Caguas
is work, conscience, heart

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2017

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Autonomous Municipality of Caguas

For the Fiscal Year ended June 30, 2017

Honorable William E. Miranda Torres, Mayor

Prepared by Finance Department

Angie L. Frías Báez

Finance Director

Víctor M. Coriano Reyes

Secretary of Administration

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Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

May 31, 2018

To the Honorable Mayor, City Council and Citizens of the Autonomous Municipality of Caguas:

The law requires that all general purpose local governments publish a complete set of financial statements within six months after the end of the fiscal year. These financial statements must be audited by a firm of licensed Certified Public Accountants and presented in conformity with Generally Accepted Accounting Principles (GAAP). Pursuant to the aforementioned requirements we hereby submit the Comprehensive Annual Financial Report (CAFR) of the Autonomous Municipality of Caguas, Puerto Rico for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of the Municipality. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the Municipality's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Municipality's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Municipality's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The Municipality's financial statements have been audited by CPA Díaz – Martínez, PSC, a public accounting firm fully licensed and qualified to perform audits of local governments. The goal of the independent audit was to provide reasonable assurance that the Municipality's financial statements, for the fiscal year ended on June 30, 2017, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by the Management; and evaluating the overall financial statement presentation. The independent auditor's concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Municipality's financial statements as of and for the year ended June 30, 2017, are fairly presented in conformity with the accounting principles generally accepted in the United States of America, except for the governmental activities of the government-wide financial statements, due to that the implementation of GABS Nos. 68 and 71 was based on unaudited financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multi-employer pension plan in which the Municipality is an employer. The Municipality don't have control to produce the audited financial information and depend of the ERS's management and plan auditors (see Note 18 of the Basic Financial Statements for more information). The independent auditor's report is presented as the first component of the Financial Section of this report.

GAAP requires that Management provides a narrative introduction, overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Municipality's MD&A can be found immediately following the independent auditor's report in the financial section of the CAFR.

These pages paint the portrait of an immense work that every day grows of the hand of women and men committed with its Municipality and its Country. The team of work of our Municipal Administration, the communities with which we work the academic institutions and the businesspersons who join our efforts.

Much is talked about the problems that we, as a country, face. However, for the past few years, the focus has been mainly on the fiscal matter and less into the social deterioration of Puerto Rico.

In Caguas, we have designed initiatives to place the Municipal Administration in a position that can operate in the economic crisis. We have decided to work beyond the numbers because we know that the needs have a face and we cannot be insensitive to them by simple calculations. **Caguas is work, conscience and heart**.

The Central Government maintains a debt of $70 billion. This has provoked the insolvency of practically all the agencies and public corporations. Faced with an economy that does not only shows no signs of recovery, and in the midst of the financial collapse that implies not having the resources to offer the services that demand the citizenship, much less to pay the obligations, the Central Government has misused and badly spent the money of the municipalities.

A few years ago, they asked the municipalities to use the Governmental Development Bank (GDB) to deposit their funds as investments. Herewith, the Law 2016-10-14 "LEY DE MORATORIA DE EMERGENCIA Y REHABILITACION FINANCIERA DE PUERTO RICO" was created, by this, attended the disbursement of deposits and loans by said bank and to order the implementation of other reasonable and necessary measures to allow the bank to continue carrying out its operations. This caused the confiscation of the municipalities' funds due to the liquidity problems that GDB faced. Then, the "Corporación para el Financiamiento Municipal" (COFIM) was created, through which the municipalities were removed from the cash flow generated by the portion of the municipal sales and usage taxes to benefit the GDB. Today, the income generated from the portion of the municipal sales and usage taxes are transferred to the municipalities by means of a monthly payment, that is received 30 days after finishing the month to which the collections correspond.

Faced with this scenario, at the end of last fiscal year the Autonomous Municipality of Caguas began the work leading to take legal action in the federal forum, against GDB, the Puerto Rico Oversight Board and Municipal Revenue Collection Center in order to claim the money that belongs to the citizens of Caguas.

In turn, we developed measures of adjustments and expenses control to maintain the direct services, to remove the possibility that the citizens have to pay excessively for essential services and discard the reduction of day or dismissal of the municipal personnel.

Finance and Administration

The crisis that has been affecting the country is being felt in revenues from local contributions. For example, $32.3 million received from the property tax, which represents a reduction of 1% compared to the previous year. For volume of business taxes, $24.3 million were received; amount that represents an increase of 3% compared with the previous year.

In terms of sales and usage taxes, $16.9 million was received, which represents a reduction of 5% compared to previous year's income. Construction excise taxes and permits amounted to $1.9 million; a decrease of 49% compared to previous year's earnings.

In addition, $10.3 million of intergovernmental revenues were received; and $1.3 million of other concepts, such as rents, services, fines and interests. The economic resources of the General Fund also include $ 3.1 million surplus that were generated of the residual equity from the sales and usage taxes from the Debt Service Fund, among others.

It is important to indicate that at the end of the last fiscal year we had a balance of cash of $8.3 million concerning our general account. In the midst of a fiscal crisis and between decisions of the Central Government have influenced adversely our liquidity, we were able to establish a plan of disbursements to maintain control, to comply with the commitments and terms of payment agreed with our suppliers. At the end of the period concerned, the financial resources of the General Fund amounted to $90.1 million, while expenditures were $100.3 million, for a deficiency of $10.2 million. This deficiency was mainly due to the lack of access to the money of the excess of additional contribution of property taxes from debt service, which supposes to available after the payments of the municipal debt.

Our commitment to the work and the efficiency is maintained unwavering and for the eighth consecutive year, the Association of Financial Officers Governmental Organizations (GFOA, by its acronym in Spanish) gave us the "Certificate of Achievement for Excellence and Financial Reporting" (RFLC) and the "Distinguished Budget Presentation Award". Thus, recognizing the excellence and distinction of the offices of Finance and Management and Budget in the presentation of the financial statements and the municipal budget, respectively. The Association of Financial Officers Governmental Organizations is an organization that brings together about 17,000 professionals in the areas of finance and government administration and is the most prestigious evaluative entity in the United States and Canada.

In addition, Caguas have kept giving people direct service. For example, the Finance Office processed 306 free tax returns at the federal level, representing an increase of 3.4% compared to the previous year. We were honored as the largest volunteer Assistance Center (VITA) center in Puerto Rico, achieving up to $334,000 refunds. On our 10 years of service and dedication, we received a special recognition granted by the Federal Internal Revenue Service.

On the other hand, the Office of Management and Budget, continued efforts to identify and return to the General Fund part of the cost of services demanded by federal programs that are administered in the municipality. The services that where identified were to Head Start programs, subsidized housing and CDBG by: electrical energy, water, postage, fuels and lubricants, maintenance and repair of vehicles, among others. As a second phase of this program has included the Special Funds premises that generate income from rent and utilities. The recovery and posting were $462,625 of a total of $1,298,879, representing 36%.

Together with the rendering of service, Caguas is always looking over the efficiency. For it, the Purchasing and Auctions Office successfully carried out an audit of the invoices of the Puerto Rico Aqueduct and Sewer Authority (PRASA). It was noted that a large part of the accounts was estimated with unreasonable consumption. Immediate action was taken for the corresponding claims causing the PRASA to grant us a credit of about $256,000 to June 30, 2017. This amount represents about 63 cents for each dollar in the accounts under claim. This management allowed us to keep the expenses within the established for the year 2016-2017.

As well as, the Office of Municipal Secretary realized, with big effectiveness, an audit of on 2,000 records of contracts on lease of niches in the Cemetery Number 3. Through the same, expired contracts were identified, corresponding to bodies that had not been exhumed and whose relatives had not requested their renewal. Thanks to this initiative, as of June 30, 2017 revenues were generated for about $137,000 needed for the maintenance and rehabilitation of municipal cemeteries.

Meanwhile, the Purchasing and Auctions Office managed to award the 37% of the expenditure incurred in the purchase of materials and services to businesses in Caguas and close to the region. This represents a local investment of $13.3 million. Of these, $11.0 million was invested exclusively in business of Caguas. In addition, in order to continue being a high-tech city in line with the strategic Plan, we replace the WIFI services infrastructure in the market Square, Paseo de la Arts, Plaza Palmer and C3Tec. Antennas were installed, and we implemented a new communication protocol since the previous one was obsolete. Thus, we provide greater capacity, better connectivity and access to the public.

Advisory Office

On the other hand, two years after the Electronic Government unit updated and modernized the official website on the Internet, as well as its integration into social media, it has been able to enhance the number of requests for services and online transactions. During fiscal year 2016-17, our Facebook followers increased by 58% compared to the closing of the previous fiscal year.

Similarly, Ordinance No. 17 of fiscal year 2016-2017 was approved to make viable a new configuration to the SAP program in the payroll module by standardizing calculations to make the discounts to employees, as well as the corresponding settlements for concept of vacation and sick leave. As a result, an economy of $47,962.99 was generated in the payment of excesses by sick leave.

Committed to the training and improvement of our workforce, the Human Resources Office offered 261 trainings, obtaining an increase of 29 additional trainings compared to last fiscal year. Of these, 134 were internal for a total of 8,450 hours contact. The facilitators were staff of our office; maximizing talent and generating savings by lowering contracts to external resources. In addition, there was a re-designed of the Academy of Leaders directed to the strengthening the skills of supervision.

In accordance with the executive order 2016-043, the Municipality is taking measures of control expenses and obtained a decrease in the expense of payroll that represented a saving of $ 75,849.92.

Permits is a matter of vital importance in public management, as it is a key element in the development and order of the city. To facilitate this process, the online permit filing system was implemented through macepermits.cloudapp.net/Caguas. The use of this system has had the effect of reducing the number of people who require a visit to the office of permits and receive services on accurate time. This development is a sign that this Municipality has managed to be a technologically advanced one in order to fulfill our mission.

Despite the economic crisis that Puerto Rico is going through, we have helped the city continue its economic development with an active commercial activity. One of the projects that needs mentioning is The Caguas Ambulatory Surgical Center Project, which represented an investment of $5,979,000.

In fulfillment with the Law 62 of June 11, 2014, of “Support to Micro-companies and Medium-sized Merchant” issued 72 conditional permissions, within the term of a working day. Mobile business applications have increased by ten percent (10%) for this fiscal year.

On the other hand, 332 complaints were got for public nuisances, of which already 310 were attended and of those, 180 eradicated in its entirety. From 2013 to 2016-2017, the owners carried out the corrective actions of public nuisance cases in 45% or the Municipal Administration made stakeholders of the property by 55%. In 2016-2017, the owners or stakeholders of the property carried out 30% of the corrective actions of public nuisance cases and the Municipal Administration carried out 70%.

The Permit Office has proved that it is technically prepared and has the capacity to perform the functions inherent in the hierarchies transferred from the “Junta de Planificación” (JP) and the “Oficina de Gerencia de Permisos (OGPe) in the audits that were carried out by these agencies. Therefore, the Planning Board by Resolution JP-C-46-4 of November 28, 2016, authorized the delegation of the V hierarchy through transfer agreement. The Governor of the Commonwealth signed the same on December 30, 2016.

As part of our leadership in the country, the Planning Office received a proposal from the Federal Department of Housing and Community Development (HUD) to opt for a grant of $155,000, which our Municipal administration obtained with an additional contribution of $100,000. Caguas will be in charge of administering the allocation of these funds, as well as establishing and directing the operation of the agency that brings together 38 non-profit entities that provide over 50 programs of services to the homeless in Caguas and in other 53 municipalities of the Country.

Secretary of Economic Development

Creating the conditions to maintain an entrepreneurial culture that translates into more jobs and better opportunities for our working class is the objective of the Secretariat of Economic Development undertakes. This secretary designs and executes public policy related to the impulse, creation and attraction of companies in order to promote a vibrant and sustainable economy.

As part of the arrival of new companies to Caguas, we can mention that it started with the construction of the most modern ambulatory surgery center in Puerto Rico and the Caribbean. This project, which will open its doors in 2018, means about 145 direct and indirect jobs between the construction and operation phases.
Among our efforts to promote local businesses, we conducted the Back to School campaign in Caguas. We focus our promotions on social networks and other electronic media in publicizing “criollo” businesses with products and services for school purchases. We achieved the participation of fifteen local businesses.

Seeking to develop alliances to strengthen business development in the eastern Central region and promote social innovation, the Autonomous Municipality of Caguas and Oscar Super Cash & Carry established a collaboration agreement to encourage budding entrepreneurs. As part of the collaborative agreement, Oscar Super Cash & Carry will offer monthly workshops on business aspects for ecosystem participants created by the Economic Development secretariat Caguas.

The “Arranque Empresarial Juvenil” provides students in elemental school thru high school the enterprenual formation to help create the conscience of how to start a business and how to develop it, fomenting enterprenualship as a real alternative for the future. This project provided with the contribution of the private sector of the following companies: Droguería Betances, MA Caribbean, Plaza Food Systems, La Casa del Estudiante y Mundo del Maestro, Universidad Interamericana and Columbia Central University.

On the other hand, the Program of innovation and entrepreneurial creativity, “PromoCaguas”, continues to position itself as the lead manager business in the region Eastern Center. It sparked the creation of 35 companies, 221 direct jobs and 22 business plans for financing proposals in private banking.

Our project for the “Incubación de Micro Empresas Comunitarias Solidarias Caguas Compite 2017” is a model of non-traditional business training where it is emphasized in the process of accompaniment. It counted with the participation of 51 people and at the end of the program we achieved 10 established businesses, 2 in process of permits and 19 jobs created.

In addition to training, Caguas developed the “Programa Asistencia Financiera a Empresas” known as "PAFE", 17 companies were oriented, the application process culminated 8 companies, 5 cases were approved and in total of $91,971 were disbursed. This capital was injected to businesses operating in sectors like Bairoa, Cañabón, and Cañaboncito and in the urban center. In fact, of that total disbursed, $20,017.95 were to acquire equipment of high-energy efficiency. With this program, 14 new jobs were created and 28 were retained.

One of our strategic objectives is the globalization of our companies. During the month of May 2017, we performed the Commercial Mission of Puerto Rico from the Autonomous Municipality of Caguas to Colombia with positive results, both for the participating entrepreneurs as well for the Administration “Cagüeña”. Sixty business appointments were carried out; eight companies from the service areas participated, such as consulting in the pharmaceutical sector, being an area of great opportunity due to our experience in the North American market.

Caguas continue to encourage the local economy and the program of tax incentives allows our city to become more attractive and competitive at the time of choosing a place of operations. In fact, an excellent marketing tool combined with other programs proved successful for the Municipality. In 2016-17, 12 incentive decrees of which three were in the traditional urban center and 9 in the rest of the city were processed and awarded. With this, we managed to compromise a new private investment of $31,698,690. Being granted the decrees to: Colgate-Palmolive Company Distr., Pompina Investments, Freedom Medical Wholesales, Caguas Ambulatory Surgical Center, Puerto Rico ASC Holding, IGD, GMT, Pro-Medical Uniforms, Tanganica Caguas, Cordero-Otero & Vargas-González CPA, Data Access Communication and Plaza Warehousing & Realty Corp., dba Plaza Food Systems. These companies will create 130 new full-time jobs and retain 354.

Caguas “Corporacion Juvenil para el Desarrollo de Comunidades Sostenibles” has eleven companies incubated and selling their products; this are: Pakana Vegan Products, Artesanías en Cuero, Zoemar, Espejuelos Viviana Burns, Angelo’s Viruta, Jeremía’s Composta, Ocean Life Products, AgroInnova Products, El Guanimazo, Sofrito Román Santi, and Flanes Texidor.

As part of the work done to encourage discussion on the topic of food security, we offered workshops to more than 400 students in the C3TEC. In addition, we developed and offered curriculum for 19 teachers, for 4 months, in the business area of hydroponics, orchards, pests and the use of recycled materials in the sowings.

Caguas launched the program “Cuentas Criollas de Desarrollo Individual”. Currently, have 21 accounts open with $2,021 in savings plus $12,123, which totals $14,144 in capital for the acquisition of assets.

The Tourism Office, received 15,128 visitors, highlighting the international group of Colombia, the United States and the Dominican Republic. We launched the path the ride in trolley, “Gózate Caguas”, where 22 groups of visitors have already been able to take a guided tour, free of cost, on trolley by portals and monuments of the city. As well as, promoting the visits to C3TEC with a 20% discount on the tour explores; and Botanic Garden and Cultural William Miranda Marín with a dollar discount. On the other hand, the office also created an innovative route that became known as the “Trolley Navideño”. This tourist offers consisted in a night tour, in which visitors enjoyed the Christmas decoration and knew the history in a different and special way. There were 4,161 visits to our city.

In the sector of gastronomic tourism, the office worked several initiatives to promote this sector. In alliance with Puerto Rico Blogger Com, held the second event Eat, Travel & Blog in which were grouped more than 100 digital content creators and influential people within the topic of travel and food. With this event, the Municipality continue positioning Caguas as an excellent gastronomic destination.

For the third consecutive year, we developed marketing campaign integrated during the Christmas season with focus on purchases and visits to our city, "Regala la Magia" in order to strengthen local commerce and economic development of the city. As part of the "Regala la Magia" campaign, 136 businesses registered in the categories of housewares, electronics, clothing, pharmacies, jewelry and beauty salons.

The Office of Development of the Traditional Urban Center has as one of its objectives to project the urban center as axis institutional, cultural, residential, and commercial.

With this purpose, the traditional urban center held, 108 cultural activities, art, gastronomic and family, such as: “Brincolandia”, which was carried out in collaboration with the merchants of the carts of the Plaza de Santiago Palmer and that resulted in a full of fun for the enjoyment of the visitors, especially children. We had several successful activities, such as “Paseo de los Artistas”, “Dominguea” and Urban Market supporting the Department of Cultural Development.

For the first time our Plaza Santiago R. Palmer hosted the event “Yo Creo en Caguas”, an activity where young people were given the opportunity to reaffirm their beliefs to serve as a motor in the transformation of our country. In this event, 19 public and private high schools of Caguas and other sectors of the city participated; a sum of 500 participants attended.

Our Market Square remains a living space and various manifestations of business. We have maintained the occupation of 99% of offices, premises and/or posts at the Market Square giving priority to micro-entrepreneurs and those, which directed to the self-employment, having a diversity of businesses that promote the solidarity economy and give our citizens and visitor’s services and products of excellence. Three new offices have been established in this fiscal year. These are MIA Insurance, Chat Entertainment and LESILIENCE-Behavioral Health Center.

Caguas has been very active as a filming destination in Puerto Rico. During the fiscal year 2016-2017, Caguas were able to be a facilitator of 44 events related to film, television and video, as a stimulus to attract economic impact to the city. As part of this effort, Caguas encourage the recognition of 33 film or audiovisual projects, 11 more than last year, which served their filmmakers and participants as a means of obtaining income or life experience to acquire useful knowledge for larger projects and budgets.

In the same way, Caguas were the stage for television projects such as the miniseries "La Academia", a co-production between Mexico and Puerto Rico, and films such as "Sanky Panky 3" and the American film "imprisoned", which has opened the door to receive other productions of equal caliber.

Finally, our short film "GOBERNANZA", a film project with the participation of municipal employees, participated in eight film festivals of international cinema being the most significant the Rincón International Film Festival 2017 in which Pedro Juan Figueroa won the award as Best Actor. This being his last recognition before dying; The Mediterranean Film Festival in Italy in which earned the distinction of "BEST SHORT" in its edition held in September of 2016, and at the social Machinery Film Festival held in Salerno, Italy in January 2017 in which received the "Best Social Innovation Award" in an event involving 1,350 films from different parts of the world.

Secretary of Human Development

The Women's Office continues to be the hub of the provision of services and prevention. We provided education, psychosocial and legal intervention to 832 women through an agreement with students of practice at the University of Turabo. During this fiscal year, it was possible to impact through the project “Zona Mujer”, 247 cases of women of Caguas and neighboring towns with strategies to achieve their self-sufficiency. These women are participating in various activities such as housekeepers’ workshops, agriculture, computers and housekeeping, conducive to promoting self-sufficiency and the well-being of their sons and daughters. This project has a structured job search component.

Meanwhile, with the innovative man-to-man project, the office educates about healthy ways to establish links to prevent violence-related behaviors. This project offers its services to young people from high schools in Caguas.
As an educational city, Caguas bet on learning and continue to develop our special projects. The proposal submitted to the Department of Justice and the three submitted to the Department of State Education approved, which resulted for the benefit of over 700 children, youth and adults. Projects such as 21st Century Learning Centers, adult conversational English program, citizenship course for immigrants, tutoring in equivalence courses and the Youth Integral Development project (JAG Proposal), allowed the Municipal Education Department to expand its services aimed at the educational, social, cultural and personal enrichment of its participants.

The Caguas Educational City Initiative continued the integration with the projects of EMDUCA (Educator Company) and CANA (Advisory Council of Childhood and Adolescence) collecting the fruits from the first years of its development and implantation. The Advisory Council of Children and Adolescents (CANA) counted on an active enrollment of 21 councilors. As part of the work of this Council, they painted the mural of the “Derechos de la Niñez” in the urban center.

In terms of school grants and scholarships, 196 families with 418 students benefited from a total investment of $15,180. Eighty-two school scholarships disbursed with an investment of $16,400; ninety-two university scholarships approved, for an investment of $38,750; and twenty science and technology scholarships approved for a total investment of $20,000. Caguas invest in its education, because the city is convinced of the results to build a better Puerto Rico. With education, we reaffirm that **Caguas is work, conscience and heart**.

On the other hand, as far as school transportation carried out, the auction process 2016-2017, ended with 35 routes and 5 suppliers. This new auction has a daily cost of $4,409.98, which implies a daily economy of $1,124 for the Municipality compared to the previous auction; 944 students received school transportation, and twenty-five public schools were served. The amount allocated for transportation services was $1,083,311 the services covered with a total cost of $846,282, achieving economies in the General Fund of $237,029.

In Head Start, Caguas work every day to achieve the development of skills and knowledge that help its participants achieve their school success. In this way, we are inserted in the goal of Caguas, Educational City, offering comprehensive services to boys and girls, citizens of the future, educating for life, since it has been demonstrated that the learning experiences at an early age have a decisive effect on the nature, capacities and actions of the adult.

Caguas is proud that the program has increased enrollment availability for infants living in Caguas and Juncos, with the approval of the second proposal Early Head Start Expansion and Child Care (EHS-CCP).

Through our services, 1,559 families, residents of the geographical area were served. The 91% of these families were under the line of poverty according to the federal poverty guide, only 9% were high income; which means, the Office managed to control the percentage of families of income allowed, a 10%, as indicated by Federal regulation.
The program served 376 boys and girls identified with any special need, of these, 327 were children with speech problems. We work with the “Plan Educativo Individualizado” (PEI), and two children achieved level 5, maximum level, leaving the registration of children in special need.

Securing safe and healthy environments for all, we strengthen our continuous monitoring system, identifying the needs and establishing the 2016-2017 improvement Plan. The Office managed to paint 47% of the centers, replaced equipment in seven, put awnings to protect the children from the sunrays and to improve the surfaces of the patios. In addition, filtration problems were corrected in two installations.

We kept active eleven collaborative agreements that help us to strengthen the services Caguas offer to the children, their families and the community. This, in accordance with our model of government in which all sectors participate and contribute according to their expertise and resources to build a friendly City of childhood.

From the Community Self-Management Office influenced 28,195 people. In our training platform, 330 meetings and 60 community assemblies were carried out as part of the direct and continuous service to the resident associations. In addition, 114 sessions of workshops, orientations and/or conferences provided for the development and improvement of their administrative skills. From basic topics of why we organize ourselves to specialized topics such as requirements and fulfillment of nonprofit corporations, our organizations received the necessary tools for its strengthening.

The base of our organizations has promoted the participation of young people in the deliberative processes through their integration in the workshops of the “Comisión Impulso Juvenil Criollo”. In collaboration with the University of Puerto Rico the Office have achieved the integration of young people on the boards of Villa Esperanza, Idamaris Gardens, Villa Carmen, Borinquen Valley I, Las Piñas, Muñoz Grillo, La Jurado and Savarona.

With the aim of promoting partnerships to integrate into the community security initiatives, we achieved 38% of them developing, coordinating or integrating into programs, activities or strategies of security projects.

Through the Department of Citizen Services, in the year 2016-2017, strengthened services aimed at children, influencing 180 boys and girls, offering a greater variety of services to the population of infants' nursery schools, parents and community assigned to the Department.

On the other hand, ten private care centers obtained contracts for offering quality services and a safe and healthy environment for Caguas' children. Which means we gave the opportunity to local entrepreneurs with an investment of $58,159.72 for the benefit of 37 families and 43 children. The centers were: Just for Kids Day Care & Learning, Picolino Learning Center Inc., Niños Exploradores, Inc, Mi Mundo Chiquito, La Casita de Mami, Jardín Mi Infancia, Inc, Piolin, Chiquimágico, Centro infantil Esquilín Mangual y Adonai Daycare and Learning Center.

