LLM&D, PSC
165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1233

9-1-1 SERVICE GOVERNMENT BOARD

(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

AND

INDEPENDENT AUDITORS' REPORT

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

JUNE 30, 2012 AND 2011

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Management's Discussion and Analysis

The Management of 9-1-1 Service Government Board (The Board) provides this Management's Discussion and Analysis for the readers of the Board's basic financial statements. This narrative provides our analysis of the Board's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements, which follow this section.

June 30, 2012 and 2011 Financial Highlights

- The Board's net assets decreased from $42,332,327 to $40,437,929 or 4.5% as a result of the net effect of decreases in emergency telephone service charges and the increase in operating costs mainly related to the development and establishment of the 3-1-1 Government Service and Information Answering Center (3-1-1 Center).

- Net operating revenue decreased by $2,454,355 or 20%, principally for two reasons. The first one was the decrease in the emergency telephone service charges, that net change was $1,547,592, mainly due to effect in the cancellation of household and corporative lines directly related to economic factors and mobile phones company mergers. The second one was the accrual reversal recorded in 2011 by $856,763 reducing the distribution to emergency agencies and municipalities and consequently increasing the net operating revenues for 2011.

- Operating expenses increased by $292,902 or 3% mainly due to an increase in personnel services for the services paid in connection with the development and establishment of the 3-1-1 Center.

Overview of the Financial Statements

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

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

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

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

Financial Analysis of the Board

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

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

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

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

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

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

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

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

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

- **Mechanization Fund** - In June 2001 the Board's management established a mechanization fund for the purpose of implementing a mechanization plan for the telephone calls received at the Public Safety Answering Point. The balance designated by the Board for the Mechanization Fund amounted to $354,580 and $221,216 as of June 30, 2012 and 2011, respectively.

- **Public Education Fund** - The Board's management created this fund during the fiscal year ended June 30, 2007. This fund was created for the purpose of providing funding for educational campaigns to Puerto Rico citizenship about the use of the 9-1-1 Service. The balance designated by the Board for the Public Education Fund amounted to $348,742 and $119,984 as of June 30, 2012 and 2011, respectively.

- **Administrative and Operating Fund** - The Board's management created this fund during the fiscal year ended June 30, 2011. This fund was created for the purpose of providing funding for non-recurrent expenses related to the administration and operation of 9-1-1 Service. The balance designated by the Board for the Administrative and Operating Fund amounted to $16,052 and $495,805 as of June 30, 2012 and 2011, respectively.

- **Voluntary Termination Benefits Fund** – The Board's management created this fund during the fiscal year ended June 30, 2011. This fund was created for the purpose of providing funding for termination benefits for those employees opting for voluntary retirement under the provisions of by Law 70 of July 6, 2010. The balance designated by the Voluntary Termination Benefits Fund amounted to $38,070 as of June 30, 2012 and 2011, respectively.

- **3-1-1 Center Fund** – The Board's management created this fund during the fiscal year ended June 30, 2012. This fund was created for the purpose of providing funding for the development and establishment of the 3-1-1 Government Service and Information Answering Center. The balance designated by the Board for the 3-1-1 Center Fund amounted to $48,947 as of June 30, 2012.

Analysis of Financial Results

The following table provides a summary of the Board's net assets as of June 30, 2012 and 2011:

	June 30 2012	June 30 2011	Change
Current and other assets	$ 45,995,294	$ 49,593,803	$ (3,598,509)
Capital assets, net	4,249,676	2,798,901	1,450,775
Total assets	50,244,970	52,392,704	(2,147,734)
Current liabilities	8,324,731	8,577,269	(252,538)
Noncurrent liabilities	1,482,310	1,483,108	(798)
Total liabilities	9,807,041	10,060,377	(253,336)
Net assets:			
Invested in capital assets, net of related debt	4,249,676	2,798,901	1,450,775
Restricted	15,755,056	17,934,052	(2,178,996)
Unrestricted	20,433,197	21,599,374	(1,166,177)
Total net assets	$ 40,437,929	$ 42,332,327	$ (1,894,398)

