067,789</u>	<u>\$ (28,389)</u>

16. SUBSEQUENT EVENTS

The Bureau evaluated subsequent events through September 20, 2018, the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2017.

a. Fiscal Plans under "PROMESA"

On October 14, 2016 and again on March 9, 2017, the Government of the Commonwealth of Puerto Rico submitted fiscal plans for the review and approval of the Puerto Rico Oversight Board pursuant to the provisions of The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187(PROMESA). The Plans include, among other things, the following aspects for financial and operational recovery:

- Minimization of Impact of Austerity on Economic Growth
- Improving Budgetary Controls and Financial Transparency

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- Rationalization of Expenditures and Tax Policy to Promote Efficiency
- Enacting Structural Economic Measures and Investing in Growth
- Protection of Vulnerable Stakeholders
- Creation of a Sustainable Debt Level That Allows for Economic Growth
- Partner with the Federal Government to Generate Growth

Both fiscal plans were rejected by the Puerto Rico Oversight Board, which required the Government of the Commonwealth of Puerto Rico to review and modify the plan to ensure full compliance with all the fourteen (14) fiscal plan requirements set forth by PROMESA.

On January 24, 2018, the Government of the Commonwealth of Puerto Rico submitted an updated fiscal plan to the Puerto Rico Oversight Board that contains numerous provisions governing the operation of the Government of the Commonwealth of Puerto Rico and its instrumentalities including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability considering the impact of Hurricane María. Currently, the Puerto Rico Oversight Board is in process of evaluating the latest version of the fiscal plan referred to above.

The provisions of the fiscal plan that may finally be required and approved by the Puerto Rico Oversight Board may have a material adverse effect over the financial conditions, results of operations and cash flows of all agencies of Puerto Rico.

b. Puerto Rico Public Security Department Law

On April 10, 2017, the Commonwealth issued Law no. 20, to establish the Puerto Rico Public Security Department, with the purpose of create a new integrated system for all the components that administer security around the island.

The Law created the following integrated bureaus: Police, Firefighters, Forensic Science, 911 Emergency System, Emergency and Disaster Management, Medical Emergencies Corps and Special Investigations. It also allows these security components to share personnel and administrative expenses.

This Law entered into force 180 days after its approval on April. At the date of issuance of the financial statements the Bureau is in the process of transition and integration with the Puerto Rico Public Security Department.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

c. Implementation of the “Pay Go” System for the Payment of Pension Plan’s Benefits and Employer Contributions

The Commonwealth of Puerto Rico’s Employees Retirement System (ERS) is a “covered entity” under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). It was expected that the liquid assets of the ERS would be exhausted within the first months of the fiscal year 2017-18. To ensure the payment of the pension plan benefits to its retirees, beginning July 1, 2017, a “Pay Go” system was adopted by the Commonwealth. Under this new system, the Commonwealth will be responsible for covering the deficiencies that will emerge in the pension plans when the benefits are paid to the pensioners.

The Puerto Rico Department of Treasury (PRDT) will bill the Public Corporations and Municipalities a monthly fee to cover the benefits of their retirees. The ERS will be responsible for determining and administrating the amount to be paid by pensioner that each Public Corporation and Bureau must reimburse. This amount will be known as the “Pay Go Charge.”

The objective of this system is to protect the payment of the benefits of the Commonwealth’s retirees. Each Public Corporation and Bureau is responsible for the payment, in its entirety, of this monthly “Pay Go Charge” to the PRDT. With the implementation of the “Pay Go System,” beginning July 1, 2017, the employer’s pension contribution (16.775% for the fiscal year 2017-18), the Special Laws contribution and the Additional Uniform Contribution (AUC) will be eliminated and substituted by the “Pay Go Charge.”

In addition to the implementation of this new system, the government will work on a reform of the retirement systems in which the participants will deposit their individual contributions in a new defined contribution plan to be administered by a private entity. In order to preserve the contributions of the current participants in a segregate manner, their contributions will be deposited in a separate bank account different from the ones to be used for the “Pay Go Charge”; for the payroll withholdings corresponding to personal loans, mortgages and cultural trips payments; and for the disability insurance premium payment.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

d. Hurricanes Irma (DR-4336) and María (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected most part of the Island. It was declared a major disaster area by the President of the United States on September 10, 2017.

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 21, 2017 and approximately \$508 million dollars in public assistance grants have been obligated.

Under both disasters, the Bureau has reported several damages and as of today was granted public assistance grants in the amount of \$139,756. This amount was received once the Bureau opens a bank account for each project as required by Federal Emergency Management Agency.

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

To the Board of Directors
Bureau of Forensic Sciences
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bureau of Forensic Sciences, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Bureau's basic financial statements, and have issued our report thereon dated September 20, 2018. The report was qualified because the management has not recorded the deferred outflows/inflows of resources, and net pension liability, and has not recorded an expense for the current period change in that liability. In addition, we were unable to obtain a discussion or evaluation from the outside legal counsel of the pending or threatened litigation described in Note 13, *Contingencies*, and if exist any new pending or threatened litigation in which the Bureau is a plaintiff or a defendant. We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bureau'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 opinions on the financial statements, but no for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bureau'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 instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2017-001.

Bureau's Response to Findings

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

Purpose of this Report

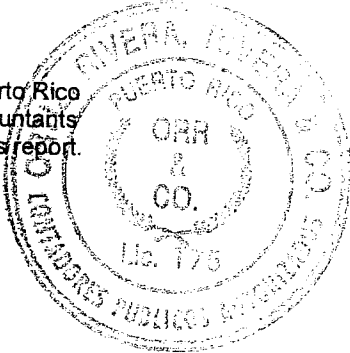
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral

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.

San Juan, Puerto Rico
September 20, 2018

Ortiz, Rivera, Rivera & Co.

The stamp E357760 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



ORTIZ, RIVERA, RIVERA & CO.
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**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
SCHEDULE OF FINDING
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS FINDING

2017-001: Accounting Records – Recognition and Reporting of Net Pension Liability - Material Weakness

Condition

The Bureau has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Bureau's governmental activities has not been determined.

Criteria

GASB Statement No. 68 states the accounting and financial reporting requirements for pensions plan provided to employees of state and local governments that are administered through cost-sharing pension plan. This statement requires that the Bureau report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflow and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Cause

The Employees' Retirement System of the Government of Puerto Rico did not provide the audited actuarial information necessary for the proper recognition of its net pension liability.

Effect

The Bureau's Government-Wide Financial Statements does not present fairly the financial position of the government activities, and change in financial position of the Bureau.

**COMMONWEALTH OF PUERTO RICO
BUREAU OF FORENSIC SCIENCES
SCHEDULE OF FINDING (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Recommendation

We recommend the Bureau to request to the Employees' Retirement System of the Government of Puerto Rico the audited actuarial and financial information and make the necessary adjustments in order to comply with the requirements of the GASB Statement No. 68.

Management Response and Corrective Action

The Bureau is in continuous communication with the Employees' Retirement System of the Government of Puerto Rico in order to obtain the audited actuarial information required by the GASB 68.