With the purpose of achieving the well-being of seniors' citizens, the department offered the following programs: multi-activity centers, home nutrition, transportation to medical appointments and recreational activities, auxiliaries in the home, companions, and Asylum Angel of Peace to serve 901 citizens serving multiple needs. During this past fiscal year, 115 older adults benefited receiving: 40,443 nutrition services; 2,951 recreational and educational activities; 15,003 health care monitors; 5,390 assistances in social services; 39,857 transportation services. Also, 421 fragile adults received various services to help them improve their quality of life 242 adults received 59,962 nutrition services at home; 122 families were served by 63 auxiliaries at home; 33 families continued to receive services in the asylum by entering 8 fragile adults; 120 families received services from 60 "Amigos Acompañantes en la Egida Cristo Rey", "Fundesco", "Club de Oro" and Citizen Services; 350 seniors citizens received services from the transportation program to medical appointments, recreational and cultural activities, and were able to offer 4,212 trips.
Following our model of government and before the fiscal crisis we face, we facilitated partnerships with institutions of the city representing investments of $443,345.48 to meet needs of citizens.

The organizations that worked as a team with our Municipal Administration were "Amigo Acompañante" with 60 volunteers benefiting 120 families with an investment of $151,300.00; MAVI with services to 1,800 people with disabilities and an investment of $137,610.00; APSAP with service to 125 citizens with HIV and an investment of $84,799.48; ASSMCA with services to 716 citizens with mental health treatment, methadone program and homeless people and an investment of $52,122.03; The directives of the Pedro La Santa and Hato activities centers with voluntary contributions of $8,226.00; "Fundación Revd. Cruz Ruiz" and Alpha Biomedical with donations for $7,142.97; INSEC with donations of $1,045.00; Travel Aid with donation for $600.00 and the American Cancer Society with donation of $500.00.

With teamwork, we demonstrate the will to forge with our hands and intellect, the new path of progress and collective well-being. We struggle with sensitivity in the construction of a better quality of life for our society because **Caguas is work, conscience and heart**.

The "Cuidad Criolla" strengthens culture and education, offering spaces for the exchange of ideas and healthy entertainment. This, through 12 book presentations, 7 special events, 18 programmatic activities, 21 gatherings, among other actions, to meet the objective of promoting cultural values as generators of knowledge and citizen coexistence according to our strategic plan.

The "Criollo" Artisan Market consists of 350 artisans registered. They were able to participate in 30 activities and offer two workshops. In the period, assessed 45 additional artisans were recruited.

In order to maintain an orderly environment, promoting the plastic arts and to honor the musical and sporting contributions, two murals were made: Sport mural in Villa del Rey, fourth section by the artist Renier Torres Calvo and the Mural Brothers Morales, Puente Bairoa by artist Miguel Collazo.

The Luis M. Arcelay Theater is a living center with a capacity of 250 seats, ideal for the celebration of activities and works. This year we attended 22,156 people generating $3,740 in revenue. Validating that culture is a pillar of strengthening our values as a people, economic development and education. That is why **Caguas is work, conscience and heart**.

Caguas bets on sport as a mechanism for opportunities and development of local talent. We are extremely proud that our mass program influenced 107,537 participants from all over the island.

The program has 47 recreational leaders and 17 sports technical schools. This year began with the swimming program as a pilot project in partnership and collaboration of the "Club de Natación Criollo" swimming and enrolled 100 participants between the ages of 6 to 18 years.

The Recreation and sports department offered support for 50 special events in the Municipality. These events were, 7ma Copa Alcalde Dominó, Clásico de Ciclismo Coquí Dorado; Copa Alcalde Volleyball Escuelas Nivel Superior, XX Torneo Internacional El Criollo de Levantamiento de Pesas; Olimpiadas Criollas; 4ta Copa de Boxeo Orlando Piñero, Maratón Estudiantil; Torneo de Softbol Liga Atlética Escolar Criolla (LAEC); Copa Alcalde de Volleyball Escuelas Intermedias; Copa de Boxeo Julián Delgado; Inauguración Temporada de Béisbol de los Criollos; Torneo de Ajedrez; 3ra Copa de Volleyball Menonita; Copa de Gimnasia William Miranda Marín; La Milla Millán Clara; Copa de Boxeo Filiberto Lebrón; Maratón del Pavo from the Autonomous Municipality of Caguas; Carrera del Pavo from the communities; Carrera Tomás Fernández Quevedo; Inauguración Pequeñas Ligas de Valle Tolima; Impacto Deportivo - Cierre del Programa; Inauguración Torneo Nacional de Voleibol Superior Femenino; 3ra Copa Gallística William Miranda Torres; Inauguración Torneo Softball Boomer's de Caguas; Boxeo Boricua; Torneo de Bambú Tenis LAEC; Inauguración Liga National Baseball League de PR; Copa Alcalde Hockey; 2do 5K "Yo en Cristo" de la Academia Cristo de los Milagros; Copa Alcalde de Baloncesto Escuelas nivel Superior Femenino y Masculino; Copa Alcalde de Karate Ruby Camacho; Torneo de Baloncesto de la LAEC; 1ra Carrera 5K MMI por la Unidad Familiar; 20ma Caminata Campira, Relevos de Masificación; 6tos Juegos Deportivos Especiales Cagüeños; 7ma Copa de boxeo Miguel Cotto Carrasquillo; Copa Alcalde de Baloncesto Escuelas Intermedias; Justas Nocturnas; Torneo de Bambú Tenis; Torneo de Béisbol Nivel Superior, PR Open Tenis Silla de Ruedas, Torneo de Excelencia Víctor Pellot; Torneo de Boxeo José "Cheo" Aponte; Cierre Programa de Masificación; Torneo de Baloncesto de la LAEC; Boxeo Boricua and Campamento Muni, and the "Inauguración de las ligas de Béisbol" of Villa Blanca, Bairoa, Villa Nueva, José Mercado and Turabo Gardens.

The Autonomous Municipality of Caguas gave a sports voucher valued at $1,000 to each one of the Leagues and was attended by 150 athletes and 500 people of the public in general.

Caguas is the land of champions and the sport is lived in our "Cuidad Criolla". Caguas influenced thousands of people with family activities in a healthy coexistence.

The Municipality Department of Housing, continues working and optimizing its resources in favor of citizenship. For the fifth consecutive year, it has received the qualification of a "High Performance" in the Administration of the Section 8 program thanks to the commitment and professionalism of the employees that work for this program.

In an innovative way, the Municipality established the program of Assistance to Mortgage Debtor, which is part of a government program. The same has the purpose of supporting the residents of Caguas that are going through an economic crisis and are in danger of losing their homes are executed by the banks. The Municipal Legislature passed the Ordinance Number 35 of the fiscal year 2015-2016, at the Ordinary Meeting of June 29, 2016, "to establish as a public policy of the Autonomous Municipality of Caguas the commitment to provide citizenship “cagüeña” the necessary assistance for the preservation of their homes. To comply with this Ordinance the Department of Housing Municipal signed an alliance agreement and collaboration with two non-profit organizations and approved by HUD. One of these is the Consumer Credit Counseling Services of PR, Inc.

During this fiscal year, the Municipality finished selling a project and seven apartments in the city center of Caguas, in this way, the department achieved the goal of starting to repopulate this important area of our city. In the Oak Trails Project, seven apartments were sold with subsidies up to $345,766.98, so that the families could acquire their first home. The remaining thirty-five apartments of the project were sold entirely by the developer.

Aware of the economic challenges that the country is facing, and the direct impact that this represents in the finances of our constituents, we made accessible the legal services to the “cagüeña” citizens. In summary, we provide attention to 2,059 people 21.40% more than the previous year.

Guaranteeing due process of law encourages healthy coexistence and trust in public institutions, for this reason in Caguas we facilitate justice because we believe in the dignity of our people.

Secretary of Security and Protection

Security is an extremely important aspect of our work agenda for peaceful coexistence. Our efforts are constant and we work hand in hand with state and federal agencies to seek public safety. Unlike other municipalities that have reduced their security forces, we increased the police force to add 146 officers to our city.

Even, an economy of $102,400 was achieve with the recruitment of these police officers. Thus, we strive to guarantee peace in a sensible and viable way, demonstrating that **Caguas is work, conscience and heart** because it has a body of police officers with a sense of unwavering duty.

In the evaluated year, our security personnel were responsible that 605 activities with more than 300,000 participants that will be without violent incidents and fulfill the expectations drawn. This allowed an injection to local economic development and led to the healthy coexistence. Being a firm indication that different organizations have found in the “Cuidad Criolla” an ideal space to carry out their activities mass. Success responds largely to the quality that our city police maintained order and security in each of them.

In July 2016, the department integrated a part of its security strategies, a new custom electronic surveillance program in the 24 hours a day, 7 days a week. The same, has approximately a hundred security cameras installed in strategic places such as squares, streets, avenues, walks, monuments, among others. The aforementioned program allowed Caguas to reduce $88,000 of the private security contract without affecting the security of our citizens.

In the year 2013, together with the University of Turabo, we signed a collaborative agreement for the professionalization of our police force. This year, eleven police officers obtained the Bachelor's degree in Criminal Justice with a concentration in security and protection, thanks to the incentives provided by the Municipality. Thus, taking the steps in the right direction towards the fulfillment of the strategic Plan 2010-2020.

As part of its commitment to security and protection of our community police, Caguas have established a new program aimed at ensuring the integrity of the victims of the crime of domestic violence. The Department achieved the allocation of $108,169.40 from the proposal "Programa de Asistencia para Víctimas del Crimen" (VOCA by its initials in english) of the Department of Justice; by which the Department acquired a new patrol, two computers and a GPS system (locator). This new program provides a better surveillance and supervision, ensuring the integrity and security of the victims from a computer installed in the patrol and another in the command center of the Municipal Police.

As part of our responsibilities as leaders of the region, the Municipal Emergency Management Office oriented and visited the six municipalities, Aguas Buenas, Aibonito, Caguas, Cayey, Cidra, and Gurabo, that make up the central region of the "Oficina para Asuntos de Seguridad Pública (OSAP). Our officel monitor each of the municipalities three times a year, to ensure optimal performance of federal funds and the agreement between the Autonomous Municipality of Caguas and OSAP.

In an effort to provide more services, this fiscal year the department extended the rescue service with a third shift from 11pm to 7am through a reassignment of staff offering 24 hours a day services. Caguas is committed to its citizens and seek efficiency in the operations.

During the fiscal year 2016-2017 was generated an economy of 7.51% of the total budget allocated. Part of the savings were used for the retraining of personnel of the Municipal Emergency Management Office (OMME).

As part of training communities to strengthen and promote citizen participation, OMME educated about the preparation to minimize risks that may affect your area and train them in basic response skills to any disaster Natural or man-caused accidents. The Department benefited the communities of Caguas by offering talks of hurricanes, earthquakes, active shooter, Law 54 for the protection of animals, emergency management, fire prevention, search and rescue, drills, among others. Fulfilling the goal of strengthening security by expanding community education programs, and the participation in Community Emergency response Team (CERT) according to the Strategic Plan 2010-2020.

Also, offered workshops in schools and colleges, benefiting 2,246 participants; in universities to 381 people; and in institutions of government and private sectors to 651 participants.

OMME unit of operations provided 1,048 services in assistance in fires, first aid, car crashes, cutting of trees when these fall on the road, areas of mitigation as well as cleaning of bridges, culverts extrication, hazardous spills, emptied of swimming pools abandoned, power lines obstructing tracks, search and rescue of missing persons. With regard to the rescue of animals were recorded 1,190 collected.

The Municipal Emergency System, in collaboration with 4 private companies, attended last year 8,672 cases of emergencies generating for the municipality $302,819.

The Office have a team of two type 2 ambulances; Two Type 3 ambulances that are mobile emergency rooms; three first responders and a ATVs that have allowed to establish work plans so that each request for service will be met at the established standard time and thus seek to save lives.

Consistent with the objective of the Strategic Plan to be a “Cuidad de Calidad Total”, we acquired four tablets for electronic registration of patients that expedite the work of the paramedics, a Zoll X series monitor, three new oximeters and three new chair beds for easy transport of patients by stairs. The approximate investment was $79,000 from the billing process without charge to the Municipality, achieving that the municipal 911 is economically self-sustainable and offers the citizens’ services of excellence.

Secretary of Infrastructure, Ornate and Conservation

This past fiscal year, we made possible a series of projects necessary for citizenship. Even with the known fiscal challenges, routine maintenance and repair work was carried out, with an investment of $443,345 and 961 service requests served. The completion of sixteen collaborative models for an investment of $30,138. In addition, the Department carry out the preventive cleaning of pipes and ravines to minimize flooding, with an investment of $11,210.

In a great effort, Caguas carried out resurfacing work on avenues, municipal roads, municipal and state roads for which 23.9 million pounds of asphalt were used in 5.09 miles, at a cost of $1,243,483.00. By Ordinance 06A-9 Series 2006-2007, 40 entries were made to low-income housing. In these were deposited 1,540,880 pounds of asphalt, at a cost of $79,697.

As part of the Energy Saving Committee and as scheduled in the plan designed for the fulfillment of the 5% annual reduction goal of the municipality's electricity consumption, the Department of Building Conservation completed the replacement of tubes fluorescent LED on the second floor of the Municipal Government Center. The replacement of 890 light tubes and with this, 100% of the luminaires are low consumption. In addition, 50 light bulbs were placed day light on the ornamental posts of the Paseo of the Arts, it was renewed by LED bulbs the ornamental luminaires of the walk Gautier Benítez and was made "retrofit" to approximately 100 poles of photovoltaic luminaires.

With great pride, Caguas can report that on May 3, 2017, the first “Centro de Acopio Comunitario de Electrónicos Municipal” was inaugurated and since its inauguration until the closing of the fiscal year 978 equipment and materials were recovered. This center locates in our transfer station and receives equipment like, transistors and elements associated to this technology, including integrated circuits, resistors, trainers, among others.

Our recycling program remains active and this past fiscal year recovered 19,330,840 pounds of recyclable material. To this date, 161 communities representing 31,812 housing units participate in our home recycling program.

Demonstrating that we continue to give services to citizens and taking charge of Central Government Affairs in order to remain a beautiful and tidy city, Caguas invested $774,077.00 in state roads.

In the case of the Department of Project Development and citizen mobility, the completion of the reconstruction of streets and roads of the Sector Lajitas (02) by $465,779.89.

In addition, projects were carried out in community water systems. This in the Sector Pedro Calixto, Barrio Borinquen with an investment of $122,000.00 and the community of Velázquez, Barrio Cañaboncito with an investment of $155,900.00.

In total, $8,365,289.21 were invested in various road infrastructure projects, recreational and to the water community services facilities. The works were in communities like Barrio Borinquen, Urb. Villa of King IV, Barrio Cañaboncito, community of Velázquez, Urb. Bunker, La Barra, District Tomás de Castro I, Urb. Mariolga, among others.

In addition, Caguas is pleased to report that the completion of the plan to increase the use of bike as mode of transportation in the city. A signed multi-sectoral commitment on May 9, 2017, to support this effort by being the first of its kind in Puerto Rico.

As part of our environmental public policy, we continue to revise and update the statistical analysis and monitoring of the data obtained and the equipment installed in all the projects of conservation, energy efficiency and use of energy sources renewable implanted in the city. During the fiscal year 2016-2017 with these projects, Caguas has contributed to a reduction in polluting emissions of CO_2 to the atmosphere of approximately 855,575 pounds and a saving in burning of petroleum of approximately 40,220 gallons of oil. These actions in compliance with the stipulated in the Strategic Plan to expand the proposals for energy conservation, use of renewable energy and reduction of the emissions of gases in the city.

Caguas received honorable mention in the granting activity of the US Conference of Mayors Environmental Protection Award 2017 as the second largest city in the U.S. jurisdiction to promote sustainable development initiatives in the area of Conservation and energy efficiency.

Municipal Corporations

To get Puerto Rico out of the crisis it faces, it is necessary to have the will to develop common projects and change the current paradigms. INTECO is an example of the capacity of teamwork, not only of the municipalities, but also of the private company and the academy sectors.

The formula of INTECO can be applied to all Puerto Rico. With the current economic scenario, it is necessary and urgent to change the government scheme.

In search of these new relationships and conditions that generate development, on September 16, 2016 a "strategic alliance agreement" was carried out between the Municipality of Comerío, INTECO and the Puerto Rico Energy Center (PREC). This alliance was based on the project of the Municipality of Comerío which is intended to rehabilitate a dam located on the road 167 KM 4.2. This project has the objective of producing electricity for their use or sale to third parties, whose operation would be through a Public Private Partnership.

An important partnership singed with the “Fideicomiso de Ciencia y Tecnología” to make the eastern Central Region the center of Innovation in Puerto Rico; boost the economy and local development.

Also in 2017, INTECO seek to establish a scholarship program for companies or municipalities in the region to adopt small and medium-sized enterprises (SMEs) in a course called "Strategic Business Owner"; and to gestate the program "Youth Business Startup", developed and successfully implemented in the Autonomous Municipality of Caguas.

The idea was to be replicated by other municipalities of INTECO and start an educational program to the natural and commercial citizens who reside and/or are located in the municipalities that belong to INTECO on the concept and importance of "innovation" as a fundamental element to achieve sustainable economic development.

In addition, we continue to distinguishing in education because all CIMATEC graduates were accepted into prestigious universities and for the first time entered Ivy League universities.

We celebrated for the first time in Puerto Rico together with the International Intellectual Property Association, “Fideicomiso de Ciencia y Tecnología” and the firm Ferraiuoli a workshop for elementary and intermediate level students where they learned with experts International on intellectual property, patents and trademarks. About 250 students benefited. This is an initiative that will continue to be developed during the new fiscal year, demonstrate the strength of the unity of purpose of all sectors for the welfare of education.

We reached an agreement with the “Fundación Ángel Ramos”, which will sponsor the educational billboard. A total of 13,175 attendees have been impacted from July 2016 to June 2017.

The C3TEC succeeded in collecting in $873,702 between donations and revenue for this fiscal year.

The botanical garden facilities continue to attract thousands of visitors. Last fiscal year 67,754, people enjoyed tours and activities such as: National Dog Day, Relief for life, Christmas Garden, among others. Strengthening the democratic governance model, we signed collaboration agreements with the foundation for Nature and the astronomy society to offer educational spaces. In addition, we created a community garden benefiting 2,500 volunteers.

On January 3, 2017, the Fine Arts Corporation of Caguas entered into a new phase, under a new direction, with new goals, in order to maintain the prestige enjoyed by the Center, as well as expand their offers.
An exhaustive analysis in all the lines of the corporation, has allowed efficiency in the service and saving in expenses. In payroll expenses, for the audited fiscal year 2015-2016, the total was $587,017.00. However, at the end of this fiscal year 2016-2017 the payroll expenditure reduced to $547,221.83, which meant a savings of $39,795.17.

This year the rooms vibrated with thousands of visitors who came to enjoy shows as well as educational and social events. The concert hall Felipe "La Voz" Rodríguez received 83,214 people who laughed with the 12 functions of “Casi, Casi Primera Dama”, danced salsa to Tito Nieves and sang with Lissette, Yolandita and Chucho, among others. This meant an income of $164,835.00. In this same line, the ticket office of the CBAC generated $214,686.95, which means an increase of $76,580.95 compared to the previous year.

The Convention Hall Carmita Jiménez and the room José Luis Moneró received 33,330 people who held 103 events: from weddings to graduations and seminars. This generated income amounting to $159,535.52. In summary, the rooms were filled, and this meant an income of $335,470.52 to the close of the fiscal year an increase of $65,434.52, versus $270,036 of the fiscal year audited 2015-2016.

Through the Municipal Alliance of Integrated Services (AMSI), we established the project of the cooperative hydroponic Agro-Coop with the participation of four volunteers of the program of AmeriCorps VISTA. Agro-Coop groups hydroponic farmers in the area, in the process of forming a distribution and marketing cooperative, according to the requirements and regulations established in Puerto Rico.

In addition, AMSI collaborate with the Senior Community Service Employment Program (SCSEP) administered by the AARP Foundation to help low-income and unemployed people 55 years or more to find work. During 2016-2017, it served 382 people from Caguas' single Management Center. In order to create employment opportunities, the single Management Centre served as a recruitment center for 22 employers, the process of simplifying the application of commercial loans was implemented, with reduction of initial requirements, a "preapproval/evaluation" and a simpler application form to understand and fill, thus improving the service to the customers.

The “Corporación de Salud Asegurada para Nuestra Organización Solidaria” (SANOS) in December 2016 celebrated 10 years of existence. It's a first decade of a health prevention model.

Complying with the mandates, SANOS offered services through the prevention and control program of ZIKA for the city of Caguas by obtaining federal funds. SANOS had the approval of $250,000 for guidance activities on mosquito control and family planning including the availability of cost-free contraceptive methods for the entire population. We influenced the 11 districts of Caguas with 128 educational activities of prevention of Zika in the communities, 44 in schools and universities directly impacting 5,638 people.

As part of our commitment to citizenship, we extend services and schedules, as is the case of medication-assisted treatment for opioid-use disorders, heroin and other derivative drugs, to 108 patients with the approval of funds Federals for $406,250.

This report shows the commitment and hard work carried out by the Municipal Administration of Caguas.

The fight for a better country is done day by day. It is a collective effort that depends on each inhabitant of Caguas and Puerto Rico. Beyond the fiscal challenge we are experiencing, we must push for innovative measures that will enable us to achieve the necessary efficiency and economic and social development.

Change and innovation will take us on the path of success to which we aspire. The winds blow strong and move the foundations. However, Caguas rose on a solid oak that remains standing, even in the midst of the storm.
We must be able to endure the storm and adjust to new ways of doing things. Since the Government will not be the main supplier, nor the one who solves the problems of the people. We are the ones that going to build a better country. There is no way to shy away from our responsibility. It's everyone's job.

As you have seen in the work that shows in the report, Caguas had basting measures that allowed starting goals as a city. Caguas is a “Cuidad Educatora”, leader of the central eastern region of Puerto Rico. Caguas is committed to innovation and walk together with the entrepreneurs to make their dreams become realities for economic development.

Caguas see in sport a tool for social and community development. An athlete's individual effort translates into an injection of pride for a whole people who move and support their own. Culture has allowed us to attract visitors from inside and outside the country, becoming a tourist and gastronomic attraction because we are a safe city.

However, we know we can do more. That we have the capacity to overcome and to gestate other measures and alternatives. We have to see ourselves as the calls to change that was not given the expected results.

We can begin to develop positive changes in our homes, in communities, in schools, in universities, in business, in the city and throughout Puerto Rico. If each one does an act of introspection and decides to step forward and make a positive gesture that is replicated, we will truly begin to change as a society.

Let us be positive and look at the horizon with hope. Let us look at the opportunities to do something new, to turn our strengths into innovation, entrepreneurship and sustainable development. Let us put the best of us on the table and take the city and the country afloat. That new country, which Caguas has proven to be a possibility. We have a long way to go, aspects to improve and a lot of work ahead.

The fatherland is done with effort and "orgullo criollo". **Caguas is work, conscience and heart**.

Independent Audit

Local statutes require an annual audit by independent certified public accountants. The independent auditors from CPA Díaz Martínez, PSC were selected by the Municipality to perform the audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2017 in accordance with auditing standards generally accepted in the United States of America. The independent auditors' report on the financial statements is included in the financial section of this report.

The Municipality is also required to undergo an annual audit to obtain reasonable assurance about compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs. This audit was also conducted by Díaz Martínez, PSC and the Single Audit Report will be published at the same date as a separate document.

Awards

The City became a hub for sustainable economic development while protecting the environment through its Public Works Department, in charge of various services, including the maintenance of local streets, flood control facilities, maintenance of common areas, solid waste collection, recycling, parks and recreational facilities maintenance and public lighting maintenance.

Cleanliness of the City is of outmost importance for the Municipality even in State roads, bridges and facilities. This municipal agency developed gardens throughout the entire City, including. Waste management continues to be a top priority in Caguas because of the City's status as the hub for business and tourism activity. Our recycling program continues to serve as a standard for other municipalities to follow.

All these embellishment and reforesting initiatives have been recognized by local, national and international organizations:

The short film "Governanza" received the "Best Social Innovation Award" at the Social Machinery Film Festival, held in Salerno, Italy.

For the 8th consecutive year, the Association of Governmental Financial Officials (GFOA) awarded our Municipality the Excellence Award in the Presentation of Budget Document 2016-17.

In 2016, the program “Arranque Empresarial Juvenil”, won the gold medal granted by the International Economic Development Council in the category of cities of 25,000 to 200,000 citizens. Also, Caguas received another gold medal in the category of “the website with a special purpose” also with the International Economic Development Council.

On November 2010 our City won a Bronze medal in the United Nations Organization “International Livable Communities Award”.

In the year 2009, Caguas received the “Environmental Quality Award” in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for the project “Caguas Flourecente” (fluorescent).
In the year 2009: *Tree City USA Award* given by the National Arbor Day Foundation of the city of Nebraska, Caguas was recorded as an “Arboreal City”.