The following table provides a summary of the Board's net assets as of June 30, 2011 and 2010:

	June 30 2011	June 30 2010	Change
Current and other assets	$ 49,593,803	$ 52,603,244	$ (3,009,441)
Capital assets, net	2,798,901	2,038,382	760,519
Total assets	52,392,704	54,641,626	(2,248,922)
Current liabilities	8,577,269	9,175,873	(598,604)
Noncurrent liabilities	1,483,108	903,624	579,484
Total liabilities	10,060,377	10,079,497	(19,120)
Net assets:			
Invested in capital assets, net of related debt	2,798,901	2,038,382	760,519
Restricted	17,934,052	22,240,710	(4,306,658)
Unrestricted	21,599,374	20,283,037	1,316,337
Total net assets	$ 42,332,327	$ 44,562,129	$ (2,229,802)

Net Assets

June 30, 2012 and 2011

The Board's net assets as of June 30, 2012 were $40,437,929. This is a decrease of $1,894,398 from net assets as of June 30, 2011 of $42,332,327. Total assets decreased by $2,147,734 during the fiscal year ended June 30, 2012. This decrease is a result of the net effect of (1) a decrease in restricted cash of $5,855,726, (2) an increase in unrestricted cash of $407,463, (3) an increase in accounts receivable of $1,808,380 and (3) an increase in capital assets of $1,450,775.

The net decrease in restricted cash responds to higher transfers to emergency agencies and municipalities when compared to prior year, the decrease in emergency telephone service charge for approximately $1.5 million and the need of cash flow to invest in capital assets for the development and establishment of the 3-1-1 Center.

Capital assets increased principally due to $1,714,838 incurred in the construction of the 3-1-1 Center and the completion of the three Public Safety Answering Point (PSAP) centers stated on prior year.

Total liabilities decreased by $253,597 mainly due to the net effect of a decrease in due to emergency agencies and accrued voluntary termination benefits of $533,633 and $161,442, respectively, and an increase in accounts payable and accrued compensated absences of $170,720 and $313,264, respectively.

June 30, 2011 and 2010

The Board's net assets as of June 30, 2011 were $42,332,327. This is a decrease of $2,229,802 from net assets as of June 30, 2010 of $44,562,129. Total assets decreased by $2,248,922 during the fiscal year ended June 30, 2011. This decrease is a result of (1) a decrease in restricted cash of $3,898,826, (2) an increase in unrestricted cash of $922,215, and (3) an increase in capital assets of $1,023,366.

The net decrease in cash, mostly restricted, responds to higher transfers to emergency agencies and municipalities when compared to prior year.

Capital assets increased principally due to $712,783 incurred in the construction of three Public Safety Answering Point (PSAP) centers for an approximate cost of $4 million. The project is expected to be completed in a three years period and consist of the following:

- Upgrade 9-1-1 platform of 24 work stations in the central offices or Main PSAP,
- Develop a new PSAP center with 20 work stations in the central offices of the Agencia Estatal para el Manejo de Emergencias y Administración de Desastres (AEMAED) in Hato Rey,
- Establish a PSAP center or "Centro Interagencial del Este" with ten work stations in the Agencia Estatal para el Manejo de Emergencias y Administración de Desastres (AEMAED) in Ceiba.

Total liabilities decreased by $19,120 mainly due to the net effect of a decrease in due to emergency agencies, accounts payable, and accrued compensated absences of $273,413, $415,788, and $182,424, respectively and an increase in accrued voluntary termination benefits of $940,120.

Statement of Revenues, Expenses and Changes in Net Assets

The following table provides a summary of the Board's changes in net assets for the year ended June 30, 2012 and 2011:

	Years ended June 30, 2012	Years ended June 30, 2011	Change
Operating revenue:			
Emergency telephone service charges, net	$ 9,860,969	$ 12,315,324	$ (2,454,355)
Operating expenses:			
Personnel services	8,622,916	8,052,679	570,237
Administrative	1,670,357	2,012,020	(341,663)
Depreciation	327,175	262,847	64,328
Total operating expenses	10,620,448	10,327,546	292,902
Operating income	(759,479)	1,987,778	(2,747,257)
Non-operating revenues, net	1,896,698	320,502	1,576,196
Income before transfers	1,137,219	2,308,280	(1,171,061)
Transfers to emergency agencies and municipalities	(3,031,617)	(4,538,082)	1,506,465
Decrease in net assets	(1,894,398)	(2,229,802)	335,404
Net assets, beginning of year	42,332,327	44,562,129	(2,229,802)
Net assets, end of year	$ 40,437,929	$ 42,332,327	$ (1,894,398)

The following table provides a summary of the Board changes in net assets for the year ended June 30, 2011 and 2010:

	Years ended June 30, 2011	Years ended June 30, 2010	Change
Operating revenue:			
Emergency telephone service charges, net	$ 12,315,324	$ 12,347,565	$ (32,241)
Operating expenses:			
Personnel services	8,052,679	6,797,565	1,255,114
Administrative	2,012,020	2,371,547	(359,527)
Depreciation	262,847	452,741	(189,894)
Total operating expenses	10,327,546	9,621,853	705,693
Operating income	1,987,778	2,725,712	(737,934)
Non-operating revenues, net	320,502	213,834	106,668
Income before transfers	2,308,280	2,939,546	(631,266)
Transfers to emergency agencies and municipalities	(4,538,082)	(2,774,534)	(1,763,548)
(Decrease) / increase in net assets	(2,229,802)	165,012	(2,394,814)
Net assets, beginning of year	44,562,129	44,397,117	165,012
Net assets, end of year	$ 42,332,327	$ 44,562,129	$(2,229,802)

Analysis of Changes in Net Assets

June 30, 2012 and 2011

Net assets decreased by $1,894,398, from $42,332,327 in 2011 to $40,437,929 in 2012 due to the results of current year operations, as follows:

Net operating revenue decreased by $2,454,355, principally due to higher distributions to emergency agencies and municipalities in connection to new agencies added to the system and the decrease in emergency telephone service charge principally for two reasons. The first one was the decrease in the emergency telephone service charges, that net change was $1,547,592, mainly due to effect in the cancellation of household and corporative lines directly related to economic factors and mobile phones company mergers. The second one was the accrual reversal recorded in 2011 by $856,763 reducing the distribution to emergency agencies and municipalities and consequently increasing the net operating revenues for 2011.

Operating expenses increased by $292,902 or 3% due to the net effect of an increase in personnel services and depreciation expense of $570,237 and $64,328, respectively, and a decrease in administrative expenses of $341,663.

Non-operating revenues increased by $1,576,796, principally due to the effect of the collection of $1,700,000 related to a claim against telephone companies as a result of examination made by the Audit and Procedures Department to the fiscal operations of such telephone companies relating to the emergency telephone service charges.

Transfers to emergency agencies decreased by $1,506,465. Transfer to emergency agencies includes vehicles and ambulances donated to agencies and municipalities and are based on the agencies needs and the approval by the Board.

June 30, 2011 and 2010

Net assets decreased by $2,229,802, from $44,562,129 in 2010 to $42,332,327 in 2011 due to the results of current year operations, as follows:

Net operating revenue decreased by $32,241, principally due to higher distributions to emergency agencies and municipalities when compared to prior year.

Operating expenses increased by $705,693 or 7%, due to the net effect of an increase in personnel services of $1,255,114 and the decrease in administrative and depreciation expense of $359,527 and $189,894, respectively.

Non-operating revenue increased by $106,668, mainly due to an increased in interest income related to the certificates of deposits maintained by the Board.

Transfers to emergency agencies increased by $1,763,548 due to vehicles and ambulances donated to agencies and municipalities during fiscal year ended June 30, 2011 as approved by the Board. During current year, thirteen (13) additional municipalities received donations in comparison with prior year.