In the year 2006, Caguas received the “Environmental Quality Award” in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for establishing a comprehensive environmental protection program in the City.

In the years 2001, 2003 and 2004, Caguas´ Public Works Department received the Caribbean Urban Forestry Award, for establishing programs of reforestation, gardening, beautification and environmental conservation.

In the years 2002, 2003 and 2004, the Puerto Rico Environmental Quality Board granted Caguas its Cleanest City Award.

The Government Finance Officers Association of the Unites States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Autonomous Municipality of Caguas for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the eighth consecutive year that the Municipality has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Municipality has to publish an easily readable and efficiently organized CAFR that satisfies both US GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We express our appreciation to the Mayor and the City Council for their continuous support. Their vision and leadership always allow us to accomplish our goals in a responsible and progressive manner.

We recognize that the preparation of this report could not have been accomplished without the assistance of the entire staff of the Finance Department. With appreciation for all members of the Finance Department who contributed to the preparation and completion of this report. Due credit is also given to our independent auditors, Díaz Martínez, PSC, for their continuous advice and commitment.

Respectfully submitted,

AUTONOMOUS MUNICIPALITY OF CAGUAS, PUERTO RICO

Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Autonomous Municipality of Caguas

Puerto Rico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrill

Executive Director/CEO

ELECTED OFFICIALS

MAYOR
William E. Miranda Torres

ELECTED MUNICIPAL COUNCELORS

PRESIDENT
José Ramón Torres Torres

Antonio Cruz Gorritz
Rafael A. Carballo Collazo
Esteban Ramírez Del Valle
Ismael González Rivera
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Jason Luis Domenech Miller
Victoria Cintrón Cruz
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APPOINTED OFFICIALS

VICE-MAYOR
Lydia I. Rivera Denizard

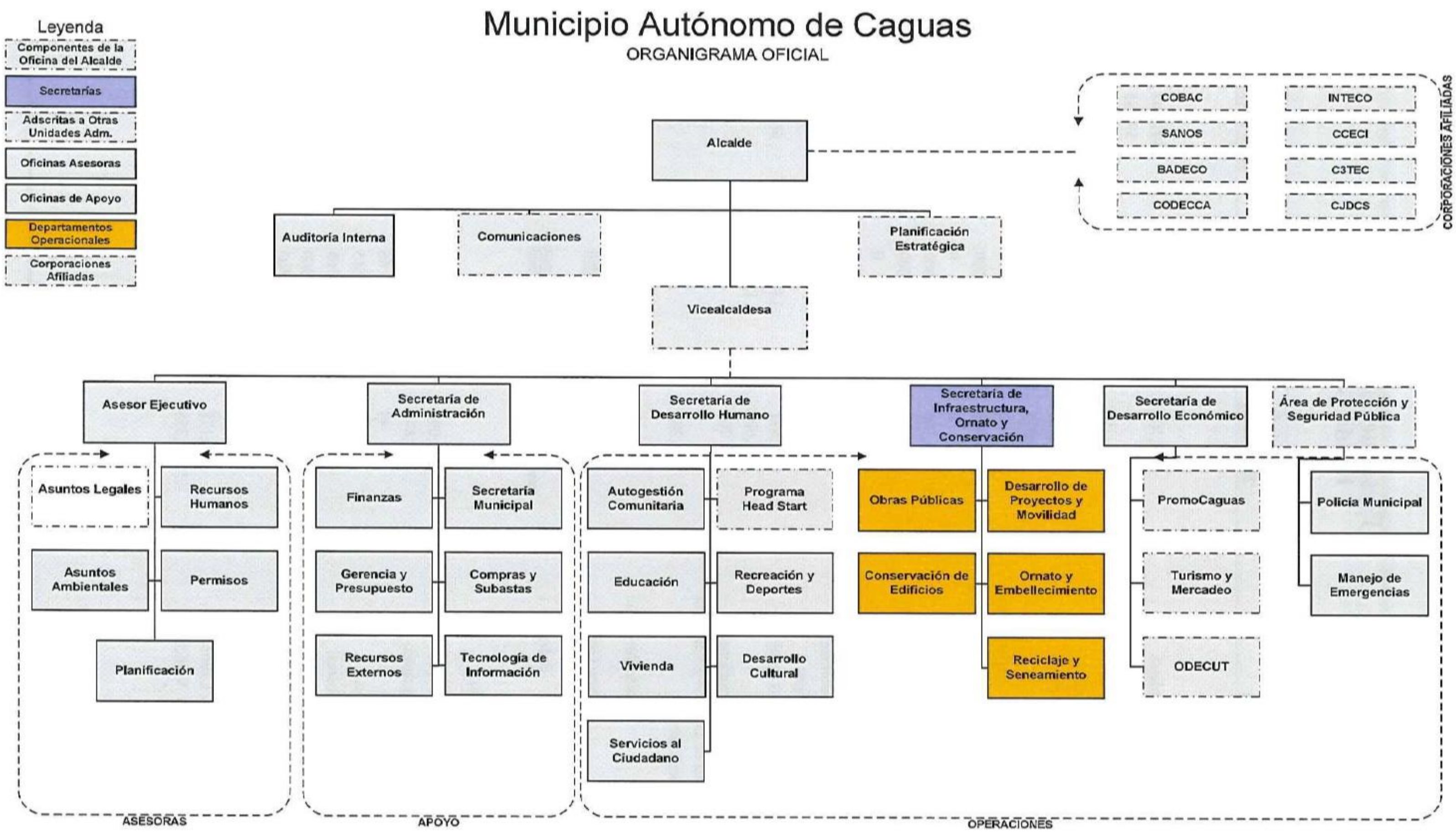
Mónica Y. Vega Conde, Esq.
Executive Advisor

Víctor M. Coriano Reyes
Secretary of Administration

Aida I. González Santiago
Secretary of Human Development

Ada Belén Caballero Miranda
Secretary of Infrastructure, Beautification, and Conservation

Zamia M. Baerga Torres
Secretary of Sustentainable Economic Development


Municipio Autónomo de Caguas
ORGANIGRAMA OFICIAL
Leyenda
Componentes de la Oficina del Alcalde
Secretarías
Adscritas a Otras Unidades Adm.
Oficinas Asesoras
Oficinas de Apoyo
Departamentos Operacionales
Corporaciones Afiliadas
Alcalde
Auditoría Interna
Comunicaciones
Planificación Estratégica
Vicealcaldesa
COBAC
INTECO
SANOS
CCECI
BADECO
C3TEC
CODECCA
CJDCS
CORPORACIONES AFILIADAS
Asesor Ejecutivo
Asuntos Legales
Recursos Humanos
Asuntos Ambientales
Permisos
Planificación
ASESORAS
Secretaría de Administración
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Secretaría de Desarrollo Económico
PromoCaguas
Turismo y Mercadeo
ODECUT
Área de Protección y Seguridad Pública
Policía Municipal
Manejo de Emergencias
OPERACIONES

Financial Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2017

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CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of 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 **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Municipality'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.

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

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

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

The deferred outflows/inflows of resources, and net pension liability in governmental activities of the government-wide *Statement of Net Position*, and the pension expense for the current period change in that liability in governmental activities of the government-wide *Statement of Activities*, which represents the 100 percent, 100 percent, 47 percent, and 2.3 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2017, and expense for the fiscal year ended were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information, and actuarial valuation report and notes of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

In our opinion, except for the possible effects of the matter described above in the "*Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan"* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality as of June 30, 2017 and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major funds, and the aggregate remaining fund information of the Municipality, as of June 30, 2017, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Uncertainty about Ability to Continue as a Going Concern – Commonwealth of Puerto Rico

The Municipality is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. Also, the Municipality received substantial funds and loans from the Commonwealth. As discussed in Note 25 to the basic financial statements on pages 128-130, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the ability to continue as a going concern. The Commonwealth and its component units are currently under the supervision of a Federal Oversight Board, who have certified Fiscal Plan in order to remediate their situation. The financial statements of the Municipality do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Newly Adopted Standards

As discussed in Note 27 to the financial statements, the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosure,* GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* during the fiscal year 2017. Our opinions are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 24 to the financial statements, the 2016 financial statements have been restated the Net Pension Liability for the implementation of GASB Statement No. 68. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 5-23, Schedule of Revenues and Expenditures Budget and Actual – General Fund information on pages 152-153, and employees' retirement systems information, on pages 154-156 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 related to management's discussion and analysis, and budgetary comparison 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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to Municipality, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Caguas of the
Commonwealth of Puerto Rico

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018 on our consideration of the Municipality's internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered Municipality's internal control over financial reporting and compliance.

CPA Díaz-Martínez, PSC

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2019

Caguas, Puerto Rico
May 23, 2018

Stamp No. E342376 was affixed to
the original report.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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The information in this section is not covered by the Independent Auditor's Report, but is presented as required supplementary information for the benefit of the readers of the basic financial statements.

As management of the Autonomous Municipality of Caguas (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The net position of the Municipality shows that governmental assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $14,488,481.

- The government's total assets and deferred outflows of resources, in the Governmental-wide Statement of Net Position increased by $3,552,719 and government's liabilities and deferred inflows of resources increased by $25,352,925. These changes resulted in a decrease in total net position of $21,800,206.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $25,881,686, after a total and combined net decrease of $15,664,297.

- The Municipality's total general and special long-term debts net decreased by $13,928,261 during the current fiscal year. The Municipality did not issue new debt during the current year, although, a refinancing of a debt was made at June 30, 2017. No cash was obtained through this refinancing, the bank fees and charges related to this transaction, resulted in an increase of the long-term debt in the amount of $125,000. Refer to Debt Administration Section for general information related to this transaction.

- Prior period adjustment of ($589,885) were the result of the Municipality's unfunded pension obligations by the implementation of GASB Statement No. 68 and 71.

- Net investment in Capital Assets from Governmental Activities as of June 30, 2017 was $419,913,702, presenting a decrease of $9,084,355 with respect with prior year balance. This decrease is the result of additions of $6,428,409, distributed in all categories; depreciation expense for the year of $9,019,520; and a loss on disposition of $64,835.

- As discussed in the notes to the financial statements, the cash held on the Governmental Development Bank was classified as non – current asset, due to the Restructuring Support Agreement (RSA) as of May 8, 2018.

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and required supplementary information (see Figure 1). The basic financial statements present two different views of the Municipality through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Municipality.

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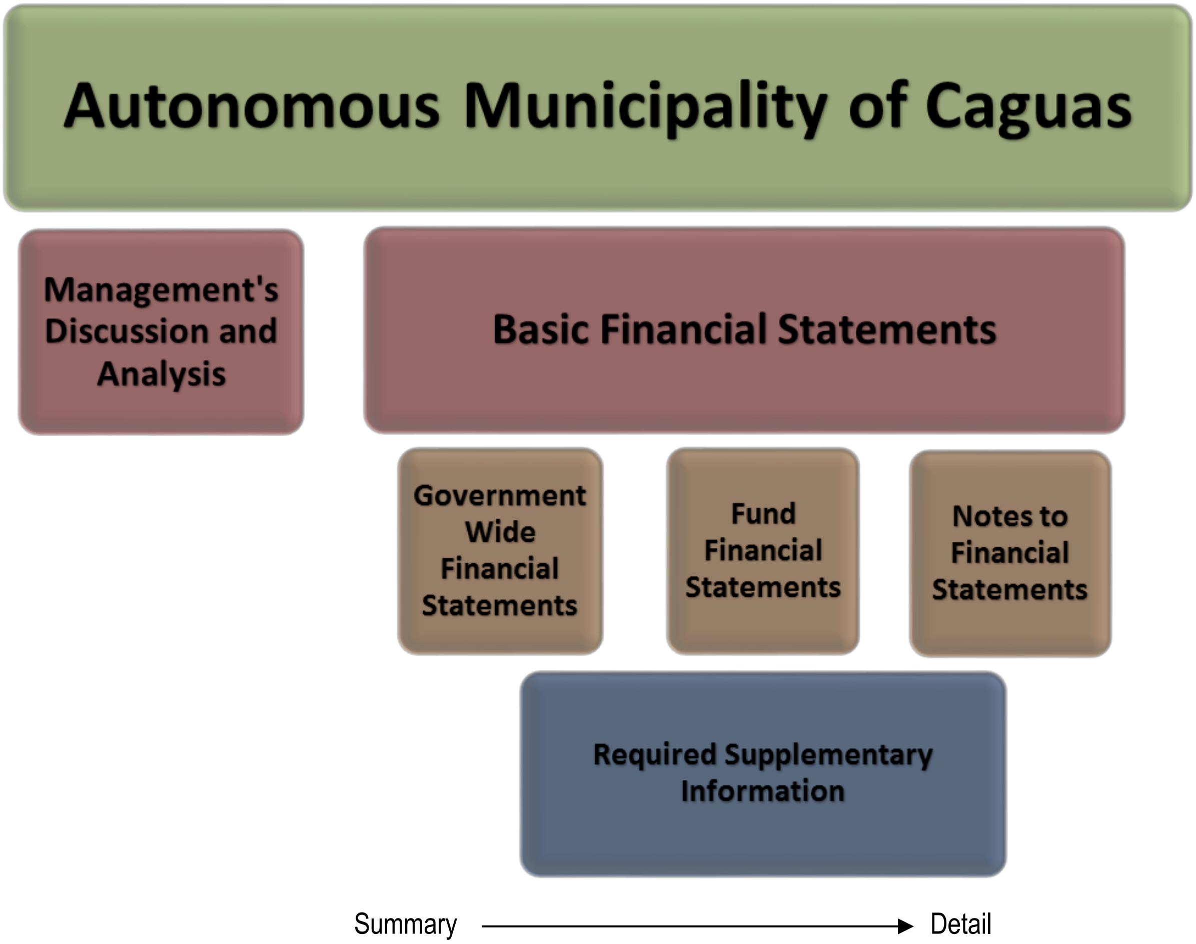
Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both, short and long-term information about the Municipality's financial status.

The next statements are the Governmental Fund Financial Statements. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more details than the Government wide Financial Statements.

Government-wide Financial Statements (GWFS)

The GWFS are designed to provide the reader with a broad overview of the Municipality's finances. The GWFS provide short and long-term information about the Municipality's financial status as a whole.

The Statement of Net Position presents information on all the Municipality's assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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The *Statement of Activities* presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit, if any). This is intended to summarize and simplify the reader's analysis of the revenues and costs of the Municipality's activities and the degree to which activities are subsidized by general revenues.

The governmental activities include most of the Municipality's basic services such as public safety, culture and recreation and general administration. Property taxes, volume of business taxes and state and federal grant funds finance most of these activities.

New Significant Accounting Standards Implemented

During fiscal year 2017, the Municipality adopted one new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) of the following that were effective during the fiscal year. The other has not impact in the Municipality.

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 77, *Tax Abatement Disclosures*
- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- Statement No. 79, *Certain External Investment Pools and Pool Participants*
- Statement No. 80, *Blending Requirements for Certain Component Units*

Statement No. 77, established requirements for discloses citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time (see Note 23 on pages 121-127).

The government-wide financial statements are included from pages 26 through 28 of this report.

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Governmental Fund Financial Statements (GFFS)

The GFFS provide a more detailed look at the Municipality's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Municipality's budget ordinance.

Governmental funds are used to account for those functions reported as governmental activities in the GWFS. Most of the Municipality's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash inflows and outflows, and what monies are left at year-end that will be available for spending in the next fiscal year.

Governmental funds are reported using an accounting method called modified accrual basis of accounting. This method is also known as current financial resources focus. Thus, the GFFS give the readers a detailed short-term view that helps them determine if there are more or less financial resources available to finance the Municipality's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliations that are part of the GFFS.

The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The Municipality's annual budget is a legally adopted document that incorporates input from the citizens of the Municipality, the management of the Municipality, and the decisions of the Municipal Legislature about which services to provide and how to pay for them. It also authorizes the Municipality to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the Municipality complied with the budget ordinance and whether the Municipality succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Municipal Legislature; 2) the final budget as amended by the Municipal Legislature; 3) the actual resources, charges to appropriations, and the final relationship between revenues and appropriations; and 4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements are included from pages 29 through 33 of this report.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 34 through 149 of this report.

Required Supplementary Information – Budgetary Information – Provides additional information to better understand the financial position of the Municipality and contains the Schedule of Revenues and Expenditures Budget and Actual – General Fund, are presented immediately following the notes to the financial statements and can be found on pages 152-153 of this report.

Required Supplementary Information – The required supplementary information reported are related to the GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented on pages 154 through 156 of this report.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The total assets and deferred outflows of the Municipality exceeded its liabilities and deferred inflows by $14,488,481 as of June 30, 2017. The Municipality's net position decreased by $21,800,206, as restated, for the fiscal year ended June 30, 2017.

One of the largest portions of the net position, $266,578,875, reflects the Municipality's investment in capital assets (e.g. land, buildings, infrastructure, and equipment); less any related debt still outstanding that was issued to acquire or contract those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position $44,572,024 represents resources that are subject to external restrictions on how they may be used. Within this portion are $23,891,555 held by the Municipality in Escrow and Deposits Accounts within the Governmental Development Bank (GDB) of Puerto Rico which is currently under the effects of the executive order 2016-10, which was issued under Act 21-2016, as amended, and remains in effect pursuant to Article 208(e) of Act 5-2017, as amended. The last amendment on the RSA, provides that, upon consummation of the Qualifying Modification, the full amount of each municipality's deposits held at GDB will be automatically applied against the balance of any loan owed by such municipality to GDB. Therefore, this amount of cash held on GDB is presented as non-current asset.

An Unrestricted Net Position (Deficit) of ($296,662,418) was presented as of June 30, 2017. This balance was negatively affected primarily to by the recognition of Net Pension Liability, as required by GASB Statements No. 68 and 71, for the amount ($248,132,822). Other long-term debts, such as compensated absences ($12,791,825), and Puerto Rico Retirement System Administration ($4,137,050), also affected the net position.

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The Municipality's Net Position (as restated)
Figure 2

	Governmental Activities			
	2017	2016	Dollar Change	Percentage Change
Current and Other Assets	$ 47,787,627	$ 91,121,017	$ (43,333,390)	-47.56%
Capital Assets	419,913,702	428,998,057	(9,084,355)	-2.12%
Housing Units Held for Sale	154,848	535,848	(381,000)	100.00%
Idle Units Held for Future Use	102,567	102,567	-	100.00%
Restricted Cash	23,891,555	-	23,891,555	100.00%
Loan Receivable, Net	426,454	510,871	(84,417)	100.00%
Note Receivable, Net	121,582	114,700	6,882	6.00%
Total Assets	492,398,335	521,383,060	(28,984,725)	356.33%
Deferred Outflows of Resources	59,171,360	26,633,916	32,537,444	122.17%
Current Liabilities	48,989,829	50,872,304	(1,882,475)	-3.70%
Other Liabilities (as Restated)	479,099,112	459,271,317	19,827,795	4.32%
Total Liabilities	528,088,941	510,143,621	17,945,320	0.62%
Deferred Inflows of Resources	8,992,273	1,584,668	7,407,605	82.38%
Net Position:				
Net Invested of Capital Assets	266,578,875	275,432,752	(8,853,877)	-3.21%
Restricted	44,572,024	35,585,406	8,986,618	25.25%
Unrestricted (Deficit) (as Restated)	(296,662,418)	(274,729,471)	(21,932,947)	7.98%
Total Net Position	$ 14,488,481	$ 36,288,687	$ (21,800,206)	30.02%

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The Municipality's Changes in Net Position (as restated)
Figure 3

	Governmental Activities			
	2017	2016	Dollar Change	Percentage Change
Revenues:				
Program Revenues:				
Charges for Services	$ 1,608,081	$ 1,237,433	$ 370,648	29.95%
Operating Grants and Contributions	27,083,165	29,271,828	(2,188,663)	-7.48%
Capital Grants and Contributions	1,381,999	1,047,754	334,245	31.90%
General Revenues:			-	
Property Taxes	48,607,009	57,424,592	(8,817,583)	-15.36%
Volume of Business Taxes	22,864,481	23,191,310	(326,829)	-1.41%
Sales and Usage Taxes	20,645,222	21,077,117	(431,895)	-2.05%
Intergovernmental	9,856,720	10,058,290	(201,570)	-2.00%
Construction Excise Taxes	2,367,046	3,911,557	(1,544,511)	-39.49%
Interest and Investment Income	287,432	428,359	(140,927)	-32.90%
Other	3,640,307	2,383,706	1,256,601	52.72%
Donated Capital Assets	22,295	276,075	(253,780)	-91.92%
Gain on Sale of Capital Assets	-	2,750,000	(2,750,000)	100.00%
Total Revenues	138,363,757	153,058,021	(14,694,264)	-9.60%
Expenses:				
General Government	37,256,309	35,425,207	1,831,102	5.17%
Public Safety	11,114,028	12,636,567	(1,522,539)	-12.05%
Public Works	22,603,280	23,866,136	(1,262,856)	-5.29%
Cultural and Recreation	10,061,304	10,791,132	(729,828)	-6.76%
Health and Welfare	12,263,337	12,330,653	(67,316)	-0.55%
Economic and Social Development	8,416,047	8,272,443	143,604	1.74%
Housing	10,145,348	10,572,877	(427,529)	-4.04%
Sanitation and Environmental	16,518,828	17,191,880	(673,052)	-3.91%
Education	21,505,081	20,321,130	1,183,951	5.83%
Unallocated Interest	10,280,401	10,323,912	(43,511)	-0.42%
Total Expenses	160,163,963	161,731,937	(1,567,974)	-0.97%
Net Change in Net Position	(21,800,206)	(8,673,916)	(13,126,290)	151.33%
Net Position, Beginning of Year, as Restated	36,288,687	44,962,603	(8,673,916)	-19.29%
Net Position, Ending	$ 14,488,481	$ 36,288,687	$ (21,800,206)	-60.07%

continue

Governmental Activities – Governmental activities decreased the Municipality's net position by $21,800,206. Key elements of this change in net position are the following:

Revenues:

- Total overall revenues decreased by 9.45% over prior year. The following categories had the mayor changes from prior year:

  - Operating grants and contributions decreased 7.48% over prior year – due to a reduction from Head Start program operating grant budget.

  - Construction Excise Taxes decreased by 39.49% – the construction activity in Puerto Rico has been presenting a continuous decrease.

  - Property Taxes decreased by 15.36% - the decrease was due to deposits of approximately $6,700,000 in property taxes from "Amnistía" granted by the Municipal Revenue Collection Center (MRCC) in the las fiscal year 2016.

  - Gain on Sale of Capital Assets reported during last fiscal year, by the amount of $2,750,000, corresponds to the sale of a land lot for $6,500,000, with a cost of $3,750,000 in books.

Expenses:

Total overall expenses had a net decrease of 0.97% over prior year. The following categories had the major changes from prior year:

- General Government increased 5.17% – due to recognition of a long-term debt of $4,137,050 related to pension accrued for the fiscal year.

- The decrease in the Public Safety and Public Works functions was mainly due to a reduction in compensated absences for these functions, in addition to a decrease in the pension liability.

- An increase in the Education function was presented due to an increase in federal grants expended and compensated absences accrual increase in this function.