Capital Assets

Capital assets as of June 30, 2012 and 2011 were as follows:

	June 30, 2012	June 30, 2011	Change
Depreciable assets	$ 10,015,004	$ 9,738,576	$ 276,428
Accumulated depreciation	(7,745,577)	(7,652,458)	(93,119)
Total depreciable assets, net	2,269,427	2,086,118	183,309
Non-depreciable assets	1,980,249	712,783	1,267,466
Capital assets, net	$ 4,249,676	$ 2,798,901	$ 1,450,775

Capital assets as of June 30, 2011 and 2010 were as follows:

	June 30, 2011	June 30, 2010	Change
Depreciable assets	$ 9,738,576	$ 9,427,993	$ 310,583
Accumulated depreciation	(7,652,458)	(7,389,611)	(262,847)
Total depreciable assets, net	2,086,118	2,038,382	47,736
Non-depreciable assets	712,783	-	712,783
Capital assets, net	$ 2,798,901	$ 2,038,382	$ 760,519

Capital assets as of June 30, 2012 increased when compared with June 30, 2011 due to the net effect of the following:

Capital assets	
Additions	$ 2,270,260
Retirements	(726,366)
Increase	1,543,894
Accumulated depreciation	
Depreciation expense	(327,175)
Retired assets' accumulated depreciation	234,056
Decrease	(93,119)
Net increase	$ 1,450,775

PO BOX 270200 SAN JUAN PUERTO RICO 00927-0200
TELÉFONO (787) 273-3001 ❖ FAX (787) 792-0061
e-mail correspondencia@e911.gobierno.pr

Capital assets as of June 30, 2011 decreased when compared with June 30, 2010 due to the net effect of the following:

Capital assets	
Additions	$ 1,023,366
Increase	1,023,366
Accumulated depreciation	
Depreciation expense	(262,847)
Decrease	(262,847)
Net increase	$ 760,519

Debt Administration

The Board is authorized to incur in long term debt as described in Article 4, Clause (f) of Law 144 of December 22, 1994, as amended. As of June 30, 2012 and 2011 the Board has no long term debt other than the accrued compensated absences and voluntary termination benefits reported in the financial statements.

Contacting the Board Financial Management

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

LLM&D, PSC
165 Ponce de León Ave.,
Second Floor
San Juan, Puerto Rico
00917-1233

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the 9-1-1 Service Government Board (The Board), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2012 and 2011. These basic financial statements are the responsibility of Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the 9-1-1 Service Government Board as of June 30, 2012 and 2011 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the Unites States of America.

Accounting principles generally accepted in the Unites States of America require that the management's discussion and analysis, included on pages I through IX, 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 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. We have applied certain limited procedures to the required supplemental 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.

LLM&D, P.S.C.
License No. 90
Expiration date: December 1st, 2013

September 26, 2012
San Juan, Puerto Rico

Stamp No. 2656248 of the Puerto Rico Society of Certified Public Accountants was Affixed to the original of this report

9-1-1 SERVICE GOVERNMENT BOARD

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash	$ 18,044,442	$ 17,636,979
Accounts receivable:		
Trade, net of $2,423,596 of allowance for doubtful accounts for 2011 (none for 2012)	1,930,966	1,822,252
Other	1,711,550	11,884
Prepaid expenses	4,411	25,086
Supplies inventory	42,536	28,412
Total current assets	21,733,905	19,524,613
Noncurrent restricted assets:		
Cash	6,655,918	9,253,148
Certificates of deposits	13,495,879	16,754,375
Total noncurrent restricted assets	20,151,797	26,007,523
Certificates of deposits	4,109,592	4,061,667
Capital assets:		
Depreciable assets	10,015,004	9,738,576
Less: accumulated depreciation and amortization	(7,745,577)	(7,652,458)
Total depreciable assets, net	2,269,427	2,086,118
Non-depreciable assets	1,980,249	712,783
Total capital assets, net	4,249,676	2,798,901
Total assets	$ 50,244,970	$ 52,392,704
Liabilities and Net Assets		
Current liabilities:		
Liabilities from restricted assets:		
Due to emergency agencies	$ 6,451,420	$ 6,985,053
Due to telephone companies	204,498	192,218
Total liabilities payable from restricted assets	6,655,918	7,177,271
Accounts payable - trade	441,175	270,455
Accrued expenses	510,718	565,243
Accrued voluntary termination benefits	161,442	161,442
Compensated absences	555,478	402,858
Total current liabilities	1,668,813	1,399,998
Noncurrent liabilities:		
Voluntary termination benefits	617,236	778,678
Compensated absences	865,074	704,430
Total noncurrent liabilities	1,482,310	1,483,108
Total liabilities	9,807,041	10,060,377
Net assets:		
Invested in capital assets, net of related debt	4,249,676	2,798,901
Restricted for:		
Contingencies	5,303,446	8,028,415
Expansion and equipment replacement	10,004,987	9,540,667
Telephone companies billing fees	446,623	364,970
Unrestricted	20,433,197	21,599,374
Total net assets	$ 40,437,929	$ 42,332,327