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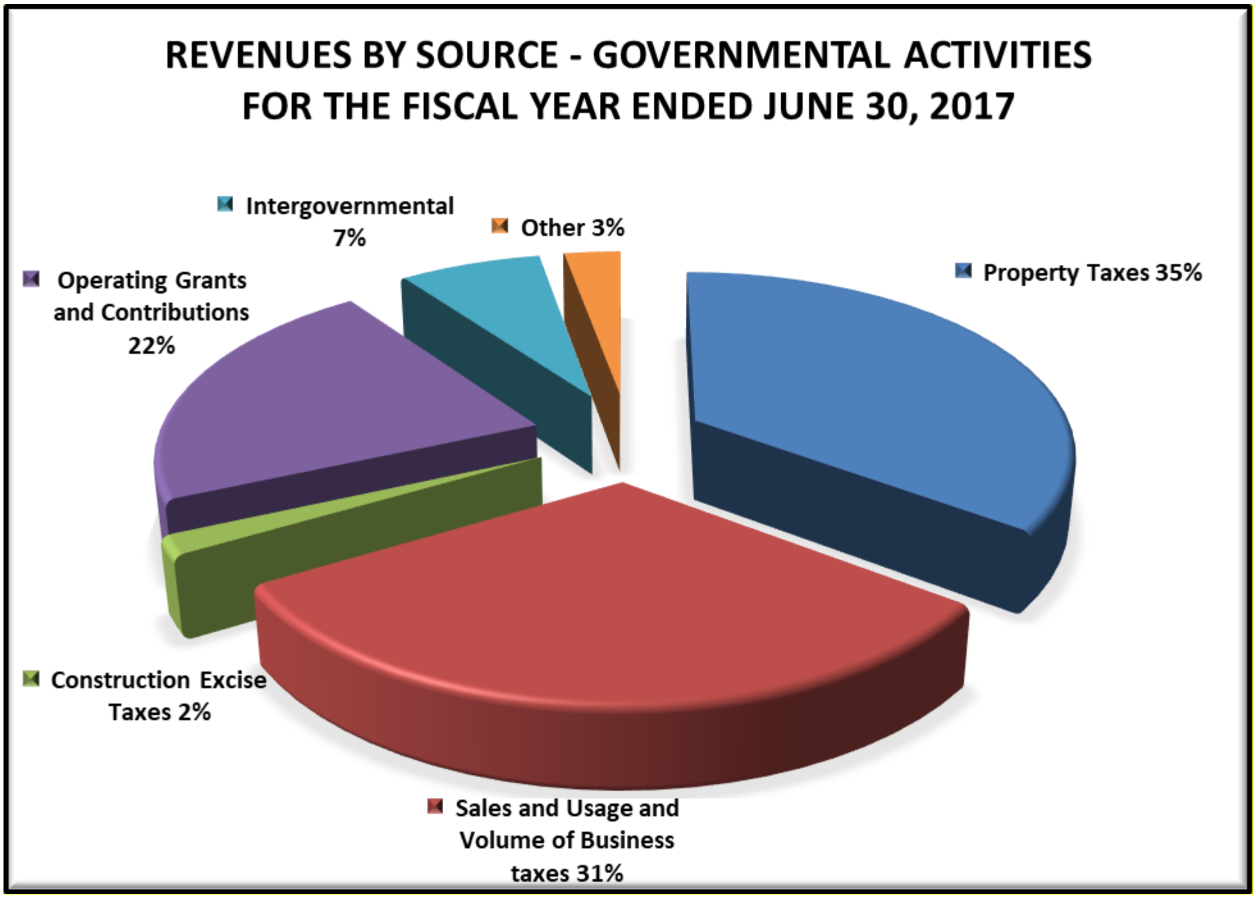
Figure 4



Financial Analysis of the Municipality's Funds

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of The Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Municipality's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2017, the governmental funds of the Municipality reported a combined fund balance of $25,881,686. This amount represents a decrease of $15,664,297 or 38.7% over last year. Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues decreased by $3.1 million, of which approximately $1.8 are related to the decrease in construction excise taxes, and a decrease of $607,000 in federal grants, which were a one-year grant. The expenditures decreased by approximately $5.4 million, in comparison from prior year. The categories with the mayor decreases were General Government, in which economies were made in all accounts, specially a decrease of $1.0 million in workmen compensation insurance; and the Capital Outlays category, with a decrease of $2.0 million. No debts were issued during the year.

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Capital Projects Fund – Revenues from capital project fund increased by $815 thousands, due to an increase in Other General Revenues received during the year, related to a project in Tomás de Castro. Expenditures for this fund also increased by $1.2 million. This increase was mainly caused by an increase in the expenditures related to capital outlays of $1.6 million.

Debt Service Fund – Revenues from debt service fund decreased by $6.7 million, mainly as a result of prior year collections of the property tax amnesty act of 2014. In the other hand, the fund's expenditures decreased by $900 thousand caused by a decrease in the debt service principal payments. A refinancing of a debt was made at June 30, 2017; no cash was obtained through this refinancing, the bank fees and charges related to this transaction, resulted in an increase of the long-term debt in the amount of $125,000.

Health and Human Services Fund – Revenues and expenditures from the HHS fund increased by $700 thousand, approximately, from federal grants appropriations. The fund had net change of $91,333.

Other Governmental Funds – Revenues increased by $590 thousand, mainly due to an increase in federal assignments approved for the Municipality from the Commonwealth. The expenditures decreased by $594 thousand. In addition, the proceed from the sale of units held for sale was accounted as special items in the amount of $72 thousand, resulting on a net change of $1.2 million.

General Fund Budgetary Highlights: During the fiscal year 2017, the Municipality's budget was changed, according to the latest results and ordinances and resolutions approved by the Mayor and the Municipal Legislature. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants and from appropriation from prior year fund balance; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities.

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2017 was $102,702,321 which is less than the prior year appropriations by $2,762,316.

- Actual budgetary transactions generated an excess of appropriations over resources of $10,165,672 due to the following:

    - Actual revenues were less than budgeted amounts by $12,640,109. This result was, mainly, as a combination of a decrease in construction excise and sales and usage taxes, rent and other.

    - Actual appropriations resulted in an economy of $2,474,437. All functions presented economies, especially general government, which presented $765,727.

continue

Figure 5

	Original	Increases	Final
Resources:			
Property Taxes	$ 32,313,819	$ -	$ 32,313,819
Volume of Business Taxes	24,800,000	-	24,800,000
Sales and Usage Taxes	17,920,000	-	17,920,000
Construction Excise Taxes	9,284,000	-	9,284,000
Intergovernmental Revenues	10,357,297	-	10,357,297
Interest	665,000	-	665,000
Rent and Other Resources	6,752,205	-	6,752,205
Fines and Penalties	610,000	-	610,000
Amounts available for appropriation	102,702,321	-	102,702,321
Expenditures charged to appropriations:			
General Government	39,398,760	1,140,539	40,539,299
Public Safety	10,842,812	(340,606)	10,502,206
Public Works	11,692,335	264,979	11,957,314
Culture and Recreation	5,381,712	(169,280)	5,212,432
Health and Welfare	10,308,488	(8,871)	10,299,617
Economic and Social Development	5,040,719	(138,916)	4,901,803
Housing	893,499	(11,944)	881,555
Sanitation and Environmental	16,494,035	(408,154)	16,085,881
Education	2,649,961	(327,747)	2,322,214
Total charges to appropriations	102,702,321	-	102,702,321
Excess of resources over appropriations	$ -	-	$ -

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continue

Capital Asset and Debt Administration

Capital Assets – The Municipality's capital assets for its governmental activities as of June 30, 2017, total $419,913,702 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles. The depreciation expense for the fiscal year was $15,447,929, and additions to infrastructure and other capital assets were $6,428,409. Retirements of capital assets during year were mainly vehicles and electronics for the amount of $891,879, which resulted in a loss on disposition of $64,835.

The Municipality's Capital Assets
(Net of Depreciation)
Figure 6

	Total			
	2017	2016	Dollar Change	Percentage Change
Capital assets not being depreciated				
Land and improvements	$ 93,309,320	$ 92,902,128	$ 407,192	0.44%
Construction in progress	11,419,897	7,362,180	4,057,717	55.12%
Works of art and historical treasures	2,342,664	2,261,726	80,938	3.58%
Total not being depreciated	107,071,881	102,526,034	4,545,847	59.13%
Capital assets net of depreciation				
Facilities and improvements	53,554,642	56,606,137	(3,051,495)	-5.39%
Buildings and improvements	66,147,153	68,544,534	(2,397,381)	-3.50%
Infrastructure	184,901,752	191,926,495	(7,024,743)	-3.66%
Equipment and vehicles	8,238,274	9,394,857	(1,156,583)	-12.31%
Total net of depreciation	312,841,821	326,472,023	(13,630,202)	-4.17%
Total capital assets net of depreciation	$ 419,913,702	$ 428,998,057	$ (9,084,355)	63.31%

Additional information on the Municipality's capital assets can be found on Note 11 of the Basic Financial Statements on page 75.

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2017 are as follows:

Project	Amount
Construction of "Recreo Deportivo del Sureste"	$ 3,077,855
Water and Sewer improvement in "Tomas de Castro"	263,669
	$ 3,341,524

continue

Deferred Outflows / Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources are new to the Municipality's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being a Municipality asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. GASB 71 requires that contributions made during the fiscal year to the retirement system be reported as deferred outflows of resources. Consequently, most the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the Municipality as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Notes 13 and 17 to the financial statements on pages 76 and 84, respectively of this report.

Long-Term Debts – As of June 30, 2017, the Municipality had total bonded debt outstanding of $229,717,847 all of which is debt backed by the full faith and credit of the Municipality.

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continue

The Municipality's Outstanding Debts (as restated)
Long-Term Debts
Figure 7

	Governmental Activities		Dollar	Percentage
	2017	2016	Change	Change
General Obligations Bonds	$ 159,577,847	$ 169,226,108	$ (9,648,261)	-5.70%
Special Obligations Bonds	68,340,000	72,620,000	(4,280,000)	-5.89%
Federal Loans	1,800,000	2,400,000	(600,000)	-25.00%
Net Pension Liability	248,132,822	219,380,325	28,752,497	13.11%
Law No. 142-MRCC	1,365,720	1,417,093	(51,373)	-3.63%
PR Retirement System Administration	4,137,050	-	4,137,050	100%
Claims and Judgments	799,883	611,853	188,030	30.73%
MRCC-Property Taxes Liquidation	693,697	1,929,930	(1,236,233)	-64.06%
Christmas Bonus	1,025,249	1,115,632	(90,383)	-8.10%
Retainage Liability	486,852	42,486	444,366	100%
Compensated Absences	12,791,825	12,556,198	235,627	1.88%
Total	$ 499,150,945	$ 481,299,625	$ 17,851,320	133.34%

The Municipality's debt related to General, Special and Federal obligations decreased by $14,528,261 (-5.95 %) during the fiscal year 2017. Redemption of debts were recognized during the year related to property taxes liquidations with the MRCC ($1,236,233). A significant increase in long term debts, is due to the Net Pension Liability of $28,752,497, and a debt with the PR Retirement System Administration of $4,137,050.

Additional information on the Municipality's long-term debts can be found on Note 15 of the Basic Financial Statements on pages 77 through 82.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a municipal government can issue to 10 percent of the total assessed value of taxable property located within the municipality's jurisdiction. On March 2009, the Government of Puerto Rico enacted the Special Act, Declaring a State of Fiscal Emergency and Establishing an Integrated Fiscal Stabilizing Plan to Save the Credit of Puerto Rico (Public Law 7). Among other things, this Law introduced a new way to view the Real Property valuation (see Note 26 on page 130 of the accompanying financial statements).

Also, the Municipality has a sales tax redemption fund, composed of .2% of the .5% of the municipal sales tax rate portion of 1.5%, to support the debt service fund capacity. This fund, in addition to other variables, is used to calculate the Municipality's borrowing capacity, along with the property tax redemption fund, within a specific timeframe. On February 1, 2014 was enacted Act Nos. 18 and 19 that change the composition of the sales and usage taxes (see Note 3).

continue

Summary of Local Economy

The Municipality of Caguas was founded in 1775. Caguas has the fifth largest population of Puerto Rico with boundaries that encompass an area of approximately 59.07 square miles, and according to the 2010 Puerto Rico Community Survey the population of Caguas was 142,893. It was estimated by the US Census that the population of Puerto Rico had an overall decrease of over 19,000 citizens during the last 15 months ended on July 2012. Notwithstanding, it was also estimated that from the larges municipalities, Caguas had the lowest decrease of 1.7%. The Municipality's jurisdiction is bounded on the North by the Municipalities of San Juan and Trujillo Alto, on the South by the Municipalities of Cayey and San Lorenzo, on the East, by the Municipalities of Gurabo and San Lorenzo, and on the West by the Municipalities of Aguas Buenas and Cidra.

The largest employers in Caguas are the State and the Municipal governments, Wal-Mart and Sam's Club retail chains, Costco, Home Depot, Drogería Betances, Terumo PR LLC, GMT Corporation, Plaza Warehousing, SPS Specialty Pharmacy Inc., and Mylan Pharmaceuticals.

The Municipality's economy has an industry composition somewhat like the rest of the island's largest Municipalities. In the 1960's textile manufacturing and agriculture made up the largest amount of the local economy, but by the mid-seventies the manufacturing share of employment had declined to a lower percentage.

Major Industries and Services (including Government)

Government Services: The governmental service is the largest source of employment in the Municipality, accounting for the largest quantity of employment. The Municipal government sector remains stable in relation to the past year. Government sector includes a diversity of employment areas such as education, electric power service, water supply, police, public works, culture and recreation, health, legal service, and others.

Health Services: As a major regional medical center, the medical services industry is one of the largest employers in the area. It includes the privately-owned hospitals, HIMA-San Pablo and Hospital Menonita, formerly San Juan Bautista. These facilities provide primary, secondary and tertiary health services to the residents of Caguas and adjacent small towns and are responsible for establishing and developing strategies and programs designed to promote health, prevent diseases and early detection and diagnosis of health problems. They promote adequate health treatment and rehabilitation services as well.

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of comprehensive health insurance coverage for qualifying low-income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. The Municipality pays $7.8 million to the Puerto Rico's Health Administration, as required by law, to cover part of the insurance premium paid by the Government of Puerto Rico for its citizens. Caguas participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

continue

Trade (Retail and Wholesale): The trade sector is the strongest growing sector in the area. Many major national chains such as Wal-Mart, Costco, and Home Depot have expanded into the area, helping maintain relatively stable levels of consumer spending.

Going Concern – Commonwealth of Puerto Rico

As explained on Note 25 to the basic financial statements on pages 128-130 of this report, the Commonwealth of Puerto Rico (Commonwealth) currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base, has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like subsidies to municipalities, which are instrumentalities of the Commonwealth.

On May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United Stated history. The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Commonwealth's ability to continue as a going concern.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

Also, attention was directed to Note 26 to the basic financial statements on pages 130-140 of this report, related to the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increase revenues and reduce substantially expenses, including subsidies to the municipalities of Puerto Rico.

Following the passage of Hurricanes Irma and María, the Oversight Board requested the Government of Puerto Rico to review the Fiscal Plan approved in March 2017, considering the fiscal crisis, the new approved Federal Funds and the economic expectations for the next 5 years and not for 10 years as the Fiscal Plan originally approved.

Because of the reality, Puerto Rico has several contingencies that prevent certainty of our future, such as: the treatment the Federal government will give to Puerto Rico in health programs and funds for the hurricanes, the disbursement of Federal assistance funds, impact of Title III litigation and the impact that the Federal tax reform will have on jobs on the Island. On April 5, 2018, the Governor submitted New Fiscal Plan. After various communication and analysis by personnel of Commonwealth and the Oversight Board, the Board approved on April 19, 2018 the New Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan.

The New Fiscal Plan largely maintains the reductions to the municipal appropriations from the March 2017 Certified Fiscal Plan; however, the implementation ramp has been altered to reflect the post-María realities facing the municipalities. Already in FY 2018, the total municipal appropriation was reduced by $150 million, bringing the new baseline appropriations to $220 million per year. Going forward from this baseline, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY 2022 before ultimately phasing out all subsidies in FY 2024. The final impact in the Municipality of decision of the Oversight Board is unknown.

continue

Economic and Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities: The general fund budget for fiscal year 2017-2018 will be $91.6 million, representing a decrease of $10.4 million when compared with fiscal year ended June 30, 2017. Property taxes (benefiting from residential and industrial developments), city tax, and revenues from permits and fees are expected have had a considerable decrease for the impact of the Hurricane Maria classified as category 5, that hit Puerto Rico in September 20, 2017, our Municipality is taking the necessary measures to raise the economy of Caguas.

Requests for Information

This report is designed to provide an overview of the Municipality's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

BASIC FINANCIAL STATEMENTS

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Current Assets:	
Cash and Investments	$ 15,928,178
Cash with Fiscal Agent	18,730,614
Receivables (Net):	
Sales and Usage Taxes	1,412,754
Volume of Business Taxes	127,910
Due from Government Units	623,241
Federal Grants	10,240,438
Construction Excise Taxes	322,500
Other	401,992
Total Current Assets	47,787,627
Non-Current Assets:	
Loans Receivables, Net	426,454
Notes Receivable, Net	121,582
Restricted Cash	23,891,555
Land, Improvement and Construction in Progress	107,071,881
Other Capital Assets [Net of Accumulated Depreciation]	312,841,821
Housing Units Held for Sale	154,848
Idle Units Held for Future Use	102,567
Total Non-Current Assets	444,610,708
TOTAL ASSETS	**492,398,335**
DEFERRED OUTFLOWS OF RESOURCES:	
Contributions to Employees Retirement System	59,171,360
TOTAL OUTFLOWS OF RESOURCES	**59,171,360**
LIABILITIES:	
Current Liabilities:	
Accounts Payable	7,740,885
Accrued Expense	1,025,249
Accrued Interest	3,684,797
Bonds Payable	13,661,529
Advance Deposits	1,096,436
Unearned Revenues - Volume of Business Taxes	16,415,878
Accrued Compensated Absences	4,211,641
Legal Claims	405,116
Due to Governmental Entities	748,298
Total Current Liabilities	48,989,829
Non-Current Liabilities:	
Bonds Payable	216,056,318
Accrued Compensated Absences	8,580,184
Legal Claims	394,767
Due to Governmental Entities	5,448,169
Retainage Payable	486,852
Net Pension Liability	248,132,822
Total Non-Current Liabilities	479,099,112
TOTAL LIABILITIES	**528,088,941**

continued

	GOVERNMENTAL ACTIVITIES
DEFERRED INFLOWS OF RESOURCES:	
Unamortized Investment in Employees Retirement System	8,992,273
TOTAL INFLOWS OF RESOURCES	**8,992,273**
NET POSITION:	
Net Investment in Capital Assets	266,578,875
Restricted for:	
Capital Projects	2,379,129
Debt Service	28,186,707
Head Start Program	7,705,346
Other Purposes	6,300,842
Unrestricted (Deficit)	(296,662,418)
TOTAL NET POSITION	**$ 14,488,481**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues
Governmental Activities:					
General Government	$ 37,256,309	$ -	$ 196,556	$ -	$ (37,059,753)
Public Safety	11,114,028	812,771	90,000	-	(10,211,257)
Public Works	22,603,280	-	-	1,381,999	(21,221,281)
Culture and Recreation	10,061,304	34,400	-	-	(10,026,904)
Health and Welfare	12,263,337	-	1,192,506	-	(11,070,831)
Economic and Social Development	8,416,047	661,057	2,384,276	-	(5,370,714)
Housing	10,145,348	-	8,915,883	-	(1,229,465)
Sanitation and Environmental	16,518,828	99,853	24,963	-	(16,394,012)
Education	21,505,081	-	14,278,981	-	(7,226,100)
Unallocated Interest	10,280,401	-	-	-	(10,280,401)
Total Governmental Activities	**$ 160,163,963**	**$ 1,608,081**	**$ 27,083,165**	**$ 1,381,999**	**(130,090,718)**

General Revenues:	
Taxes:	
Property Taxes, levied for General Purposes	32,843,709
Property Taxes, levied for Debt Service	15,763,300
Volume of Business Taxes	22,864,481
Sales and Usage Taxes	20,645,222
Construction Excise Taxes	2,367,046
Intergovernmental	9,856,720
Interest	287,432
Donated Capital Assets	22,295
Other General Revenues	3,640,307
Total General Revenues	108,290,512
CHANGES IN NET POSITION	**(21,800,206)**
Net Position – Beginning of Year, As Restated	36,288,687
NET POSITION – ENDING OF YEAR	**$ 14,488,481**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	$ 8,403,530	$ 3,868,648	$ -	$ 325,668	$ 3,330,332	$ 15,928,178
Cash with Fiscal Agent	-	1,885,776	16,653,531	-	191,307	18,730,614
Receivables:						
Sales and Usage Taxes	1,412,754	-	-	-	-	1,412,754
Volume of Business Taxes	127,910	-	-	-	-	127,910
Due from Governmental Units	339,572	-	193,723	-	89,946	623,241
Federal Grants	-	1,288,274	-	7,368,160	1,584,004	10,240,438
Construction Excise Taxes	322,500	-	-	-	-	322,500
Due from Other Funds	5,084,954	-	-	-	-	5,084,954
Others	328,955	-	-	-	73,037	401,992
Total Current Assets	16,020,175	7,042,698	16,847,254	7,693,828	5,268,626	52,872,581
Non-Current Assets:						
Loans Receivable	-	-	-	-	426,454	426,454
Restricted Cash	4,903,663	2,025,121	16,962,770	-	1	23,891,555
Total Non-Current Assets	4,903,663	2,025,121	16,962,770	-	426,455	24,318,009
Total Assets	**$ 20,923,838**	**$ 9,067,819**	**$ 33,810,024**	**$ 7,693,828**	**$ 5,695,081**	**$ 77,190,590**
LIABILITIES:						
Account Payable	$ 6,667,723	$ 375,103	$ -	$ 281,864	$ 329,393	$ 7,654,083
Bond Payable	-	-	8,815,530	-	-	8,815,530
Interest on Bonds Payable	-	-	3,684,797	-	-	3,684,797
Due to Other Funds	-	224,558	1,938,520	1,254,496	1,667,380	5,084,954
Advance Deposits	1,095,436	-	-	-	1,000	1,096,436
Unearned Revenues – Volume of Business Taxes	16,415,878	-	-	-	-	16,415,878
Total Liabilities	**24,179,037**	**599,661**	**14,438,847**	**1,536,360**	**1,997,773**	**42,751,678**
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues:						
Commonwealth of Puerto Rico	240,591	-	-	-	-	240,591
Federal Grants	-	958,526	-	6,288,184	1,069,925	8,316,635
Total Deferred Inflows of Resources	**240,591**	**958,526**	**-**	**6,288,184**	**1,069,925**	**8,557,226**
FUND BALANCES:						
Restricted	2,771,270	7,692,689	19,371,177	12,658	3,927,014	33,774,808
Committed	-	-	-	-	78,007	78,007
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	(6,267,060)	(183,057)	-	(143,374)	(1,377,638)	(7,971,129)
Total Fund Balances	**(3,495,790)**	**7,509,632**	**19,371,177**	**(130,716)**	**2,627,383**	**25,881,686**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 20,923,838**	**$ 9,067,819**	**$ 33,810,024**	**$ 7,693,828**	**$ 5,695,081**	**$ 77,190,590**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Total Fund Balances – Government Funds (Page 29)		**$ 25,881,686**
Amount reported for Governmental Activities in the Statement of Net Position (Page 27) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 107,071,881	
Depreciable Capital Assets	695,766,897	
Accumulated Depreciation	(382,925,076)	
Total Capital Assets		419,913,702
Other assets held for sell of idle property held for future use are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Housing Units Held for Sale	154,848	
Idle Units Held for Future Use	102,567	
Total Other Assets		257,415
Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period.		59,171,360
Notes Receivables from sale of capital assets in Governmental Activities are not recorded in the funds in the current period.		121,582
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
Federal Grants	8,316,635	
MRCC- Property Taxes	240,591	
Total Unavailable Revenues		8,557,226
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(8,992,273)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(220,902,317)	
Net Pension Liability	(248,132,822)	
Compensated Absences	(12,791,825)	
MRCC- Property Taxes Liquidation	(693,697)	
Puerto Rico Retirement System Administration	(4,137,050)	
Claims and Judgments	(799,883)	
Christmas Bonus	(1,025,249)	
Retainage Payable	(486,852)	
Other Accounts Payable	(86,802)	
Law No. 142	(1,365,720)	
Total Long-Term Liabilities		(490,422,217)
Total Net Position of Governmental Activities (Page 27)		**$ 14,488,481**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	$ 32,603,118	$ -	$ 16,364,994	$ -	$ -	$ 48,968,112
Volume of Business Taxes	22,864,481	-	-	-	-	22,864,481
Sales and Usage Taxes	16,919,116	-	3,726,106	-	-	20,645,222
Construction Excise Taxes	2,367,046	-	-	-	-	2,367,046
Federal Grants	-	1,942,294	-	14,320,025	12,227,088	28,489,407
Fines and Penalties	812,771	-	-	-	-	812,771
Intergovernmental	11,525,889	547,000	-	-	371,568	12,444,457
Interest	226,780	36,696	632	164	16,278	280,550
Rent and Other Services	1,367,205	-	-	-	55,987	1,423,192
Solid Waste Disposal	99,853	-	-	-	-	99,853
Other General Revenues	1,813,965	297,444	-	-	1,012,502	3,123,911
Total Revenues	**90,600,224**	**2,823,434**	**20,091,732**	**14,320,189**	**13,683,423**	**141,519,002**
EXPENDITURES:						
Current:						
General Government	32,369,957	83,589	126,052	2,852	142,647	32,725,097
Public Safety	10,152,290	-	-	-	178,784	10,331,074
Public Works	12,995,831	931,772	-	-	637,222	14,564,825
Culture and Recreation	5,677,554	-	-	-	12,405	5,689,959
Health and Welfare	11,101,651	151,660	-	393,419	328,491	11,975,221
Education	3,368,241	145,314	-	13,400,582	1,966,623	18,880,760
Sanitation and Environmental	15,866,246	248,034	-	-	-	16,114,280
Economic and Social Development	6,481,384	382,682	-	185,387	235,029	7,284,482
Housing	752,553	176,717	-	-	8,996,166	9,925,436
Capital Outlay	902,092	4,791,383	-	429,282	277,189	6,399,946
Debt Service:						
Principal	51,373	600,000	12,843,530	-	-	13,494,903
Interest and Other Charges	86,900	63,960	10,129,541	-	-	10,280,401
Total Expenditures	**99,806,072**	**7,575,111**	**23,099,123**	**14,411,522**	**12,774,556**	**157,666,384**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(9,205,848)**	**(4,751,677)**	**(3,007,391)**	**(91,333)**	**908,867**	**(16,147,382)**

continued

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):						
Refunding Bonds Issued	$ -	$ -	$ 26,855,000	$ -	$ -	$ 26,855,000
Payment to Refunded Bonds	-	-	(26,730,000)	-	-	(26,730,000)
Transfers – In	2,047,387	1,922,124	6,113,827	-	339,037	10,422,375
Transfers – Out	(8,374,988)	-	(1,938,520)	-	(108,867)	(10,422,375)
Total Other Financing Sources (Uses)	**(6,327,601)**	**1,922,124**	**4,300,307**	**-**	**230,170**	**125,000**
SPECIAL ITEMS:						
Sales of Other Assets	285,110	-	-	-	72,975	358,085
Total Special Items	**285,110**	**-**	**-**	**-**	**72,975**	**358,085**
Net Change in Fund Balances	**(15,248,339)**	**(2,829,553)**	**1,292,916**	**(91,333)**	**1,212,012**	**(15,664,297)**
Fund Balances – Beginning	11,752,549	10,339,185	18,078,261	(39,383)	1,415,371	41,545,983
FUND BALANCES – ENDING	**$ (3,495,790)**	**$ 7,509,632**	**$ 19,371,177**	**$ (130,716)**	**$ 2,627,383**	**$ 25,881,686**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