See accompanying notes to basic financial statements.

9-1-1 SERVICE GOVERNMENT BOARD

(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2012 and 2011

	2012	2011
Operating revenue:		
Emergency telephone service charges	$ 20,460,969	$ 22,008,561
Distribution to emergency agencies	(10,600,000)	(9,693,237)
Net operating revenues	9,860,969	12,315,324
Operating expenses:		
Personnel services	8,622,916	8,052,679
Administrative	1,670,357	2,012,020
Depreciation	327,175	262,847
Total operating expenses	10,620,448	10,327,546
Operating (loss) / income	(759,479)	1,987,778
Non-operating revenues and expenses:		
Interest	241,436	318,871
Other income from telephone service claims	1,700,000	-
Loss on disposition of capital assets	(44,938)	-
Other	200	1,631
Total non-operating revenues	1,896,698	320,502
Income before transfers	1,137,219	2,308,280
Transfers to emergency agencies and municipalities	(3,031,617)	(4,538,082)
Change in net assets	(1,894,398)	(2,229,802)
Net assets, beginning of year	42,332,327	44,562,129
Net assets, end of year	$ 40,437,929	$ 42,332,327

See accompanying notes to basic financial statements.

9-1-1 SERVICE GOVERNMENT BOARD

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers	$ 22,776,185	$ 22,281,130
Payments to suppliers	(1,480,806)	(2,412,866)
Payments to employees	(8,525,619)	(7,376,758)
Payments to emergency agencies	(11,133,633)	(9,966,650)
Other	44,938	-
Net cash provided by operating activities	1,681,065	2,524,856
Cash flows from capital and related financing activities:		
Net capital expenditures	(1,822,888)	(1,023,366)
Vehicles and equipment transfer to emergency agencies and municipalities	(3,031,617)	(4,538,082)
Net cash used in capital financing activities	(4,854,505)	(5,561,448)
Cash flows from investing activities:		
Interest receipts and other	1,896,698	59,981
Maturity of certificates of deposit	3,210,571	-
Net cash provided by investing activities	5,107,269	59,981
Net decrease in cash	(2,189,767)	(2,976,611)
Cash at beginning of the year	26,890,127	29,866,738
Cash at end of the year	$ 24,700,360	$ 26,890,127
For purposes of the statement of cash flows, cash include:		
Unrestricted	$ 18,044,442	$ 17,636,979
Restricted	6,655,918	9,253,148
	$ 24,700,360	$ 26,890,127
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) / income	$ (759,479)	$ 1,987,778
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	327,175	262,847
Loss on disposition of capital assets	44,938	-
Changes in assets and liabilities:		
Accounts receivable - trade	2,314,882	274,792
Accounts receivable - other	334	(2,223)
Prepaid expenses	20,675	24,844
Supplies inventory	(14,124)	(4,062)
Accounts payable - trade and due to telephone companies	183,000	(421,628)
Amounts due to emergency agencies	(533,633)	(273,413)
Compensated absences	313,264	(182,424)
Accrued voluntary termination benefits	(161,442)	940,120
Accrued expenses	(54,525)	(81,775)
Total adjustments	2,440,544	537,078
Net cash provided by operating activities	$ 1,681,065	$ 2,524,856