Net Change in Fund Balances – Government Funds (Page 32)		**$ (15,664,297)**
Amount reported for Governmental Activities in the Statement of Activities (Page 28) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	$ 6,399,946	
Donated Capital Assets	22,295	
Depreciation Expense	(15,447,929)	
Excess of Capital Outlays over Depreciation Expense		(9,025,688)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	(2,378,569)	
MRCC - Property Taxes Liquidation	(361,103)	
Christmas Bonus	(444,750)	
Total Revenues		(3,184,422)
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset.		(64,835)
Notes receivables classified as long term, because the due date is not current, are recorded in the Statement of Net Position. In the current period the change in note receivables was		6,882
The Statement of Activities reports as a loss the difference between the cost and the market value of housing units held for sale		(22,915)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		13,494,903
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Legal Claims	(188,030)	
Decrease in Christmas Bonus	90,383	
Decrease in MRCC - Property Taxes Liquidation	1,236,233	
Increase in Debt with the Retirement Plan System	(4,137,050)	
Increase in Other Long-Term Debts	(483,085)	
Increase in Net Pension Liability	(3,622,658)	
Increase in Compensated Absences	(235,627)	
Total Additional Expenses		(7,339,834)
Change in Net Position of Governmental Activities (Page 28)		**$ (21,800,206)**

The accompanying *Notes to Financial Statements* are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under Law No. 81 of August 30, 1991, known as the "Autonomous Municipalities Laws of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. It is governed by a Mayor and a 16-member Municipal Legislature elected for a four-year term.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. Second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

continue

1. FINANCIAL REPORTING ENTITY – continuation

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) 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; (b) 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, and; (c) 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.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34,* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2017, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units. The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Municipality's Governmental Activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category-governmental are presented. The emphasis on fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively, (1) An individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures; (2) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of particular importance to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Municipality. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. It also includes the Community Development Block Grants (CDBG) which is awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Health and Human Services Fund - This fund started as a major fund during this year. It is used to account for the revenue and expenditures of the Head Start Program and the Elderly Center of the Municipality as well as other related welfare services.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2017 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balances – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2017.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each difference.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

During the course of operations, the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures, and Changes in Fund Balance*] in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's full understanding of the data provided in the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees Retirement System

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, that was effective for the Municipality's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees, including the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Municipality's Contributions to the Employees' Retirement Systems.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are 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 these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2017, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met. However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2017, which are recorded as governmental fund liabilities of June 30, 2017 which is the date when resources were available in the debt service fund. Proceeds of general long-term debts and acquisitions under capital leases, if any, are reported as other financing sources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. 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*.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Act No. 154 of December 19, 2013 amended Sections 7.002 and 7.003 of Act. 81 of 1991, as amended, known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991" for the purpose of establishing the budget of each municipality shall not exceed income certified in the external audit report or "single audit" for the previous fiscal year in revenue from Volume of Business Taxes, Sales and Usage Taxes (SUT), and Licenses and Permits; and that in these cases, the estimated revenue mechanism cannot be used to support the operating budget of a municipality. Also, the Act establish that municipalities reflecting a surplus in the current budget should be used to repay debt, and that by exception may establish an Emergency Fund, and enter up to thirty percent (30%) of the surplus to that fund. In addition, the municipalities that have not accumulated deficits may be used the surplus to increase the Emergency Fund.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Schedule of Revenues and Expenditures Budget and Actual – General Fund*, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also, the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2017, the budgeted revenues were $102,702,321, but the actual revenues were $90,062,212. The amount of appropriations for expenditures were $102,702,321, and actual expenditures were $100,227,884. This excess of actual expenditures over actual revenues, generated a variance of ($10,165,672), which is a budgetary violation.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position / Fund Balance

1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The Municipality's cash are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follows the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with the amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained and deposited in the Popular Bank of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with Fiscal Agent in the Capital Projects and other governmental funds consists of undisbursed proceeds of certain bonds issued with the private banking, and deposited in different private banks in Puerto Rico, for the acquisition and construction of major capital improvements, and other purposes.

Restricted Cash in governmental funds consists of undisbursed proceeds of certain bonds issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds issued in accordance with law. In accordance with the Amended Restructuring Support Agreement (RSA) each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB

2) 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".

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance restricted account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2017. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2017. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The Municipality used the purchase method to account for the purchases of office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

4) Capital Assets

Capital assets acquired or constructed, whether owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of $40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the acquisition value at the date of donation. Equipment and other with a cost of $100 or more are recorded at cost or estimated historical cost.

The cost of normal maintenance and repairs that do not add to the value of the capital asset or extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Finally, major outlays for capital assets and improvements are capitalized as the projects are constructed.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental funds within the capital outlays and included as additions in the roll-forward activity of the capital assets in the GWFS. However, in the *Statement of Activities*, the cost of those assets is allocated over the estimated useful lives and reported as a depreciation expense. As a result, fund balance decrease by the capital outlays balance – the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Facilities and Improvements	10-40
Buildings and Improvements	10-50
Infrastructure	10-50
Equipment and Vehicles	5-20
Work of Art (Inexhaustible)	N/A

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works function.

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2017, all Work of Art are considered inexhaustible.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units' approach.

The Municipality is prevented legally from entering obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

5) Housing Units Held for Sale

Capital assets that have been identified to be for sale are presented as part of the noncurrent assets.

6) Idle Units Held for Future Use

Capital assets that have been temporarily idled and held for future use are presented as part of the noncurrent assets.

7) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, it arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

8) Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* the Municipality recognizes deferred outflows and 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 (expenses/expenditures) until then.

In addition to liabilities, the *Statement of Net 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Based on this concept, the Municipality reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 68. Note 18 presents additional information about the composition of these items.
- Various types of revenues earned but not available within 60 days of fiscal year end.

Notes 13 and 17 provides details on deferred outflows of resources and deferred inflows of resources.

The Municipality has items, which arise only under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*, and *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from two sources: Liquidation from Municipal Revenue Collection Center (MRCC), and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

9) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts, if any, as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

10) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 8 of February 6, 2017, the Municipality's employees are granted 24 days of vacations and 12 days of sick leave annually. New employee accumulates retroactively after the first 3 months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2017. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

11) Reduction of Working Day

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

12) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Noncurrent Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

13) Accounting for Pension Costs

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASB No. 68, is required to be implemented simultaneously with the provisions of GASB No. 68.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality implemented both GASB Statements No. 68 and 71 for the fiscal year ending June 30, 2015 and the financial statements of the Municipality for the year ended June 30, 2014 were restated, with unaudited information available at the date of the Municipality's reports. After that, on June 2016 the plan issued its audited financial statements for the year ended June 30, 2014, with a decrease in Fiduciary Net Position and an increase in Net Pension Liability.

At the date of issuance of the basic financial statements of the Municipality, the ERS has not issued the corresponding audited financial statements as of June 30, 2016, nor the attachments required by GASB 68. However, the Municipality used the Actuarial Valuation Report issued by the actuaries for the fiscal years 2014, 2015, 2016 to update the values of the Net Pension Liability, Deferred Outflows / Inflows of Resources and Pension Expense items corresponding to the fiscal year 2017. Accordingly, the beginning Net Pension Liability as of July 1, 2016, increased by $589,885 with the corresponding reduction in the Net Position of the Municipality.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing multi-employers plan. During the current fiscal year, the Municipality implemented the second pronouncement issued, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For the purpose of applying the requirements of GASB No. 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based in the fiscal crisis of the Commonwealth, was enacted the Act No. 106 of 2017 to establish a New Define Contribution Plan and create the "pay as you go" scheme for payment of pensioners of the ERS and other two retirement systems (see Notes 18 and 30).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Also, the Municipality participates in a contributory defined contribution plan named "Programa Head Start Municipio Autónomo de Caguas Money Purchase Plan".

14) Net Position/Fund Balance

A) Net Position

Net position represents the difference between assets, plus deferred outflows of resources less liabilities, and deferred inflows of resources is "Net Position" on the GWFS.

- *Net Investment in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

  For Governmental Activities, Net Investment in Capital Assets is comprised of the following:

Capital Assets, Net of Accumulated Depreciation..........................	$419,913,702
Outstanding Balance on Related Debt..	(159,260,931)
Unspent Capital Debt Proceeds..	5,926,104
Net Investment in Capital Assets	$266,578,875

- *Restricted Net Position* – These results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

- *Nonspendable* – amounts that cannot be spent because they are either (a) not spendable in form; or (b) legally or contractually required to be maintained intact.
- *Restricted* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – amounts that can only be used for specific purposes determined by formal action of the Municipality's highest level of decision-making authority (Municipal Legislature) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned – amounts that are constrained by the Municipality's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.
- Unassigned – the residual classification for the Municipality's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that the Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2017.

Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year, there are no intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2017 amounted to $1,482,660, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is $35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2017 amounted to $1,458,642.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

G. Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2017, that are determined to be significant and material that should be considered for financial statement purposes. Within this process, management consults with its legal counsel and performs monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures.

J. Accounting Standards Issued But Not Yet Adopted

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2017:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary.

Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (FY 2017-2018). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In the circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (FY 2018-2019). Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2016 (FY 2017-2018). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics.

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

IN-SUBSTANCE DEFEASANCE OF DEBT USING ONLY EXISTING RESOURCES

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

PREPAID INSURANCE RELATED TO EXTINGUISHED DEBT

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

ADDITIONAL DISCLOSURE FOR ALL IN-SUBSTANCE DEFEASANCE TRANSACTIONS

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

DEFINITION OF A LEASE

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

LEASE TERM

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option. A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

SHORT-TERM LEASES

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

LESSEE ACCOUNTING

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives), the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

LESSSOR ACCOUNTING

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

LEASE MODIFICATIONS AND TERMINATIONS

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

SUBLEASES AND LEASEBACK TRANSACTIONS

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease. A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020-2021). Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related To Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specifies in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debts.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resources flows.

The requirements of this Statement are effective for reporting periods beginning after June15, 2018 (FY 2018-2019). Earlier application is encouraged.

The Municipality has not yet determined the effect these statements will have on the Municipality's basic financial statements.

3. ANNUAL REVENUES

A. Property Taxes

The Municipal Revenue Collection Center (MRCC) is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are determined based on the market value existing as of 1957 and of personal property at the current value at the date of assessment. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. For fiscal year 2016-2017, this difference was recorded as an unavailable revenue for the amount of $240,591.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first $15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount of the exonerated tax base as of January 1, 1992, except for residential units assessed at less than $3,500 on which a complete exemption is granted. The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Complete exemption from personal property taxes up to an assessment of $50,000 is granted to retailers with an annual volume of net sales under $150,000. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

continue

3. ANNUAL REVENUES – continuation

The effective tax rate for the fiscal year ended June 30, 2017 is 10.33% for real property and 8.33% for personal property of which 1.03% of each class of property belongs to the Commonwealth of Puerto Rico. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. Taxpayers pay 10.33% for real property and 8.33% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows:

1) .00% and 4.00% for real and personal property, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the general fund. The basic property tax rate is segregated by MRCC and accounted for an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The equalization fund assures that every municipality receive at least an amount equal to the tax collected to its base year or prior year.

   The Commonwealth makes a contribution equivalent to .20% portion of the tax rates to compensate the municipality for a discount granted to the taxpayers. Accordingly, the tax rates imposed to the taxpayer for real and personal property are 10.33% and 8.33%, respectively.

2) 3.5% of each represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Since the collection of property taxes, for all of the Municipalities in Puerto Rico, is a responsibility of the MRCC, it shall report to the Municipality the estimated and actual property taxes collections, as well as the operational expense allocation to each local government. During the fiscal year ended June 30, 2017 the allocated expenses to the Municipality amounted to $1,308,108.

Section 5803(b) of Law No. 80 of the MRCC, allows the municipalities to develop and carry on activities and programs to expedite the assessments of new constructions and existing properties not yet assessed. Accordingly, along with a covenant with the MRCC, the Municipality engaged into an initiative, in order to increase the tax base of assessed properties over which the tax rate is applied and to expedite the collection of the taxes receivable in arrears at the MRCC (there is no receivable recorded within the Municipality's general ledger). The Municipality contracted an external consulting firm to assist and expedite these services. Among the different types of services offered, the consulting firm has engaged into the process of assisting the MRCC to assess the new construction and other existing properties. These assessments will become then part of the MRCC tax roll register. This is the subsidiary of all properties assessed for tax purposes.

The new assessed properties are submitted for review and validation by the MRCC which proceeds to assign the assessed valuation and the tax to be imposed. Then, the MRCC determine those new properties that would to be added in the tax roll, either because they are from new construction or because are previous existing properties, with betterments identified but not reported previously. This process is performed either through physical inspections, knowledge of existent activities within the Municipality, and comparing the sales volume taxes returns (in case of commercial properties) with the property taxes returns, among other strategies. The updated information is delivered to the MRCC in order to be included within the tax roll for subsequent taxes levies.

continue

3. ANNUAL REVENUES – continuation

Also, the consulting firm provides support to the Municipality by attending the taxpayers' request for services and by providing follow up on the MRCC taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

Ordinance Number 12A-48 was approved for the purpose of reviewing the tax incentives to the jurisdiction of the Municipality and the special development zone and other traditional urban center and authorizes the creation of a new code of socio-economic development incentives.

Personal Property

Incentive Municipal on Personal Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years.
- The down town and development designated areas, would enjoy 100% exemption on municipal taxes on personal property for a period of two years, followed by a 90% exemption on municipal taxes on personal property for a period eight-years.

Incentive Municipal on Personal Property Taxes – Established Business

- The exemption only applies to the personal property tax in excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as personal property tax base period.
- The down town and development designated areas, the personal property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

Real Property

Incentive Municipal on Real Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.
- The down town and development designated areas, would enjoy a 90% exemption on real property for a period of 10 years.

Incentive Municipal on Real Property Taxes – Established Business

- The exemption only applies to the real property tax in the excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as real property tax base period.
- The down town and development designated areas, the real property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

continue

3. ANNUAL REVENUES – continuation

B. Volume of Business Taxes

The Municipality imposes a volume of business tax pursuant to Act No. 113 of July 10, 1974, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is $5,000 and the minimum tax payable is $25. The date to file the Volume of Business Tax Declaration is April 15 each year. Entities with sales volume of $3.0 million or more must include audited financial statements together with the tax return. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2017.

The following incentives related to Volume of Business Taxes were implemented with Ordinance 12A-48:

Volume of Business Tax Incentive – New Business

- A 75% exemption for a period of five years or a 40% exemption for a period of 10 years.

Volume of Business Tax Incentive – Business Established

- The exemption only applies to the business volume in excess of the average volume during the three years prior to the date of the application, which is referred to as base volume business. The volume of business tax attributable to the base volume business will be subject to regular tax rates.

- In the down town and development designated areas, the volume of business tax basis will be adjusted, reducing such amount by (20%) annually until it is reduced to zero for the fifth taxable year.

Collections of volume of business tax revenues received mainly in April 15, are accounted as unearned revenues, since such collections have a time requirement and should be used starting July 1st of next fiscal year. In the next fiscal year, the unearned revenue is recognized as revenue, net of any credit or refunds payable to taxpayers.

C. Sales and Usage Taxes

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

continue

3. ANNUAL REVENUES – continuation

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a “Municipal Development Fund” to finance costs as restricted by the Act;

b. 0.2% will be deposited in a “Municipal Redemption Fund” to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% will be deposited in a “Municipal Improvement Fund” to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth’s Legislature.

Sales and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2017 but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the Municipality and the Municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation, a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

continue

3. ANNUAL REVENUES – continuation

D. Construction Excise Taxes

Ordinance 11-A-54 provides for a procedure for the administration and collection of construction excise tax, within the Municipality jurisdiction.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project. The tax is paid by the taxpayer before the beginning of the construction project, if a permit is required to begin the construction, the taxpayer should file the tax return 30 days after the submission of the permit; otherwise, the file should be made at least 15 days before the construction activity. The activities covered by this tax and the exemption granted are as follows:

1) All construction will pay 6% of construction excise taxes.

2) Construction projects of detached properties (not part of a housing development), with a cost of $90,000 or less will pay 3% of construction excise taxes. If the cost exceeds the $90,000, the applicable rate will be 6% over the $90,000 cost.

3) All construction projects carried out whose owner is a bona-fide farmer, certified by the Department of Agriculture, have full exemption to the construction excise taxes.

4) Major repairs and improvements of detached properties occupied by their owner, for which cost don't exceed $15,000, have full exemption to the construction excise taxes. If related costs exceed $15,000, the excess over this amount will be subject to a 3% of construction excise tax.

5) All improvements made to commercial or private property in the down town, as well of major improvements to buildings, parks, prayer centers or studies of philosophic or human nature have full exemption to the construction excise taxes.

6) All construction projects carried out by not-for-profit organization or educational institutions have full exemption to the construction excise taxes.

4. CASH AND INVESTMENTS

Cash in Banks

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit.

Under the laws and regulations of the Government, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the Municipality's name.

continue

4. CASH AND INVESTMENTS – continuation

Municipality follows the practice of pooling cash. At June 30, 2017, the pool cash account in commercial banks had a balance of $15.9 million of which $8.4 million in the General Fund, $325,668 in Health and Human Services Fund, $3.9 million in the Capital Projects Fund, and $3.3 million in Other Non-Major Funds. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Cash in with Fiscal Agent

Cash with Fiscal Agent in Popular Bank of Puerto Rico in the debt service fund consists principally of property tax collections and sales and usage taxes amounting to $16.7 million that are restricted for the payment of the Municipality's debt service, as required by law.

Cash with Fiscal Agent in the Capital Projects Fund of $1.9 million, consists of unspent proceed of bonds in private banks in Puerto Rico, and deposited on those banks, and are restricted to improvement of recreational facilities. The amount in Other Governmental Funds consist principally of unspent proceeds of bonds deposited in the private banking, that are restricted for different purposes.

Restricted Cash in GDB

Restricted Cash in GDB in the debt service fund consists principally of property tax collections and sales and usage taxes amounting to $17 million that are restricted for the payment of the Municipality's debt service, as required by law. The Restricted Cash of $4.9 million in General Fund, $2.1 million in Capital Projects Fund, and $1 in Other Governmental Funds consist principally of unspent proceeds of bonds that was restricted for the acquisition, construction or improvement of major capital assets, operational activities, and other purposes, and will be used to amortize the original loans.

The Financial Oversight and Management Board for Puerto Rico (Oversight Board) created by Congress authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA) under the relevant provisions of Title VI. The Oversight Board's decision was in response to a Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB's operations and a comprehensive financial restructuring of GDB's obligations. FAFAA noted further that by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation.

The amendment to the RSA provides that, upon consummation of the transaction, each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB.

The amendment also results in a simplified structure whereby GDB's financial creditors will exchange their claims for only one tranche of new bonds at an upfront exchange ratio of 55%. All cash in GDB are presented as Restricted Cash in the basic financial statements. The RSA amendment is available on the Electronic Municipal Market Access website.

continue

4. CASH AND INVESTMENTS – continuation

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2017:

Concentration of Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the Municipality has invested only in cash equivalents of $15.9 million consisting of interest bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2017. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2017.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2017, the Municipality has balances deposited in commercial banks amounting to $15.9 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $23.9 million are uninsured and uncollateralized.

As per GDB Restructuring Support Agreement (RSA), which became effective on April 6, 2018, as amended, (see Note 30) the Municipality will be authorized to apply the full amount of deposits of loan held at GDB against the balance of any loan owed by the Municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2017, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2017, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

continue

4. CASH AND INVESTMENTS – continuation

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2017.

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* and Governmental Funds Balance Sheet reports *unearned* revenues for resources received before it has a legal claim to them; in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, which corresponded to Volume of Business Taxes in the amount of $16,415,878.

6. LOANS AND OTHER RECEIVABLES

Loans receivable recorded in non-major governmental funds consists various loans issued to qualified participants for home buying and commercial loans provided with federal funds. This amount is presented net of estimated allowances for uncollectible amounts of $426,454, which were determined based upon past collection experience.

Other receivables in the amount of $328,955, reported in General Fund, are related to rent and other charges received after year end. The amount of $73,037, reported in Other Non-Major Funds, consists primarily of $72,975 from the sale of units held by the Municipality, which were sold at June 30, 2017, but the cash was received on July 2017.

On October 20, 2014, the Municipality signed a Note Receivable for $1,050,000 in exchange for a land, in which an apartment building was constructed. The note is no-interest bearing, and the full payment will be received on October 24, 2054. In order to recognize the amortization of the present value of the note, the percentage used was a 6%, based on bonds issued by the Municipality in 2014.

7. INTERGOVERNMENTAL REVENUES, FEDERAL AND STATE GRANTS AND SUBSIDIES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-Public Corporation, Puerto Rico Electric Power Authority (PREPA), and financial assistance received from state governments. Intergovernmental revenues are accounted for through the General Fund because they are not restricted for specific purpose.

Grants and subsidies received from the Commonwealth and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenues and the Capital Project Funds. Federal Financial Awards are recorded in the General Fund, Special Revenue Fund, Capital Projects Funds, and Health and Human Services Fund.

continue

8. INTER-FUND TRANSACTIONS

A. Due from/to Other Funds

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2017:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects	$ 224,558
	Debt Service Fund	1,938,520
	Health and Human Services Fund	1,254,496
	Other Governmental Funds	1,667,380
		$ 5,084,954

The purpose of each inter-fund balances are the following:

Payables to the general fund:

Capital Projects Fund – includes expenditures mainly of the Capital Loans Funds, Community Development Block grants and other related projects sponsored by the Municipality, which are initially disbursed through the General Fund.

Debt Service Fund – consists of the excess of property taxes collected and claimed by the Municipality on June 2017, and which were transferred by the GDB on July 2017.

Health and Human Services Funds – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

Other Governmental Funds – includes expenditures mainly to finance certain public safety, housing and health and welfare projects that involve both the use of federal and municipal funds and which were initially disbursed through the General Fund.

B. Transfers In/Out

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2017:

Transferred In	Transferred Out	Amount	Purposes
Debt Service	General Fund	$ 6,113,827	Payment of Interest and Principal of Debt
General Fund	Debt Service Fund	1,938,520	Transfer of Equity
Capital Projects Fund	General Fund	1,922,124	Transfer of Equity
Nonmajor Funds	General Fund	339,037	Transfer of Equity
General Fund	Nonmajor Funds	108,867	Transfer of Equity
		$ 10,422,375	

continue

9. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2017, for the General Fund, corresponds $289,432 from the MRCC, related to the final liquidation, and $50,140 from the Puerto Rico Department of Education related to maintenance of schools. For the Debt Service Fund, $193,723 corresponds to property taxes of June 2017, which were deposited on July 2017. For the Other Governmental Funds, $89,946 corresponds to receivables from the Commonwealth related to State Assignments.

10. FEDERAL GRANTS RECEIVABLE

The due from federal grants of the Capital Projects Fund for the fiscal year ended June 30, 2017 corresponds the Community Development Block Grant/Entitlements Grant (CDBG), from US Department of Housing and Urban Development (HUD). The amount reported within the Health and Human Services Fund corresponds to the Head Start Program from the US Department of Health and Human Services for the amount of $7,368,160. The amount reported on Other Governmental Funds correspond mainly to the Home Investment Partnership Program for the amount of $1,133,690 and to the Emergency Shelter Grant Program for the amount of $212,868, both from the US Department of Housing and Urban Development, and $237,446 in other Federal programs.

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11. CAPITAL ASSETS

A summary of the activity of capital assets for governmental activities group follows:

DESCRIPTION	BALANCE JULY 1, 2016	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2017
Non-Depreciable Capital Assets:					
Land and Improvements	$ 92,902,128	$ -	$ 415,981	$ (8,789)	$ 93,309,320
Construction in Progress	7,362,180	-	4,057,717	-	11,419,897
Works of Art	2,261,726	-	80,938	-	2,342,664
Total Non-Depreciable Capital Assets	102,526,034	-	4,554,636	(8,789)	107,071,881
Depreciable Capital Assets:					
Facilities and Improvements	124,076,563	-	393,473	-	124,470,036
Buildings and Improvements	122,434,054	-	74,901	-	122,508,955
Infrastructure	417,259,738	-	325,627	-	417,585,365
Equipment and Vehicles	31,005,859	-	1,079,772	(883,090)	31,202,541
Total Depreciable Capital Assets	694,776,214	-	1,873,773	(883,090)	695,766,897
Less Accumulated Depreciation:					
Facilities and Improvements	(67,470,426)	-	(3,444,968)	-	(70,915,394)
Buildings and Improvements	(53,889,520)	-	(2,472,282)	-	(56,361,802)
Infraestructure	(225,333,243)	-	(7,350,370)	-	(232,683,613)
Equipment and Vehicles	(21,611,002)	-	(2,180,309)	827,044	(22,964,267)
Total Accumulated Depreciation	(368,304,191)	-	(15,447,929)	827,044	(382,925,076)
Total Depreciable Capital Assets (Net)	326,472,023	-	(13,574,156)	(56,046)	312,841,821
CAPITAL ASSETS, NET	**$ 428,998,057**	**$ -**	**$ (9,019,520)**	**$ (64,835)**	**$ 419,913,702**

The Municipality's policy is to transfer construction in progress properly concluded to other classification of capital assets if such capital project is being used. Also, the detail of these amounts is presented in the previous table including the activity of the capital assets.

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

	AMOUNT
Governmental Activities:	
General Government	$ 783,910
Public Safety	251,529
Public Works (Mainly Streets)	7,695,846
Culture and Recreation	4,163,073
Health and Welfare	85,241
Economic Development	915,242
Housing	142,655
Sanitation and Environmental	128,834
Education	1,281,599
Total Depreciation Expenses	$ 15,447,929

continue

12. OTHER NON-CURRENT ASSETS

The Municipality reported during this year property held for future sale as other non-current assets. This property was acquired with the intent of selling them to low income families, constituents of the Municipality. As required by GASB No. 72, the Municipality assessed the fair value of this units at June 30, 2017 for $154,848.

The Municipality has the following recurring fair value measurements as of June 30, 2017:

Units Held for Sale by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Units Held for Sale	$ 154,848	$ 154,848	$ -	$ -

The level of fair value hierarchy used, was Level 1; that is, the units were quoted based on similar properties sold by the Municipality during the fiscal year. No change in the fair value of these units were determined, although, a loss on the sale of 3 units during the year of $22,915, was reported within the housing expense function in the government-wide Statement of Activities.

Also, idle units held for future use were reported during this period given that property included in the schedules of construction in process remained with the same balance since prior year and no additions from construction were reported. Funds assigned to those projects were distributed for other purposes.

13. DEFERRED OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

At the end of the current fiscal year, the Municipality has an item that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows from changes in the Net Pension Liability (Note 18), as follows:

Statement of Net Position:	
Deferred Outflows of Resources	
Contributions to ERS	$ 59,171,360

14. DEBT MARGIN

On March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The legal debt margin of the Municipality is equal to 10% of the total property assessment located within the Municipality's jurisdiction.

continue

14. DEBT MARGIN – continuation

As discussed on Notes 25 and 26 to the basic financial statements on pages 118 through 130, Puerto Rico fiscal crisis affects all instrumentalities, including municipalities. Actually, the Commonwealth does not have access to the finance market. The municipalities obtained loans through the Governmental Development Bank (GDB), or Commercial Banks with the endorsement of GDB. GDB do not have access to market and close the issuance of new loan to municipalities. Therefore, the determination of the Municipality's debt margin depends on the access to the markets of GDB and Commercial Banking loans to which it does not have access.

15. LONG-TERM DEBTS

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the **Municipality** are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The **Municipality**'s obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 16).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2017:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1998	2,200,000	2018	5.62%	$ 177,000
General Construction	2000	776,000	2019	4.50%	112,027
General Construction	2000	10,350,000	2026	2.70% to 7.81%	5,730,000
General Construction	2000	3,150,000	2024	2.70% to 7.81%	1,695,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	6,055,000
General Construction	2002	125,000	2026	2.70% to 5.60%	50,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	805,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	6,225,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	1,030,000
General Construction	2005	460,000	2029	2.53% to 5.31%	310,000
General Construction	2005	370,000	2029	2.53% to 5.31%	250,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	835,000
General Construction	2006	9,910,000	2021	1.53% to 6.62%	4,050,000
General Construction	2005	1,640,000	2030	4.50%	1,071,000
General Construction	2005	500,000	2030	4.75%	331,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	6,405,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	6,415,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	5,940,000
General Construction	2006	2,695,650	2031	4.75%	1,876,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	4,780,000
General Construction	2008	624,000	2030	4.50%	433,000

continue

15. LONG-TERM DEBTS – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income: - continuation					
Operational Purpose	2010	9,740,000	2034	4.75% to 7.50%	8,480,000
General Construction	2012	18,285,000	2036	3.47% to 7.50%	14,628,000
General Construction	2012	815,000	2021	3.36% to 7.50%	407,500
General Construction	2012	245,000	2036	0.37% to 7.50%	196,000
General Construction	2012	2,015,000	2018	3.38% to 7.50%	575,715
General Construction	2012	615,000	2018	3.38% to 7.50%	175,715
General Construction	2012	9,760,000	2018	3.35% to 7.50%	8,925,000
General Construction	2012	279,900	2037	4.50%	255,000
General Construction	2013	1,505,000	2037	6.00% to 7.50%	1,405,000
General Construction	2013	3,120,000	2030	4.25%	2,497,000
General Construction	2013	135,000	2019	6.00% to 7.50%	65,000
Refinancing	2014	802,435	2017	3.80% to 7.50%	232,435
Refinancing	2014	249,680	2017	3.80% to 7.50%	74,680
Refinancing	2014	691,456	2034	3.95% to 7.50%	646,456
Refinancing	2014	982,565	2034	3.95% to 7.50%	917,565
Refinancing	2014	1,494,375	2035	3.95% to 7.50%	1,399,375
Refinancing	2014	721,569	2035	3.95% to 7.50%	676,569
Refinancing	2014	485,660	2035	3.95% to 7.50%	455,660
Refinancing	2014	992,583	2035	3.95% to 7.50%	932,584
Refinancing	2014	7,766,712	2035	4.05% to 7.50%	7,291,712
General Construction	2014	12,975,204	2036	3.95% to 7.50%	12,245,204
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	8,970,000
Operational Purpose	2014	1,485,000	2020	6.00% to 7.50%	940,000
General Construction	2014	5,930,000	2040	6.00% to 7.50%	5,755,000
Refinancing	2017	26,855,000	2031	7.50%	26,855,000
Subtotal					**159,577,847**

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15. LONG-TERM DEBTS – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Special Obligations Bonds:					
General Revenues:					
General Construction	2002	$ 2,065,000	2027	3.66% to 6.41%	$ 1,220,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	3,050,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	9,065,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	5,195,000
General Construction	2007	8,575,000	2024	1.53% to 6.73%	4,305,000
General Construction	2007	10,075,000	2026	5.84% to 6.07%	6,070,000
General Construction	2007	500,000	2022	1.53% to 7.50%	232,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	2,390,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	4,045,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	5,576,000
Operational Purpose	2014	3,805,000	2038	6.00% to 7.50%	3,560,000
Operational Purpose	2015	3,850,000	2030	6.00% to 8.00%	3,515,000
Subtotal					**48,223,000**

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales & Usage Taxes:					
General Construction	2009	8,770,000	2033	1.48% to 7.50%	7,320,000
General Construction	2009	542,000	2033	1.48% to 7.50%	457,000
General Construction	2010	4,710,000	2034	4.75% to 7.50%	4,105,000
General Construction	2012	385,000	2018	6.00% to 7.50%	135,000
General Construction	2012	2,040,000	2019	6.00% to 7.50%	1,005,000
Operational Purpose	2014	7,445,000	2038	6.00% to 7.50%	7,095,000
Subtotal					**20,117,000**
Total Special Obligations Bonds					**68,340,000**
Section 108 Loan - CDBG:					
General Construction	2002	12,995,000	2022	2.66%	**1,800,000**
Total General and Special Obligations Bonds					**$ 229,717,847**

Principal and interest on the bonds are generally paid from amounts withheld by MRCC from the monthly property tax remittances and deposited in GDB until the payment to the bond holder.

Federal Loan

Federal loan at June 30, 2017 consist of a note payable in annual installments fluctuating from $200,000 to $600,000 with variable bearing interest at 2.66%.

continue

15. LONG-TERM DEBTS – continuation

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2017:

DESCRIPTION	BALANCE JULY 1, 2016	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2017	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 169,226,108	$ 26,855,000	$ (36,503,261)	$ 159,577,847	$ 8,549,529	$ 151,028,318
Special Obligations Bonds	72,620,000	-	(4,280,000)	68,340,000	4,512,000	63,828,000
Federal Loans	2,400,000	-	(600,000)	1,800,000	600,000	1,200,000
Net Pension Liability	219,380,325	44,598,454	(15,845,957)	248,132,822	-	248,132,822
Other Obligations	17,673,192	12,808,869	(9,181,785)	21,300,276	6,390,304	14,909,972
TOTAL	**$ 481,299,625**	**$ 84,262,323**	**$ (66,411,003)**	**$ 499,150,945**	**$ 20,051,833**	**$ 479,099,112**

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

B. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The **Municipality** believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2017, are as follows:

	General Obligation Bonds		Special Obligation Bonds		Federal Loans		Other Obligations		Total	
Year Ending June 30,	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal	Interest
2018	$ 8,549,529	$ 9,381,995	$ 4,512,000	$ 4,603,802	$ 600,000	$ 47,250	$ 6,390,304	$ 83,672	$ 20,051,833	$ 14,116,719
2019	17,014,443	9,546,489	4,784,000	4,313,200	600,000	29,160	58,032	80,242	22,456,475	13,969,091
2020	8,323,700	8,988,960	5,004,000	4,128,192	600,000	9,900	61,678	76,595	13,989,378	13,203,647
2021	8,761,700	8,484,346	4,948,000	3,535,009	-	-	65,554	72,720	13,775,254	12,092,075
2022	9,358,700	7,941,455	5,273,000	3,372,442	-	-	69,672	68,601	14,701,372	11,382,498
2023-2027	48,539,000	30,699,272	24,209,000	11,413,576	-	-	419,795	271,575	73,167,795	42,384,423
2028-2032	35,814,650	16,431,418	11,291,000	5,375,477	-	-	569,325	122,040	47,674,975	21,928,935
2033-2037	20,231,125	5,260,056	6,799,000	1,623,198	-	-	67,063	2,075	27,097,188	6,885,329
2038-2042	2,985,000	270,215	1,520,000	115,500	-	-	-	-	4,505,000	385,715
Unmatured	-	-	-	-	-	-	261,731,675	-	261,731,675	-
TOTAL	**$ 159,577,847**	**$ 97,004,206**	**$ 68,340,000**	**$ 38,480,396**	**$ 1,800,000**	**$ 86,310**	**$ 269,433,098**	**$ 777,520**	**$ 499,150,945**	**$ 136,348,432**

continue

15. LONG-TERM DEBTS – continuation

C. Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2017, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

D. Refunding of Bonds and Notes

On June 29, 2017, the Municipality entered into a Credit Agreement with the banking corporation of Santander Bank to refinance $26,730,000 of different general obligation bonds and notes, and to cover the costs associated with the transaction of $125,000. The intent of this transaction was to reduce the interest costs on these obligations, through reduced interest rates. No cash were obtained from this refinance, and the costs of issuance were added to the new loan, for a total of $26,855,000.

E. Other Non-Current Liabilities

The following is a summary of changes in other non-current liabilities of the Municipality for the year ended June 30, 2017:

DESCRIPTION	BALANCE JULY 1, 2016	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2017	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 142-MRCC	$ 1,417,093	$ -	$ (51,373)	$ 1,365,720	$ 54,601	$ 1,311,119
PR Retirement System Administration	-	4,137,050	-	4,137,050	-	4,137,050
Claims and Judgments	611,853	347,530	(159,500)	799,883	405,116	394,767
MRCC-Property Taxes Liquidation	1,929,930	-	(1,236,233)	693,697	693,697	-
Christmas Bonus	1,115,632	1,025,249	(1,115,632)	1,025,249	1,025,249	-
Retainage Liability	42,486	444,366	-	486,852	-	486,852
Compensated Absences	12,556,198	6,854,674	(6,619,047)	12,791,825	4,211,641	8,580,184
TOTAL	**$ 17,673,192**	**$ 12,808,869**	**$ (9,181,785)**	**$ 21,300,276**	**$ 6,390,304**	**$ 14,909,972**

<u>Due to Municipal Revenue Collection Center</u>

The Act No. 42 dated January 2000 allows the Municipal Revenue Collection Center (MRCC, as per its Spanish acronyms) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation prior to fiscal year 2000. The municipalities agreed to repay MRCC such loans in semi-annual installments plus accrued interest. In connection with Law 42 the Municipality issued a note payable to MRCC in the amount of $1,876,000 payable in 30 years plus interest at a semi-annual rate of 3.0938%.

Also, Property Taxes Liquidation for fiscal year 2015-2016 result in a payable to the MRCC in the amount of $693,697.

continue

15. LONG-TERM DEBTS – continuation

Accrued Legal Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2017 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2017.

Compensated Absences

The GWFS, Statement of Net Position, includes approximately $12.6 million in the governmental activities for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

PR Retirement System Administration

The GWFS, Statement of Net Position, includes approximately $4.1 million in the governmental activities for the amount notified by the Retirement System Administration to the Municipality, related to the uniform additional contribution. The General Fund have been used to liquidate the liability for this concept.

16. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC to the Municipality (See Note 3).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 15). Payments are made to the GDB from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank of Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 10.5% while the municipal SUT is reduced to 1.0%, effective February 1, 2014. Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

continue

16. DEBT RETIREMENT – continuation

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, it created the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) created by Congress authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA) under the relevant provisions of Title VI. The Oversight Board's decision was in response to a Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB's operations and a comprehensive financial restructuring of GDB's obligations. FAFAA noted further that by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation.

The RSA provides for the organized and consensual restructuring of a substantial portion of GDB's liabilities, including GDB public bonds, deposit claims by municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees (Participating Bond Claims). In exchange for releasing GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the Issuer).

Prior to the closing of the Restructuring, the Amended RSA will simplify the GDB restructuring transaction while simultaneously providing additional relief to municipalities as they recover from the severe damage and devastation caused to Puerto Rico and its municipalities in the wake of Hurricanes Irma and María. The amendment to the RSA provides that, upon consummation of the transaction, each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB.

The amendment also results in a simplified structure whereby GDB's financial creditors will exchange their claims for only one tranche of new bonds at an upfront exchange ratio of 55%. All cash in GDB are presented as Restricted Cash in the basic financial statements. The RSA amendment is available on the Electronic Municipal Market Access website.

continue

17. DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Municipality recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The Municipality has an item that are reportable on the government-wide *Statement of Net Position* that are relates to inflows from changes in the Net Pension Liability (Note 18).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds *Balance Sheet* report *Deferred Inflows of Resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of Deferred Inflows of Resources reported in the basic financial statements were as follows:

Statement of Net Position:	
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 8,992,273

Balance Sheet:	
Commonwealth of Puerto Rico	$ 240,591
Federal Grants:	
Capital Projects Fund	958,526
Head Start Program	6,288,184
Other Governmental Funds	1,069,925
Total Deferred Inflows of Resources	$ 8,557,226

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18. PENSION PLANS

As further described in Note 2 D 12, the Municipality implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer contributory, hybrid defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 206 participating employers (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

At July 1, 2015, membership of the ERS consisted of the following:

Retirees and beneficiaries currently receiving benefits	109,649
Current participating employees	119,679
Disabled members, receiving benefits	15,44
Total Membership	244,772

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

continue

18. PENSION PLANS – continuation

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program.

Each member has a non-forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include those in the following categories:

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors, of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employee.

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

As of July 1, 2013, every employee who is a participant of the ERS, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the ERS, shall become part of the Defined Contribution Hybrid Program.

continue

18. PENSION PLANS – continuation

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, based on the contributions made since the date said annuitant returned to service until his/her separation from it.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

(1) Creditable Service

(a) Creditable Service for Act No. 447 members – the years and months for plan participation, during which contributions have been made, beginning on the later of date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Note: All the days must be during the same month.

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

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continue

18. PENSION PLANS – continuation

(b) Creditable Service for Act No. 1 members – the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

(2) Service Retirements

(a) Eligibility for Act No. 447 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

continue

18. PENSION PLANS – continuation

(b) Eligibility for Act No. 1 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(c) Eligibility for System 2000 Members – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) Eligibility for Members Hired after June 30, 2013 – attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(3) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No, 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

(a) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

continue

18. PENSION PLANS – continuation

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation, if the member was under age 55 as of June 30, 2013 or 60% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(b) Accrued Benefit as of June 30, 2013 for Act No. 1 Members – The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

continue

18. PENSION PLANS – continuation

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) Coordination with Social Security Act for Act No. 447 Members – Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the ERS with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustment at SSRA. At any time, up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the ERS, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

(4) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(5) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contributions account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

continue

18. PENSION PLANS – continuation

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(6) Death Benefits

(a) Pre-Retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

continue

18. PENSION PLANS – continuation

(c) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

(d) Post-Retirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits

continue

18. PENSION PLANS – continuation

(7) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who disabled in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(c) Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(d) Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2016-2017 the disability insurance amounted to $43,325.

continue

18. PENSION PLANS – continuation

(8) Special Benefits

(a) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(b) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

continue

18. PENSION PLANS – continuation

(c) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(9) Contributions

(a) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

(b) Employer Contributions (Article 2-116, as Amended by Act No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

continue

18. PENSION PLANS – continuation

(c) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(d) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution (AUC) will be certified by the external actuary of the ERS each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1 billion. The AUC is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities.

Only a fraction of the AUC from prior years has been received by the ERS. Accordingly, the current overall AUC payment schedule is as follows:

Payment Year	Amount	Comment
FY 2016-17	$596 million	Collective FY 2016-17 AUC
	$180 million	Pat due and payable immediately by selected employers
	$776 million	Total due in FY 2016-17
FY 2018-18	$685 million	Total due in FY 2017-18
FY 2018-19 to FY 2032-33	$685 million	Estimated amount payable annually, subject to significant change due to annual re-measurement

(10) Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10 of 1992, Act No. 14 of 1981, Act No. 122 of 2000, Act Nos. 203 and 33 of 2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contribution Account during the years of military leave.

continue

18. RETIREMENT PLANS – continuation

(11) Early Retirement Programs

The Municipality implemented an early retirement program for its employees under the Act No. 224 dated August 9, 2008. The Municipality has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012. The Municipality was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a Payment Plan for the debt balance due of the Retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth Enacted Act No. 70 of 2010 (Act No. 70) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth). Under Section 4B of Act No. 70, active members who had at least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund / Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [(12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applies applied to final salary increases as under Act No. 116 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C if Act No. 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

The contribution requirement to the ERS is established by law and is not actuarially determined. The special benefits contributions of approximately $229 million in 2014 mainly represent contributions from the General Fund, public corporation and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the ERS through legislative appropriations each July 1 by the General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the special benefits. Deficiencies in legislative appropriations are covered by the ERS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

continue

18. PENSION PLANS – continuation

(12) Changes in Plan Provisions since Prior Valuation

Act No. 211-2015 is an early retirement incentive program that was passed on December 8, 2015 which was amended by Act No. 170-2016 to expand the eligible group of members. No retirements due to Act No. 211-2015 or Act No. 170-2016 have occurred as of the June 30, 2016 measurement date of this valuation. Impacts of Act No. 211-2015 and Act No. 170-2016 will be reflected in future valuation. Impacts of Act No. 211-2015 and Act No. 170-2016 will be reflected in future valuations when retirements have actually occurred, and census data is available.

(13) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2015, the membership, as adjusted by changes in participants established by Act No. 3, consisted of the following:

Membership	Amount
Retired Members	94,979
Disabled Members	15,444
Total Membership	110,423

The contribution requirement of ERS MIPC is established by Act No. 95 approve on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Thus, these OPEB are 100% unfunded. During the year ended June 30, 2016, OPEB contributions amounted to $106 million.

The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

continue

18. PENSION PLANS – continuation

Liquidity Risk and Uncertainties

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the ERS were significantly larger than the member and employer contributions made to the ERS. Thus, investment income must have had to be used to cover negative cash flow. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, the ERS will continue being rapidly defunded and gross assets will be exhausted. If measures are not taken to significantly increase the contributions, the ERS will become insolvent in fiscal year 2018. In addition, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover the ERS's obligations unless other measures are taken.

If the ERS's assets are exhausted it would be operating solely on a "pay-as-you-go" basis, which means that it would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth provides the funding required to meet the pay-as-you-go retirement benefits. Additionally, future employers' contributions have been pledged for the payment of debt service, further depletion of the ERS's assets could result in the inability to repay its bond obligations. Consequently, the ERS's funding requirements, together with the funding requirements of JRS and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Commonwealth's General Funds, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the ERS.

The Commonwealth and the other participating employers have been facing several fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Commonwealth's public-sector debt, the continued downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade categories, and the lowered-than-projected revenues have put further stain on the Commonwealth liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contributions as provided by Act No. 32 of June 25, 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

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18. PENSION PLANS – continuation

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as $120.0 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS's actuaries as necessary for the ERS's gross assets to remain above $1.0 billion. An appropriation for such AUC of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

For fiscal year 2015 and 2016, the certification of the AUC was not available at least 120 days before the commencement of the applicable fiscal year. ACT No. 32, as amended, provides that in this situation, the AUC for fiscal year will be the AUC applicable for the preceding year. Thus, the AUC determined for fiscal years 2015 and 2016 was $120 million.

Timely payment of the AUC is a critical component of the reform in order for the ERS to be able to make payments as they come due without depleting all its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Commonwealth and other participating employers have been unable to make the AUC required in full for these fiscal years (other than $34.4 million paid by municipalities and public corporations for fiscal year 2014 and $22.7 million paid by the Commonwealth and $37.1 million paid by public corporations and municipalities for fiscal year 2015). In February 2016, the ERS's actuaries recalculated the AUC for fiscal year 2017 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Commonwealth ma undertake to address its fiscal challenges), the projected AUC for fiscal year 2017 and subsequent years was approximately $596.0 million (of which approximately $370.0 million corresponds to the Commonwealth, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

Remediation Plan

To improve the liquidity and solvency of the ERS, on July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the Act No. 447. Act No. 1, and Act No. 305. Act No. 3 reformed the ERS by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefits program, replacing most of the defined benefit elements with a defined contribution structure. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirement, while recognizing that the ERS would become insolvent. As such, the reform was intended to provide enough cash for the ERS to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected ERS gross assets at no less than $1.0 billion at all times.

continue

18. PENSION PLANS – continuation

To achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the ERS remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the ERS's ability to make payments as they become due.

Act No. 3 established a contribution hybrid program (the Contribution Hybrid Program) like the System 2000 program that will eventually result in all active and retired members participating in a member-funded hybrid program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under Act No. 447 and Act No. 1 (defined benefit program), and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service. Act No.3 incorporate the provisions of the Defined Contribution Hybrid Program and System 2000 in Chapter 5 of the ERS.

Participants in the defined benefit program who as of June 30, 2013 were entitled to retire and receive a pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013 were not entitled to retire can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 program who as of June 30, 2013 had reached the age of 60 may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 program who as of June 30, 2013 had not reached the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the ERS including, but not limited to, the following:

- Retirement age – The retirement age for the frozen accrued benefits of Act No. 447 is gradually increased from age 58 to age 61, and from age 60 to age 65 for System 2000 program members, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which also results in a delay in cash outflow. The retirement age for new employees was increased to age 67.

- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid program benefits in the future, it will provide more assets in the near term that can support current benefit payments and bonds payable debt service.

continue

18. PENSION PLANS – continuation

- Mandated annuitization – System 2000 program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the System's assets. Act No. 3 hybrid accounts, which include the System 2000 program accounts, are subject to mandatory annuitization, which will benefit the System on a cash flow basis by stretching out payments over time, thus providing the System "catch-up" time. The ERS has the authority for determining the annuitization factors and for updating the factors in future years.

- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid program Act No. 3 annuity with a survivor benefit, resulting in lower future cash outflow.

- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.

- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their hybrid account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1.)

- Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from $600 to $200. The summer bonus was eliminated. The employers will continue making contributions to the ERS as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be used for benefit payments and bonds payable debt service.

- Minimum benefits – The minimum pension payable was increase from $400 to $500 per month for current retirees only.