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

The 9-1-1 Service Government Board (the Board) is a component unit of the Commonwealth of Puerto Rico (Commonwealth), created by Law 144 on December 22, 1994. The Board is appointed by the Commonwealth's Executive Branch and its budget approved by the Commonwealth's Legislature. The Board is engaged in the operation of the 9-1-1 Public Safety Answering Point. The Board coordinates efforts of emergency services with the State and Municipal Medical Emergencies, the State Emergency Management Agency, the Fire Department, the Police Department and the Family Department-Social Emergency Program. The Board is led by an Executive Director. During fiscal year 2012, Law 144 was amended by Law 126 of July 12, 2011 to empower the Board to establish the 3-1-1 Government Service and Information Answering Center (3-1-1 Center). The 3-1-1 Center provides information related to services offered by 14 governmental agencies and attend claims and requests made by the citizens on such agencies.

a) Summary of Significant Accounting Policies

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

b) Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

f) Accounting for Compensated Absences
The Board's policy allows employees to accumulate unused sick leave up to 90 days and vacation leave up to 60 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten (10) years or more of service who are entitled to sick leave pay up to the maximum allowed. The Board is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of the previous year. In fiscal years 2012 and 2011, the changes in accrued compensated absences were as follows:

	June 30, 2012					
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Due thereafter
Accrued compensated abscences	$ 1,107,288	$ 1,026,284	$ (713,020)	$ 1,420,552	$ 555,478	$ 865,074

	June 30, 2011					
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Due thereafter
Accrued compensated abscences	$ 1,289,712	$ 1,030,604	$ (1,213,028)	$ 1,107,288	$ 402,858	$ 704,430

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

h) Net Assets
Net assets are reported in three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt.

- **Restricted Net Assets** – These result when constraints, on the use of net assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Assets –** These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

k) Reclassifications
Certain reclassifications were made in the 2011 restricted net assets to conform with the 2012 financial statements presentation.

2. Deposits

Deposits include cash and nonnegotiable certificates of deposit placed with financial institutions. The carrying amount of deposits with financial institutions as of June 30, 2012 and 2011 consisted of the following:

	2012		2011	
	Carrying amount	**Bank balance**	**Carrying amount**	**Bank balance**
Unrestricted deposits in governmental bank	$ 22,154,034	$ 22,863,697	$ 21,698,646	$ 23,572,722
Restricted deposits in governmental bank	20,151,797	20,151,797	26,007,523	26,007,523
	$ 42,305,831	$ 43,015,494	$ 47,706,169	$ 49,580,245

Custodial Credit Risk Related to Deposits

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

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

The Board was exposed to custodial credit risk arising from the balance of deposits of $43,015,494 and $49,580,245 maintained at GDB as of June 30, 2012 and 2011, respectively, which are uninsured and uncollateralized.

3. Capital Assets

The following is a summary of changes in capital assets for the years ended June 30, 2012 and 2011.

	June 30, 2012			
	Beginning balance	Increases	Decreases	Ending balance
Depreciable assets:				
Leasehold improvements	$ 909,443	$ 177,479	$ -	$ 1,086,922
Equipment	8,105,785	234,322	(273,926)	8,066,181
Furniture and fixtures	644,336	120,588	(5,068)	759,856
Vehicles	79,012	23,033	-	102,045
Total depreciable assets	9,738,576	555,422	(278,994)	10,015,004
Less accumulated depreciation and amortization:				
Leasehold improvements	(895,224)	(23,367)	-	(918,591)
Equipment	(6,312,207)	(228,765)	230,231	(6,310,741)
Furniture and fixtures	(392,312)	(64,136)	3,825	(452,623)
Vehicles	(52,715)	(10,907)	-	(63,622)
Total accumulated depreciation and amortization	(7,652,458)	(327,175)	234,056	(7,745,577)
Total depreciable assets, net	2,086,118	228,247	(44,938)	2,269,427
Non-depreciable assets:				
Construction in progress	712,783	1,714,838	(447,372)	1,980,249
Total non-depreciable assets				
Total capital assets, net	$ 2,798,901	$ 1,943,085	$ (492,310)	$ 4,249,676