- Merit Annuity – The "Merit Annuity" available to participants who joined the ERS prior to April 1, 1990 was eliminated.

Other measures taken to improve the liquidity of the ERS include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds).

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

continue

18. PENSION PLANS – continuation

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

(1) Net Pension Liability

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program was measured as of June 30, 2015, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. As June 30, 2016, the Municipality's used the proportional share of 0.65806%, which was the same as of June 30, 2015, because at the date of the report the ERS do not produce the information required by GASB No. 68. The Municipality's proportionate share of the Net Pension Liability used was as follows:

Proportion - June 30, 2015	0.65806%
Proportion - June 30, 2016	0.65806%
Change - Increase (Decrease)	0.00000%

At June 30, 2016, the Municipality's proportionate share of the Net Pension Liability for each plan was as follows:

Act Number 447	$ 181,204,913
Act Number 1	42,486,610
Act Number 305	24,441,299
Total Net Pension Liability	$ 248,132,822

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18. PENSION PLANS – continuation

As June 30, 2017, the Municipality reported $248,132,822 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

Net Pension Liability	June 30, 2017	
	Total	Proportional Share (0.65806%)
Total Pension Liability	$ 36,432,873,000	$ 239,750,164
Fiduciary Net Position (Deficit)	(1,273,844,000)	(8,382,658)
Net Pension Liability	$ 37,706,717,000	$ 248,132,822
Plan's Fiduciary Net Position (Deficit) of Total Pension Liability	-3.50%	-3.50%
Covered Payroll	$ 3,344,382,000	$ 22,008,040
Net Pension Liability as a % of Covered Payroll	1127.46%	1127.46%

(2) Pension Expense

For the fiscal year ended June 30, 2017, the Municipality recognized pension expense of $3,622,658. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

(3) Deferred Outflows/Inflow of Resources

As of June 30, 2017, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 8,438,351	$ -
Differences between actual and expected experience	18,195,565	-
Changes in assumptions	28,766,828	7,627,968
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	3,770,616	- 1,365,305
Total	$ 59,171,360	$ 8,993,273

continue

18. PENSION PLANS – **continuation**

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. $8,438,351 reported as deferred outflows of resources related to pensions resulting from Municipality contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,		Amount
2018	$	(8,347,947)
2019		(8,347,947)
2020		(8,347,947)
2021		(8,347,947)
2022		(8,347,947)
Thereafter		-
Total	$	(41,739,735)

Actuarial Methods and Assumptions

There have not been any changes in methods since the prior evaluation. For this year, the June 30, 2014 census data used in the prior valuation is also used as the July 1, 2016 census data for the current valuation. The liability results as of June 30, 2016, were based on projecting the ERS obligations determined as of the census data collection date of July 1, 2015 for one year, using roll-forward methods and assuming no liability gains or losses.

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For purposes of converting the Defined Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2016 is provided below, including any assumptions that differ from those used in the June 30, 2015 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

continue

18. RETIREMENT PLANS – continuation

The actuarial valuation used the following actuarial assumptions:

Actuarial Assumptions:	
Inflation	2.5%
Investment Rate of Return	6.55%, Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	2.85%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	2.85%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date. 100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table Males and 95% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

Most other demographic assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

Long-Term Expected Rate of Return

The valuation reflects no change in the investment return assumption of 6.55% per year for GASB No. 68 purposes. The 6.55% assumption reflects the asset allocation for the non-loan of the portfolio that was adopted by the Board during December 2013 as shown below and Milliman's capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 9.1% with no volatility.

continue

18. PENSION PLANS – continuation

Asset Class	Target Allocation
Domestic Equity	25%
International Equity	10%
Fixed Income	64%
Cash	1%
Total	100%

Please note that the investment return assumption of 6.55% per year is equal to the highest debt service of the Pension Obligation Bonds. The debt service on the Pension Obligation Bonds ranges from 5.85% to 6.55%.

Under the prior GASB Nos. 25/27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. As a result of no change in the investment return assumption, the assumed investment return on the Defined Contribution Hybrid Contribution Accounts (80% of the net investment return assumption) remains at 5.24%.

The projected mortality improvement scale was updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. The valuation also reflects a salary freeze until July 1, 2021 due the Act No. 3-2017, four-year extension of Act No. 66-2014. Act 66-2014 mandates a salary freeze only for Central Government employees and mandates savings for public corporations. Due to the Act No. 66-2014 required saving for public corporations and the current economic conditions in Puerto Rico, the salary freeze has also been assumed for public corporation and municipal employees.

Illiquid Assets

The Act No. 32 AUC calculation is based on the objective of maintaining a $1.0 billion gross asset buffer at all times. It is important to note that a material portion of ERS assets are illiquid in nature. Thus, if the Act No. 32 AUC is not paid in full and the $1.0 billion buffer is not maintained, the ERS will run into liquidity issues and may be forced to sell illiquid assets, potentially at significant loss to the further detriment of the ERS. As of June 30, 2016, ERS had approximately $771 million in illiquid assets, comprised primarily of loans to ERS members and the COFINA investment. This projection assumes that these illiquid assets will be converted to liquid assets when needed.

The Total Pension Liability was determined by an actuarial valuation as of July 1, 2016, calculated based on the discount rate and actuarial assumptions, and was then projected forward to June 30, 2016. There have been no significant changes between the valuation date of July 1, 2014 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB No. 67. Covered Payroll is as of July 1, 2015.

continue

18. PENSION PLANS – continuation

Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that result in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the ERS's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the ERS's fiduciary net position is not projected to be sufficient.

The discount rate at June 30, 2015 and 2016, was as follow:

	June 30, 2015	June 30, 2016
Discount Rate	3.80%	2.85%
Long-term expected rate of return net of investment expense	6.55%	6.55%
Municipal bond rate *	3.80%	2.85%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2016, as the tax-free municipal bond index applies in all years and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability. The actuarial report does not include any amounts from the AUC required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and if their financial condition does not improve in the near term.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

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continue

18. PENSION PLANS – continuation

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as of June 30, 2015	$ 32,669,162,000	$ (668,273,000)	$ 33,337,435,000	$ 219,380,325
Changes for the year:				
Service Cost	496,732,000	-	496,732,000	3,268,795
Interest on Total Pension Liability	1,230,798,000	-	1,230,798,000	8,099,389
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) or Losses	(249,926,000)	-	(249,926,000)	(1,644,663)
Effect of Assumptions Changes or Inputs	3,853,693,000	-	3,853,693,000	25,359,612
Benefits Payments	(1,567,586,000)	(1,567,586,000)	-	-
Administrative Expenses	-	(25,949,000)	25,949,000	170,760
Other Expenses	-	(43,067,000)	43,067,000	283,407
Costs of Bonds	-	(196,211,000)	196,211,000	1,291,186
Member Contributions	-	329,852,000	(329,852,000)	(2,170,624)
Net Investment Income	-	114,132,000	(114,132,000)	(751,057)
Employer Contributions	-	783,258,000	(783,258,000)	(5,154,308)
Balance as of June 30, 2016	**$ 36,432,873,000**	**$(1,273,844,000)**	**$ 37,706,717,000**	**$ 248,132,822**

ERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASBS's 67 and 68 calculations through at least the 2017-2018 fiscal year. ERS will continue to check the materiality of the difference in calculation until we have changed our methodology.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Municipality's proportionate share of the Net Pension Liability, calculated using the discount rate, as well as what the Municipality's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease 1.85%	Current Discount Rate 2.85%	1% Increse 3.85%
Total Pension Liability	$ 276,208,188	$ 239,750,164	$ 210,065,946
Fiduciary Net Position (Deficit)	(8,077,700)	(8,382,658)	(8,077,700)
Net Pension Liability	**$ 284,285,888**	**$ 248,132,822**	**$ 218,143,646**

continue

18. PENSION PLANS – continuation

Payable to the Pension Plan

At June 30, 2017, the Municipality reported a payable of $4,137,050 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 28) on March 13, 2017. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 10% in the aggregate:

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2016 valuation. Also, note that the Fiscal Plan does not anticipate future payment of the Act 3-2013 AUC (shown earlier as $776 million for fiscal year 2016-2017 and $685 million per year for fiscal years 2017-2018 through 2032-2033) contained in current law. Rather, the Fiscal Plan anticipates that ERS will be funded on a pay-as-you-go basis once assets are exhausted.

Pay-As-You-Go Funding

Operating a retirement system on a “pay-go” charge basis may be conceptually simple, but can be very difficult in practice when the plan sponsor’s current funds and ability to rely on reserves are limited. While the valuation of ERS liabilities for financial reporting purposes is conducted on an annual basis in arrears, statutory contributions and benefit payments vary continuously and respond instantaneously to emerging events.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The “pay-go” funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for “pay-go” funding will be. While the ERS can set an expected “pay-go” amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

continue

18. PENSION PLANS – continuation

- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

Pension Plan Fiduciary Net Position

As per June 30, 2016 Actuarial Valuation Report issued on November 7, 2017, the Actuaries state: "**PRGERS net assets became negative in the 2014-2015 fiscal year. If the increasing Act 116-2011 employer contributions, the Supplementary Contribution under Act 3-2013, and the Additional Uniform Contribution under Act 32-2013 (as amended by Act 244-2014) are not paid in full on an annual basis, PRGERS will continue being rapidly disfunded and gross assets will be exhausted.**"

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

B. Pension Plan of Defined Contributions of the Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan

Effective January 1, 2002, the Municipality created a retirement plan Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan (the Plan) for all employees of whose salaries were funded with the Head Start Program and which have at least one year of service and are age twenty-one or older. The Plan is part of the Popular Master Defined Contribution Retirement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1081.01 (a) of the Puerto Rico Internal Revenue Code of 2011, as amended. Popular Bank of Puerto Rico serves as the Plan Trustee.

The Municipality is required to contribute three percent (3%) of the employees' annual compensation. The Municipality complied with this required contribution percentage for the current and past two years. Participants may contribute based on after tax contributions amounts representing up to ten percent (10%) of the aggregate compensation paid to the employee, excluding the Christmas Bonus.

continue

18. PENSION PLANS – continuation

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting is based on years of continuous service. At June 30, 2015 the Plan has 400 active participants. The participant vesting schedule on such portion of their accounts is described below:

Completed years of service	Vested percent
Less than 3 years	0%
At least 3 years	20%
At least 4 years	40%
At least 5 years	60%
At least 6 years	80%
At least 7 years	100%

The vesting provisions consider years of service before the employer established this Plan.

On termination of service due to death, disability or retirement, a participant or beneficiary may elect to receive a lump-sum amount equal to the value of the participants vested interest in his/her account, or maintain the funds in the Plan. Also, ten years' annuities are allowed under the plan. The normal retirement age is the latter of the date a participant attains his 65th birthday or the fifth anniversary of the first day of the plan year in which he/she commenced participation in the Plan. Early retirement distributions are not permitted. Under the provisions of the Plan, participants are not permitted to withdraw any amount contributed by the employer from the plan, unless separated from employment.

Total contributions to the Plan for fiscal year ended December 31, 2015 (the last available financial information) were $194,222 (Sponsor) and benefits paid were $144,200. Investment revenues were $62,871 and net appreciation in fair value of investments were $11,257, for a net increase in Plan Assets of $50,202. As of December 31, 2015, the Net Fund Assets of the Plan is $2,465,142.

Additional information on the Plan is provided in its financial statements for the year ended December 31, 2014, a copy of which can be obtained from in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

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19. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance
Capital Projects Fund	"Complejo Recreo Deportivo del Sureste"	$ 417,643	Restricted for Building and Facilities
	Water Distribution System of Bo. Tomás de Castro	225,194	Restricted for Infrastructure Improvement
	Construction of Retaining Wall in Bo. Villa Coqui	46,640	Restricted for Infrastructure Improvement
	Total	$ 689,477	

Operating Leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lesser. Expenditures for the year ended June 30, 2017 amounted to approximately $442,214.

Future operating lease commitments are scheduled as follows:

Operating Leases Fiscal Year	Amount
2018	$ 2,577,984
2019	857,875
2020	526,291
2021	177,156
2022	88,688
Total	$ 4,227,995

Solid Waste Disposal Contract

The Municipality formalized a contract for the recollection and disposal and management of solid waste with a private entity (the Company). The original contract was amended effective July 1, 2014 for the following services and is due on December 31, 2021. Such contract requires the Municipality to pay the Company $11.50 per unit served. The contract provides for a minimum of 45,500 units served. Also, the fee paid to the Company will increase annually by five percent (5.0%) until December 31, 2021. Vegetable material requires the Municipality to pay the Company $9.99 per cubic yard with an annual increase of two-point five percent (2.5%).

continue

19. COMMITMENTS – continuation

In addition, the Municipality is agreed to pay an additional $32.00 per tons of solid waste that the Municipality transports and deposits in the Company's recollection center for processing. The fee is also subject to an annual increase of two-point five percent (2.5%). The Municipality is agreed to pay an additional $25.00 per tons of solid waste that the Municipality transports and deposits directly in landfill facilities by the Municipality. The fee is also subject to an annual increase of two-point five percent (2.5%).

The Municipality received royalty of $2.21 per tons for direct private collection in the recollection facilities. The royalty is also subject to an annual increase of three percent (3%). The Company also should collect recyclable material in 28,561 units for $3.24 per unit. The fee is also subject to an increase to $3.33 in fiscal year 2018, $3.43 in fiscal year 2020, and $3.54 in fiscal year 2021.

Expenditures for the year ended June 30, 2017 for this service under the terms of this contract amounts to approximately $9.2 million.

Future commitments under the terms of this contract are estimated as follows:

Solid Waste Disposal Contract

Fiscal Year	Amount
2018	$ 13,250,970
2019	13,250,970
2020	13,250,970
2021	13,250,970
2022	6,625,485
Total	$ 59,629,365

Other Commitments

At June 30, 2017, the non-major Special Revenue Funds had a deficit of $1,377,638 as follows: Housing Funds $5,382, Social & Welfare Activities Fund $404,554, and Economic Development Activities Fund $967,702. The deficits resulted from the accrual of expenditures without accruing intergovernmental and federal revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental and federal revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

The Municipality has entered into various agreements to provide professional and consulting services, health services, repairs and maintenance of facilities, marketing and other miscellaneous services to its constituents.

continue

19. COMMITMENTS – continuation

Contributions to Nonprofits Corporations

Act No. 137 of August 9th, 2002, amended Article 17.001 and added Article 17.016 to the 1991 Autonomous Municipalities Law No. 81 of the Commonwealth of Puerto Rico. This amendment authorizes Municipalities "to be part of, participate, support and sponsor nonprofit organizations under the General Law of Corporations of 1995, as amended, and as long as it is organized to promote economic and cultural development or social improvement of a municipality or region of which the municipality is part of and the corporation counts with the participation and engagement of, in addition of the municipalities, the different sectors composed of higher level educational institutions and industrial and commercial enterprises, including associations grouping businesses and industries. Municipalities' participation on the Board of Directors cannot exceed 1/3 of the total members".

Under this Article, the Autonomous Municipality of Caguas, participates in various forms with (1) Corporación de Bellas Artes de Caguas (COBAC); (2) Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS); (3) Corporación de Conservación Etnoecológica Criolla, Inc. (CCECI); (4) Iniciativa Tecnológica Centro-Oriental, Inc. (INTECO); (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO); (6) Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC); (7) Alianza Municipal Servicios Integrados (AMSI); and (8) Corporacion Juvenil para el Desarrollo de Comunidades Sostenibles (CJDCS).

On October 8, 2004 representatives of the Municipality and COBAC signed a 15-year lease contract, transferring the operations of the Fine Arts Center (FAC) to COBAC effective July 1, 2004 for a $1,000 annual rental fee payable to the Municipality. In addition, the Municipality is scheduled to make annual contributions for 5 years at par with the commitments that each representative on the Board has agreed to contribute. Subsequently, COBAC would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality's representation on the Board of Directors is 4 out of 17 members, or 24% of the voting power. During this fiscal year the Municipality contributed $40,000.

On July 1, 2006 representatives of the Municipality and SANOS signed a 5-year lease contract for the facilities where SANOS is currently located for a $1 annual fee payable to the Municipality. More recently, during the fiscal year 2016-2017 the Municipality contributed $170,834 to SANOS for education and drug prevention services.

On April 18, 2007 representatives of the Municipality and CCECI signed a 10-year lease contract for the land and facilities comprising the Caguas Botanical and Cultural Garden for an annual fee of $1,000 effective April 18, 2007. The Municipality agreed to contribute (1) operation funds for $500,000 for each fiscal year 2007-2008 and 2008-2009; $350,000 for fiscal years 2009-2010 and 2010-2011; $350,000 for fiscal year 2011-2012; (2) payment of utilities corresponding to the land and facilities included in the contract; (3) payment of the applicable insurance policies as the owner of the land and facilities; and (4) remaining funds assigned to the development of the Garden in the various dependencies/departments within the Municipality until June 30, 2007. During the fiscal year 2016-2017, the Municipality made contributions to CCECI for a total of $320,000 to cover operating expenses. In addition, in fiscal year 2015-2016, CCECI entered in a loan agreement with BADECO in the amount of $100,000, with an outstanding balance at June 30, 2017 of $83,484.

continue

19. COMMITMENTS – continuation

On September 3, 2003 representatives of the Caguas and other Municipalities signed a contractual agreement with INTECO to contribute funds; property; social, human, physical and technological capital from time to time. After the initial contribution, each Municipality would contribute approximately $1 per person annually according to the most recent Census available. The Municipality of Caguas and INTECO have and will enter into contractual agreements for specific projects from time to time. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. During fiscal year, the Municipality contributed $1,147,786 to cover operating expenses.

On July 1st, 2010, Banco de Desarrollo Centro Oriental, Inc. (BADECO) came to its existence as the only Regional Community Bank in Puerto Rico. BADECO is a nonprofit organization created and funded by the Autonomous Municipality of Caguas (MAC) as a spinoff of what was known for 27 years as the Community Development Bank of Caguas.

Out of this affiliation, BADECO administers for the MAC the loan programs that were not able to be transferred due to their nature of their funding, which came from Federal Government agencies, such as business loan fund granted by the Economic Development Administration (EDA) and the Energy Efficiency Loan fund for home owners granted by the Federal Department of Energy (DOE). BADECO reports to the MAC the programs performance and holds all the documentation regarding such programs. These programs are audited yearly by the MAC and are also open to audit procedures for the funding agencies.

On March 26, 2012 representation of Municipality and Board of Directors signed a contractual agreement where the Municipality authorized Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC) to manage and operate such property. C3TEC is an interactive educational center intended to awaken the curiosity and stimulate interest in Science among children from the elementary level onward. The Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. As part of the agreement, during fiscal year 2016-2017 the Municipality contribution to C3TEC was $400,000 to cover operating expenses.

On September 24, 2013 representatives of the Municipality and of Integral Service Municipal Alliance (AMSI by Spanish acronyms) signed a one-year contract to contribute funds to cover the rent expense of AMSI for its headquarter offices located in the Municipality of Caguas. This entity was organized under the laws of Puerto Rico over 18 years ago, with the intent of providing services related to the search of employment contributing to a strengthened industry and a workforce that grows. During fiscal year 2016-2017, the Municipality contributed $250,000 to AMSI to cover rent expenses.

On July 13, 2015 representatives of the Municipality and the executive director of Youth Corporation for the Development of Sustainable Communities (CJDCS BY Spanish acronyms) signed an eight-year contract to contribute funds to cover operations expenses. CJDCS is a non-profit organization was created to have strategies and projects for the promotion of agriculture and food security in our region. During fiscal year 2016-2017, the Municipality contributed $375,000 to CJDCS to cover operations expenses.

continue

19. COMMITMENTS – continuation

Housing and Rental Contracts

The Section 8 Housing Choice Voucher Program (HCVP) provides rental assistance to help very low income families afford decent, safe, and sanitary rental housing. The Municipality as a local Public Housing Agency (PHA) is authorized under Federal and State laws to operate housing programs within an area or jurisdiction. The Municipality, as a PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent [a housing assistance payment (HAP)] on behalf of the family.

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR Section 982.1).

The US Department of Housing and Urban Development (HUD) enters into annual contributions contracts (ACCs) with PHAs under which HUD provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR Section 982.151).

During the fiscal years ended June 30, 2017 the Municipality received HAP's assistance payments in the amount of approximately $7.5 million. No significant changes are expected during the subsequent fiscal year.

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20. COMPONENTS OF FUND BALANCES

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -
Restricted For:						
Commercial and Residential Loans	-	-	-	-	770,067	770,067
Debt Repayments	6	-	19,371,177	-	-	19,371,183
Drug Prevention Programs	-	-	-	-	11,030	11,030
Economic Development Purposes	-	-	-	-	527,288	527,288
Educational Assisted Programs	-	-	-	-	123,956	123,956
Energy Saving Loans	-	-	-	-	267,673	267,673
Head Start and Elderly Programs	-	-	-	12,658	-	12,658
Health Services	1,898	-	-	-	-	1,898
Housing Assisted Programs	-	-	-	-	1,264,423	1,264,423
Improvement to the City Hall Building	-	66,588	-	-	-	66,588
Improvements to Facilities and Buildings	581,358	-	-	-	1,368	582,726
Incentivized Voluntary Resignations Program	1,543,371	-	-	-	-	1,543,371
Incubator Program	-	-	-	-	131,368	131,368
Infrastructure Improvements	-	6,394,127	-	-	96,552	6,490,679
Recreational Activities	-	92,312	-	-	50,120	142,432
Recycling Projects	80,212	-	-	-	-	80,212
Reforestation Initiatives	-	-	-	-	12,885	12,885
Safety and Security Programs	-	-	-	-	162,127	162,127
Social Development Purposes	-	-	-	-	448,322	448,322
Sureste Sport Facility Construction	-	1,139,662	-	-	-	1,139,662
Transcriollo Transportation Program	-	-	-	-	59,151	59,151
Transit Improvement Programs	27,827	-	-	-	684	28,511
Upgrade to Information System	536,598	-	-	-	-	536,598
Total Restricted	**2,771,270**	**7,692,689**	**19,371,177**	**12,658**	**3,927,014**	**33,774,808**
Committed To:						
Transcriollo Transportation Program	-	-	-	-	78,007	78,007
Total Committed	**-**	**-**	**-**	**-**	**78,007**	**78,007**
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	**(6,267,060)**	**(183,057)**	**-**	**(143,374)**	**(1,377,638)**	**(7,971,129)**
Total Fund Balances	**$ (3,495,790)**	**$ 7,509,632**	**$ 19,371,177**	**$ (130,716)**	**$ 2,627,383**	**$ 25,881,686**

21. CONTINGENCIES

Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of $799,883 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

continue

21. CONTINGENCIES – continuation

The amount presented in the total liabilities of the governmental activities in the statement of net position represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

22. HEALTH CARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately $7.8 million for the fiscal year ended June 30, 2017.

Medical Insurance Plan for Retired Employees

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 3.10% based on the asset allocation on the Commonwealth's general assets that are used to pay this benefit.

As a cost-sharing multiple employer plan, ERS is not required to report a Net OPEB Liability. In accordance with paragraph 23 of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the employers that participate in the plan should recognize annual OPEB expense equal to their contractually required contributions to the plan. The employers do not have an ARC or a Net OPEB Liability.

continue

23. TAX ABATEMENTS

As of June 30, 2017, the Municipality implemented disclosure required by Statement No. 77 of the Governmental Accounting Standard Board.

The Municipality provides tax abatements through two programs— the Traditional Urban Center and Special Corridors, and new technology industries; manufacture; service; distribution (local or export); transportation; corporate headquarters, and others. Also, by Resolution 12A-55 the Court of First Instance of Puerto Rico determine the Satellite Television are exempt of Municipal Patents Law.

The Commonwealth of Puerto Rico provides tax abatements in the Municipality through eight programs— the Tax Incentives Act of 1998; Tax Incentives for the Development of Puerto Rico Act; Act to Promote the Export of Services; Green Energy Incentives Act of Puerto Rico; Tax Exemptions for Hospitals; Agricultural Tax Incentives Act of Puerto Rico; Puerto Rico Tourism Development Act of 2010; and Young Entrepreneurs Incentive and Financing Act.

Also, the Internal Revenue Code administered by the Treasury Department, provide full exemption to municipal volume of business taxes for rental of low-income families.