	June 30, 2011			
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
Depreciable assets:				
Leasehold improvements	$ 896,123	$ 13,320	$ -	$ 909,443
Equipment	7,808,522	297,263	-	8,105,785
Furniture and fixtures	644,336	-	-	644,336
Vehicles	79,012	-	-	79,012
Total depreciable assets	9,427,993	310,583	-	9,738,576
Less accumulated depreciation and amortization:				
Leasehold improvements	(890,636)	(4,588)	-	(895,224)
Equipment	(6,116,616)	(195,591)	-	(6,312,207)
Furniture and fixtures	(337,961)	(54,351)	-	(392,312)
Vehicles	(44,398)	(8,317)	-	(52,715)
Total accumulated depreciation and amortization	(7,389,611)	(262,847)	-	(7,652,458)
Total depreciable assets, net	2,038,382	47,736	-	2,086,118
Non-depreciable assets:				
Construction in progress	-	712,783	-	712,783
Total non-depreciable assets				
Total capital assets, net	$ 2,038,382	$ 760,519	$ -	$ 2,798,901

4. Due to Emergency Agencies

The operations of the Board are intended to recover all or a significant portion of their costs through the imposition of monthly emergency telephone service charge of $0.50 for residential and cellular telephone accounts, and $1.00 for commercial accounts. The charges are billed and collected by telephone companies, which at the end of each month reimburse the amounts collected to the Board. Law 144 of December 22, 1994, as amended, obligates the Board to transfer no less than 40% of the funds collected from the telephone subscribers to the agencies that provide response to 9-1-1 calls (Fire Department, Police Department, Family Department, State Medical Emergency Department, Municipalities Medical Emergency, State Emergency Management Agency and Department of Family Social Emergencies Program). Those funds are distributed to the agencies in two installments of 40% and 60%, respectively of the funds to be transferred. The funds allocated to each agency is made proportionally based on the ratio of transferred calls from the agency to total calls transferred from the service during the current fiscal year. The first installment was paid on May 2012 and 2011 amounting to $4,240,000 and $4,220,000, respectively. The second installment of the distribution of the fiscal year 2011 in the amount of $6,893,633 was paid during the fiscal year 2012. Second installment of fiscal year 2012 will be paid after the issuance of the audited financial statements for the fiscal year ended as of June 30, 2012.

5. Pension and Postretirement Benefits Plans

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

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

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

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

Commonwealth legislation requires that employees hired before April 1, 1990 contribute 5.775% of gross salary up to $6,600, plus 8.275% of their gross salary in excess of $6,600. Employees hired after April 1, 1990 contribute 8.275% of their gross monthly salary. The Board's contributions are 10.275% and 9.275% of gross monthly salary for the year ended June 30, 2012 and 2011, respectively.

Total employer contributions during years ended June 30, 2012, 2011, and 2010 amounted to $18,160, $40,173, and $61,316, respectively, which represented 100% of required contributions.

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

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

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000. The employers' contributions (10.275% of the employee's salary in 2012 and 9.275% in 2011) are used to fund the defined benefit plan.

Total employer contributions during the fiscal years ended June 30, 2012, 2011, and 2010, amounted to $454,891, $332,047, and $360,503, respectively, which represented 100% of required contributions.

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

6. Commitments and Contingencies

a. Operating Lease

On November 2006, the Board renewed its facilities operating lease agreement for a period of five (5) years commencing in July 2007. The lease matured on July 2012 and was paid in monthly installment ranging from $31,032 to $35,548. As disclosed in Note 7, on July 2012 the agreement was renewed for additional five (5) years and will be payable in monthly installments ranging from $27,494 to $32,559.

On December 2011, the Board entered into an operating lease agreement with a third party for the lease of 3-1-1 Center facilities for a period of five (5) years commencing on May 2012. The lease contract is renewable in periods of five (5) years and future minimum non-cancellable lease payments are as follow:

Year Ending June 30,	Amount
2013	$ 203,658
2014	204,375
2015	207,958
2016	208,696
2017	176,988
	$ 1,001,675

Rent expense for the fiscal years ended June 30, 2012 and 2011, amounted to approximately $458,000 and $426,000, respectively.

b. Legal Contingencies

The Board has been named as a defendant in various legal claims, arising from the ordinary course of business. As of June 30, 2012, pending legal claims amounted to approximately $12 million. Board's management believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the Board considers that those claims in excess of insurance coverage are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court. The accompanying financial statements have an accrual for legal claims of $150,000 as of June 30, 2012 and 2011, respectively, included within accrued expenses in the accompanying statements of net assets.

c. Gain Contingency

During fiscal year 2011, the Board had claims against telephone companies as a result of examinations made by the Audit and Procedures Department of the Board to the fiscal operations of such telephone companies relating to the emergency telephone service charges pertaining to the Board. Unremitted amounts to the Board were estimated in $822,224 corresponding to the period from January 1, 2004 to December 31, 2009 and $2,423,789 for the period from January 1, 2000 to December 31, 2005. During the fiscal year ended June 30, 2012, after an extensive legal process, the Board received a final offer from the telephone companies. On April 2012, the Board accepted an offer in the amount of $1,700,000. As disclosed in Note 7, the offer amount was subsequently collected.

d. Construction Commitments

During fiscal year 2011, the Board began the development of three Public Safety Answering Point centers for an approximate cost of $4 million. As of June 30, 2012, cost incurred related to unfinished projects amounted to $601,065 and are presented as part of construction in progress within capital assets in the accompanying statement of net assets (see Note 3).

The Board approved $3.8 million for the development and establishment of the 3-1-1 Center. As of June 30, 2012, cost incurred related to unfinished projects amounted to $1,379,184 and are presented as part of construction in progress within capital assets in the accompanying statement of net assets (see Note 3). As disclosed in Note 7, on September 2012, the 3-1-1 Center began operations.

e. Voluntary Termination Benefits

During fiscal year 2011, the Board adopted the provisions of Law 70 of July 6, 2010, under which eligible employees opted to accept a voluntary termination offer from the Commonwealth of Puerto Rico and receive (1) early retirement benefits, (2) an economic incentive or (3) other benefits disposed by the Law. During the fiscal year 2011, ten employees elected for the voluntary termination benefits of which (a) five eligible employees elected to receive six months of paid salary effective on January 1, 2011, (b) three eligible employees elected for the incentivized early retirement and will receive annually, 50% of their salary for a period starting at election date and expiring between 2016 to 2018, and (c) two eligible employees that had the required age for retirement but did not have accrued the years of service to retire, elected a voluntary retirement option in which the Board will provide as an incentive a payment to the ERS equal to six months of credited service. At June 30, 2012 and 2011, total payments for voluntary termination benefits, including compensated absences, amounted to approximately $161,442 and $450,000, while future payments under this program are as follows:

Year Ending June 30,	Amount
2013	$ 161,442
2014	161,442
2015	161,442
2016	141,889
Thereafter	152,463
	$ 778,678

7. Subsequent Events

As disclosed in Note 6 (a), on July 2012, the Board renewed its facilities operating lease agreement for a period of five (5) years commencing on July 2012. Annual rent under this agreement amounts to \$27,494 on the first year, \$30,388 on the second and third year and \$32,559 during the last two years of the contract. The lease agreement is renewable in periods of five (5) years.

As disclosed in Note 6 (c), on August 2012, the Board received \$1,700,000 related to the offer accepted under Resolution No. 023 Series 2011-12, related to a claim against telephone companies as a result of examinations made by the Audit and Procedures Department of the Board to the fiscal operations of such telephone company relating to the emergency telephone service charges pertaining to the Board.

As disclosed in Note 6 (d), on September 2012, the Board inaugurated the 3-1-1 Center.

On September 2012, the Board obtained the approval from the National Highway Traffic Safety Administration to receive a federal grant in the amount of \$500,000.

The Board has evaluated subsequent events from the statement of net assets date through September 26, 2012, the date at which the financial statements were available to be issued, and determined there are no other material items to disclose.