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23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Department of Economic Development of the Municipality								
	Ordinance No. 12A-48, Serie 2011-2012 Program			Ordinances No. 99B-19, Serie 1999-2000 Program			Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance of Puerto Rico		
1) Purpose of Program.	Review and establish new tax incentives for the jurisdiction of the Municipality and for its special zones of the Traditional Urban Center and Special Corridors.			Promote the establishment of new technology industries; manufacture; service; distribution (local or export); transportation; corporate headquarters; communication; public utilities; farming; finance; construction and new companies dedicated to electronic commerce that are established in the Municipality, or that being an established trade or industry, make an addition or expansion in the Municipality.			Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance.		
2) Tax being abated.	Real Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Real Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Volume of Business Taxes.		
3) Authority under which abatement agreements are entered into.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law.		
4) Criteria to be eligible to receive abatement.	The taxpayer will contribute to maintain and improve the economic and labor stability of the industrial or commercial unit to be established, or any other factor or circumstance that reasonably demonstrates that the concession of tax incentives will result in the best socio-economic interests of the Municipality.			The taxpayer will contribute to maintain and improve the economic and labor stability of the industrial or commercial unit to be established, or any other factor or circumstance that reasonably demonstrates that the concession of tax incentives will result in the best social and economic interests of the Municipality. The taxpayer undertakes and will perform during the first three (3) years of exemption, a permanent improvement project or service for the benefit of the community.			Exempt from payment of municipal patent by Satellite Television, as required by the court.		
5) How recipients' taxes are reduced.	Through a reduction of annual rate on Personal Property Taxes of 75% during five (5) years, or 100% during two (2) years plus 90% during the next eight (8) years, with some limitations; Real Property Taxes of 75% during five (5) years, or 40% during ten (10) years, with some limitations; Volume of Business Taxes of 75% of total amount during five (5) years, or 40% during ten (10) years, with some limitations; and full exemption on Construction Excise Taxes on new construction and expansions.			Through a reduction of annual rate on Personal Property Taxes of 2.675%, and Real Property Taxes of 3.675% during five (5) years; Volume of Business Taxes of 50% of tax rate from three (3) to eight (8) years depending on new jobs created; and full exemption on Construction Excise Taxes on new construction and expansions.			This Act provide full exemption of Volume of Business Taxes.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	Property Taxes	Volume of Business Taxes	Construction Excite Taxes	Property Taxes	Volume of Business Taxes	Construction Excite Taxes	Property Taxes	Volume of Business Taxes	Construction Excite Taxes
	$747,067	$2,680,072	$0	$1,393,679	$703,057	$0	Not Applicable	$21,272	Not Applicable

continue

23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	**Programs Administered by the Puerto Rico Industrual Development Company**	
	Tax Incentives Act of 1998 (Act Number 135 of December 2, 1997 as Amended)	**Tax Incentives for the Development of Puerto Rico Act (Act Number 73 of May 28, 2008, as Amended)**
1) Purpose of Program.	Stimulate the formation of local capital, promote the development of the air port infrastructure and maritime, promote the export of manufactured articles in Puerto Rico, promote the development of strategic industries, promote the development of small and medium businesses, promote the establishment of regional offices and corporate headquarters and distribution centers in Puerto Rico, promote the creation of jobs and the development of human resources, and promote the development and distribution of technology in Puerto Rico.	Provide an adequate environment and opportunities for the continued development of our local industry; providing an attractive tax proposal that appeals to foreign direct investments and fosters the economic development and social betterment in Puerto Rico.
2) Tax being abated.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.
3) Authority under which abatement agreements are entered into.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.
4) Criteria to be eligible to receive abatement.	Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.	Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.
5) How recipients' taxes are reduced.	Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90%; Volume of Business Taxes of 60% to 100% of total amount; and 60% to 100% of Construction Excite Taxes during the decrete period.	Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% to 100% up to 15 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 15 years, 100% for industries dedicated to generation of energy using renewable sources for the first 5 years and then 60% for 15 years.
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.
7) Provisions for recapturing abated taxes.	N/A	N/A
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A	N/A

	Tax Incentives Act of 1998			Tax Incentives for the Development of Puerto Rico Act		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**
	Not Available	**$1,572,345**	**Not Available**	**Not Available**	**$966,830**	**Not Available**

continue

23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	**Programs Administered by the Puerto Rico Industrual Development Company**					
	Act to Promote The Export of Services (Act Number 20 of January 17, 2012 as Amended)			**Green Energy Incentives Act of Puerto Rico (Act Number 83 of July 19, 2010 as Amended)**		
1) Purpose of Program.	Provide provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital, thus promoting the economic development and social betterment of Puerto Rico.			To achieve the diversification of energy sources and energy technology infrastructure by reducing our dependency on energy sources derived from fossil fuels such as petroleum; reducing and stabilizing our energy costs; controlling electricity price volatility in Puerto Rico; reducing the flight of capital caused by the import of fossil fuels; preserving and improving our environment, natural resources and quality of life; promoting the conservation of energy and social wellbeing through various mechanisms such as setting and achieving goals within a mandatory timetable, and economic and tax incentives to stimulate the generation of electric power through sustainable renewable and alternative renewable energy source.		
2) Tax being abated.	Real and Personal Property Taxes, and Volume of Business Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.		
3) Authority under which abatement agreements are entered into.	Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	Any entity with an office or bona fide establishment located in Puerto Rico which carries out or may carry out, eligible services that are, in turn, considered services for export or promoter services shall be considered an eligible business.			Any business engaged in the production and sale, at a commercial level, of green energy for consumption in Puerto Rico, whether as the owner and direct operator of the production unit or as owner of a production unit operated by another person, in which case, both the owner and the operator shall be deemed to be businesses engaged in an eligible activity for the purposes of this Act; Green energy producer, as defined in Section 1.4, for consumption in Puerto Rico, provided that this is his/her main business; Assembly of green energy generation equipment, including the installation of such equipment at the facilities of the green energy user to be produced by such equipment; Property engaged in the generation of green energy.		
5) How recipients' taxes are reduced.	Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% up to 20 years; and Volume of Business Taxes of 60% of total amount for 20 years.			Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% for 25 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 25 years.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**
	Not Available	**$35,633**	**Not Available**	**Not Available**	**$2,072**	**Not Available**

continue

23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	**Programs Administered by the Puerto Rico Industrual Development Company**					
	Tax Exemptions for Hospitals (Act Number 168 of June 30, 1968, as Amended)			**Agricultural Tax Incentives Act of Puerto Rico (Act Number 225 of December 1, 1995, as Amended)**		
1) Purpose of Program.	To grant incentives to people dedicated to the operation of hospitals and / or homes of health in Puerto Rico and adjacent facilities; and to establish the conditions under the hospitals will enjoy said incentives, as well as to exempt from the payment of contributions bonds, promissory notes or other obligations and fifty (50) percent of the interest on the same, that these entities issue to raise the necessary funds or capital for your purposes.			To set the public policy in the agricultural sector and other related economic sectors; establish the requirements to qualify "bona fide" farmers and exempt them from payment of any kind of taxes on personal and real property, municipal volume of business, income, excise taxes and any municipal and/or state tax.		
2) Tax being abated.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.		
3) Authority under which abatement agreements are entered into.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	Any people dedicated to the operation of hospitals and/or homes of health in Puerto Rico and adjacent facilities, shall be considered an eligible business.			Any natural or legal person who during the taxable year for which he claims deductions, exemptions or benefits provided by this law has a current certification issued by the Secretary of Agriculture, in consultation with the Secretary of the Treasury, which certifies that during said year was dedicated to the exploitation of an activity that qualifies as an agricultural business, as said term is defined in subsection (b) of this section, and which derives fifty percent (50%) or more of its gross income from a agricultural business as operator, owner or lessee, as recorded in yourtheir income tax return, shall be considered an eligible business.		
5) How recipients' taxes are reduced.	This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.			This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**
	Not Available	**$905,765**	**Not Available**	**Not Available**	**$30,745**	**Not Available**

continue

23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Puerto Rico Industrual Development Company					
	Puerto Rico Tourism Development Act of 2010 (Act Number 74 of July 10, 2010, as Amended)			Young Entrepreneurs Incentive and Financing Act (Act Number 135 of August 7, 2014, as Amended)		
1) Purpose of Program.	To set the public policy to make Puerto Rico a world-class tourist destination, propitiate the right conditions to ensure the continued development and competitiveness of the hotel industry in Puerto Rico, provide the environment for the continuous training of local and foreign capital for investment in tourism projects, tempering the incentives offered to the Puerto Rican tourism industry to the evolution of better tourism products, to the challenges we face and to the opportunities that our current world offers us, mitigate the high costs of construction and of operation of tourist businesses in Puerto Rico; to make more flexible the sources of income that the associations of condominiums that are part of an exempt business may have according to the Tourism Development Law of Puerto Rico of 1993 and the Tourism Development Act of Puerto Rico of 2010, and the associations of owners of timeshare owners and vacation clubs.			To promote the retention of Puerto Rican talent and foster the return of young professionals who have left the Island.		
2) Tax being abated.	Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.			Personal Property Taxes and Volume of Business Taxes.		
3) Authority under which abatement agreements are entered into.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.			Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.		
4) Criteria to be eligible to receive abatement.	Any hotels, condo hotels, Puerto Rican hostels, agro-housing, guest houses, timeshare rights plans and vacation clubs, hostels that belong to the "Posadas de Puerto Rico" program, those certified as "Bed and Breakfast (B & B)" and any other from time to time are part of programs promoted by the Tourism Company, theme parks, golf courses operated by, or associated with, a hotel that is an exempt business under this Act, the Tourism Development Act of Puerto Rico of 1993 or any another similar law of an analogous nature, or golf courses included within a destination or tourist complex (resort), tourist marinas, facilities in port areas for tourism purposes, agrotourism, nautical tourism (provided, however, that any marina in the Islands Municipalities of Vieques and Culebra will be considered as tourist marine for purposes of this Law), medical tourism and other facilities or activities that, due to the special attraction derived from its usefulness as a source of active, passive or fun entertainment, shall be considered an eligible business.			This Act offers various competitive advantages for young professionals to work and establish themselves in Puerto Rico. Firstly, full income tax exemption is provided for the first forty thousand dollars ($40,000) earned by young persons between the ages of sixteen (16) and (26) on account of wages, rendered services, or self-employment, shall be considered an eligible business.		
5) How recipients' taxes are reduced.	Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% for 10 years; Volume of Business Taxes of 100% to new business for 10 years, and existing business of 90% for 10 years; and Construction Excise Taxes of 100% of total amount of new construction for 10 years.			This Act provide full exemption of Personal Property Taxes and Volume of Business Taxes for the first $500,000 of volume earned for a period of 3 years.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.			The amount of the direct reduction to revenues is based on the calculated certified reasonable property value and volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A			N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A			N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**
	Not Available	**$21,331**	**Not Available**	**Not Available**	**$3,436**	**Not Available**

continue

23. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	Programs Administered by the Puerto Rico Department of Treasury Section 1101 (a) (6) of Internal Revenue Code of Puerto Rico		
1) Purpose of Program.	Promote low-income families access to rental housing at reasonable prices.		
2) Tax being abated.	Volume of Business Taxes.		
3) Authority under which abatement agreements are entered into.	Law Number 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law.		
4) Criteria to be eligible to receive abatement.	The taxpayer will be a low-income family to be eligible.		
5) How recipients' taxes are reduced.	This Act provide full exemption of Volume of Business Taxes.		
6) How amount of abatement is determined.	The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.		
7) Provisions for recapturing abated taxes.	N/A		
8) Types of commitments made by the Municipality other than to reduce taxes.	N/A		
9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.	**Property Taxes**	**Volume of Business Taxes**	**Construction Excite Taxes**
	Not Applicable	**$13,984**	**Not Applicable**

24. NET POSITION RESTATEMENTS

For the year ended June 30, 2017, the Municipality adjusted net position to reflect the prior period costs related to the implementation of the GASB No. 68 and increase in Net Pension Liability.

The following schedule reconciles the June 30, 2016 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2016:

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2016	$ 36,878,572
Implementation of GASB No. 68	(589,885)
Beginning Net Position, as Restated, At July 1, 2016	**$ 36,288,687**

continue

25. GOING CONCERN – COMMONWEALTH OF PUERTO RICO

The Commonwealth of Puerto Rico (Commonwealth) currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base, has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like the municipalities of Puerto Rico which received subsidies from the Commonwealth.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth and have caused GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of the PBA and COFINA, and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The following activities, funds, and blended component units reflect a net position deficit/fund balance deficit as of June 30, 2014 (expressed in thousands), last audited financial statements:

	Deficit Balance
Primary Government:	
Governmental Activities	$ 50,439,003
General Fund	1,863,885
Lotteries Fund	96,623
PR Medical Services Administration Fund	302,326

The Commonwealth's Governmental Activities show a net position deficit of approximately $50.4 billion as of June 30, 2014. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, an increase in the cost of funding the Retirement Systems, and a decrease in estimated revenues, among other factors.

The Commonwealth's General Fund shows a fund balance deficit of approximately $1.9 billion. The fund balance deficit is attributable to operating expenses exceeding revenues.

continue

25. GOING CONCERN – COMMONWEALTH OF PUERTO RICO – continuation

Another aspect of the Commonwealth's operations contributing to the aforementioned deficits and liquidity constraints relates to the Commonwealth's education costs, representing a very high percentage of its budgetary expenditures, and the Commonwealth's challenges in controlling such costs. The budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total General Fund budget.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

As part of the original Fiscal Plan approved by the Oversight Board on March 13, 2017 presented by the Governor of Puerto Rico to attend the fiscal crisis, contemplates a reduction of $350.0 million of subsidies to the municipalities of Puerto Rico. Already in FY 2018, the total municipal appropriation was reduced by $150 million, bringing the new baseline appropriations to $220 million per year. Going forward from this baseline, with the New Fiscal Plan approved by the Oversight Board on April 19, 2018, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY 2022 before ultimately phasing out all subsidies in FY 2024. (See Note 26 to the Basic Financial Statements).

PUERTO RICO FILES FOR BANKRUPTCY UNDER PROMESA TITLE III

On May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United Stated history.

Both the Oversight Board and the New Commonwealth Administration have expressed a strong preference for restructuring the Commonwealth' debt through the use of Title VI. However, when the it comes to the debt of the Commonwealth and those instrumentalities that rely on its taxing power for debt service, as opposed to the debt of certain of its instrumentalities, Title VI is unlikely to provide a realistic path to restructure such debt for the following reasons:

- Unlike Title III, Title VI contains no automatic stay of creditor litigation upon the commencement and during the continuation of the restructuring process. As the current stay is set to expire in May 2017, with limited options available for a further extension.

- Any attempt to restructure the Commonwealth debt through Title VI will likely be complicated when existing litigation resumes, and additional litigation is commenced.

- Although that is a critical dispute.

continue

25. GOING CONCERN – COMMONWEALTH OF PUERTO RICO – continuation

- In addition, creditors already have challenged the invocation of the clawback by the Commonwealth, asserted claims against the Commonwealth based on violations of statutory impairment provisions, alleged that various property interest have been taken in violation of constitutional protections, and claimed violations of PROMESA and other statutes, and

- Regardless of the validity of these claims, it is clear that they will not all be resolved in the likely time frame that a Title VI process will take, and the outcome of such litigation, as well as other litigation that surely will be commenced upon the expiration of the current stay, could alter or harden the positions of the affected parties and change their willingness to compromise their claims.

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

PROMESA Overview

Background

Before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in Puerto Rico v. Franklin Cal. Tax-Free Trust, et al., 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

<u>**Oversight Board**</u>: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

Certain governmental entities in Puerto Rico may be organized as an instrumentality of Puerto Rico, while other entities may be organized as an instrumentality of an instrumentality. For example, certain governmental entities may not be organized as a direct instrumentality of Puerto Rico, but instead as an instrumentality of the Government Development Bank of Puerto Rico. The definition of "territorial instrumentality" in PROMESA provides that such definition includes an instrumentality "of a territory". While not addressed in the express language of PROMESA, it would appear that an instrumentality of an instrumentality, such as an entity organized by the Government Development Bank of Puerto Rico, could also constitute a "territorial instrumentality" under the Act. The definition of "territorial instrumentality" specifies that it is to be construed broadly. In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

Automatic Stay: Upon the enactment of the Act, a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against Puerto Rico and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay under the Act has certain very limited exceptions, but all enforcement actions against Puerto Rico and its instrumentalities, or other actions to control their property, are stayed through the temporary stay period. As provided in the Act, the stay will continue in effect until February 15, 2017 unless it is temporarily extended by the Oversight Board for 75 days or by a Federal District Court for 60 days. The Act permits Puerto Rico and its instrumentalities to voluntarily pay liabilities during the period of the temporary stay. Thus, Puerto Rico and its instrumentalities can elect to, but are not required to, make payments on debts or other obligations during the stay period. On January 28, 2017, the Oversight Board extended the stay to May 1, 2017.

FISCAL PLAN TARGETS AND GUIDELINES

At its November 18, 2016 public meeting here in Puerto Rico, the Oversight Board adopted and communicated publicly a set of five principles to evaluate the Government of Puerto Rico's proposed fiscal plan and to assess the degree to which the plan meets the 14 criteria established by PROMESA. This set of five principles adopted by the Oversight Board and the 14 criteria established by PROMESA regarding the elaboration of the fiscal plan are as follows:

Principles:

Principle 1: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

Principle 4: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

CRITERIA FOR FISCAL PLANS

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and

14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.

Fiscal Plans and Budgets: A critical component of PROMESA is the requirement of Puerto Rico and covered instrumentalities to develop and maintain a fiscal plan. A fiscal plan for the territory, or any instrumentality designated by the Oversight Board, generally must contain numerous provisions governing the operation of the territory or instrumentality including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability. Each fiscal plan is also required to set forth methods for the territory or instrumentality to access the capital markets.

The fiscal plan must be developed by the governor, with oversight by the Oversight Board, and submitted to the Oversight Board for approval (the Oversight Board can submit its own fiscal plan if the governor's fiscal plan is not acceptable in the sole discretion of the Oversight Board). A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens.

The Act further specifies that no budget can be submitted by the territory's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board). The Commonwealth submitted the Fiscal Plan on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017 (see below).

New Fiscal Plan – 2018

Following the passage of Hurricanes Irma and María, the Oversight Board requested the Government of Puerto Rico to review the Fiscal Plan approved in March 2017, considering the fiscal crisis, the new approved Federal Funds and the economic expectations for the next 5 years and not for 10 years as the Fiscal Plan originally approved.

Because of the reality, Puerto Rico has several contingencies that prevent certainty of our future, such as: the treatment the Federal government will give to Puerto Rico in health programs and funds for the hurricanes, the disbursement of Federal assistance funds, impact of Title III litigation and the impact that the Federal tax reform will have on jobs on the Island. On April 5, 2018, the Governor submitted New Fiscal Plan. After various communication and analysis by personnel of Commonwealth and the Oversight Board, the Board approved on April 19, 2018 the New Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. Following are the principal commentaries about the differences between the Certified Fiscal Plan from 2017 and the New Certified Fiscal Plan of 2018:

Most of these differences are driven by the impacts of Hurricanes Irma and María on Puerto Rico population and economy. The most significant change is in the trajectory of the GNP growth rate. In the New Fiscal Plan, the growth is far more volatile, with major economic contractions expected in FY 2018, followed by a bounce back in FY 2019, with a gradual slowdown in the growth rate as disaster spend wanes. This unprecedented level of disaster spends funding entering the Puerto Rican economy due to María also leads to inflation levels above what was seen in the Certified Fiscal Plan from 2017, for most of the time from FY 2018 – FY 2023. Irma and María have also led to a large projected population exodus, especially in FY 2018.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

While many measures were largely maintained from the Certified Fiscal Plan in 2017, in other cases there were changes to approach. Below is an explanation of key differences.

Agency Efficiencies

- The New Fiscal Plan took an overall approach to all agency efficiency savings, breaking out reductions in personnel and non-personnel expenditures without aligning on agency-specific targets. Measures include:
  - Back-offices or support function payroll savings – reducing personnel in non-client facing functions in each agency (e.g., finance, human resources, information systems and facilities support).
  - Frontline payroll savings – the approach involved a review of each program and service (both citizen-facing and intergovernmental) to determine if the service levels provided should continue and/or if specific services could be delivered more effectively (e.g., through process improvement, innovative tools and technology, organizational and delivery changes). Additionally, macroeconomic analysis can be used to determine if lower levels could serve the same number of citizens based on expected changes in demographics, workforce levels, and the economy.
  - Non-personnel savings – institutionalizing centralized demand controls, strategic category-level purchasing (e.g., leveraging Puerto Rico's access to Federal GSA rates, purchasing through e-auctions, opening competitive RFPs), accounting for total cost of ownership, and enforcing contractual compliance could present large savings opportunities throughout the government.
  - Agencies groupings include individualized initiatives, including:
    - Courts and Legislature: Reduce overall spend in line with mainland benchmarks (LA compared to full-time legislatures, GCJ compared to state judiciaries).
    - Culture: Reduce Musical Arts and Stagecraft Corporation expenses (by specific benchmark).
    - Environmental: Reduce solid waste G&A spend (by specific benchmark).
    - Financial Oversight and Management Board: Reduce overall spend in line with -50% of the cuts prescribed to other agencies (same as reduction of AAFAF, which will also prove vital to implementing the New Fiscal Plan)
    - Independent Agencies: Consolidate Port of the Americas into the Port of Ponce.
  - All consolidated agency groupings shall perform a thorough review of the agencies within the grouping and submit a proposal for integration no later than the end of the fourth quarter of FY 2018.
- The New Fiscal Plan has a detailed bottom-up approach which applies to every agency within the Executive, Legislative, and Judiciary Branches, as well as the Oversight Board.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- In addition, while the New Fiscal Plan adds an additional government-wide compensation measures which were not present in the March 2017 Certified Fiscal Plan (elimination of the Christmas bonus, implementing uniform healthcare across all government agencies), it maintains the payroll freeze from the March 2017 Certified Fiscal Plan. Additionally, uniform healthcare insurance is now a separate measure, rather than a potential initiative to reach the targeted personnel savings.

Healthcare

- Healthcare savings from the March 2017 Certified Fiscal Plan are largely maintained in the New Fiscal Plan, except for FY 2018 and FY 2019, which have been adjusted to reflect the post-María reality. The Government has proposed targeting the following:
  - Decrease the annual per-member cost growth rate to the median level of Medicaid growth rate by implementing value-based healthcare reforms, such as new payment models to incentivize care integration among providers.
  - Shift care from higher-cost to lower-cost channels (e.g., reducing the number of emergency room visits and encouraging and enabling the role of primary care physicians in providing preventative care.
  - Drive better health outcomes for the population, indicated especially by reduced rates of chronic conditions among adults.
  - Coordinate healthcare initiatives in the community to promote efficiency of services and a community-wide focus on health.

Tax Compliance and Fees Enhancement

- The March 2017 Certified Fiscal Plan included revenue-positive corporate tax reform, whereas in the New Fiscal Plan there is a new tax initiatives structural reform which is revenue neutral.
  - Tax Law Initiatives:
    - Reduce the corporate base tax from 20% to 19%, and the top rate from 39% to 31%.
    - Lowers individual income tax rates, including the top marginal rate to 31%, while reducing a series of exemptions and deductions such as the mortgage interest deduction.
    - Eliminates the B2B SUT by FY 2020.
    - Reduces the tax rate on prepared foods transactions (e.g., at restaurants) paid for via electronic means from 11.5% to 7%

    These initiatives must be financed by a variety of offsets, including:

    - The creation of a minimum flat tax withholding at source regime for self-employed individuals and service-based companies

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Expanded usage of corporate and individual alternative minimum taxes to broaden the tax base and combat excessive usage of deductions to lower tax liability.

- Reduction in a series of deductions, credits, and cash grants.

- Creation of tax expenditure report by the end of calendar year 2018.

- Enforcement of revenue neutrality.

  - Any tax initiative package, to prevent a scenario where tax reductions for individual income tax, corporate income tax, B2B tax, and SUT on prepared foods should be accompanying by sufficient offsetting revenue measures identified in the enabling legislation.

  - The Government must produce a quarterly performance report, which shall be submitted to the Oversight Board within 45 days after each quarter ends, measuring the performance of the Proposed Tax Initiatives and the offsetting revenue generation or cost reduction measures identified in any enabling legislation against projections set forth in the New Fiscal Plan.

  - The implementing legislation shall include specific measures that will be triggered to restore revenue neutrality over the period covered by the New Fiscal Plan in the event that the Oversight Board determines there is a lack of revenue neutrality.

- Improve compliance rate by:

  - Use new systems and processes to identify and remediate non-payment.

  - Create a new culture internally and externally that shifts from the agency existing to serve the public towards emphasis on Treasury Department making sure everyone pays their taxes, but without friction with taxpayer.

  - Reduce the complexity of the tax system and process of filing taxes to make it easier for individuals and businesses to pay their taxes correctly.

  - Institute advanced analytics and broad-reach, low-touch correspondence audits.

  - Collecting SUT on Internet sales.

  - The New Fiscal Plan largely maintains the tax compliance measures and adjustments to other taxes and fees from the March 2017 Certified Fiscal Plan, based on adjustments to the targets mutually agreed upon between the Oversight Board and the Government during the implementation of the March 2017 Certified Fiscal Plan.

Reduction in Appropriations to UPR and Municipalities

- The March 2017 Certified Fiscal Plan and New Fiscal Plan maintain the same reduction to UPR appropriations; however, the New Fiscal Plan accounts for reductions which have already taken place in FY 2018 (e.g., they are accounted for within the baseline expenditures of the New Fiscal Plan).

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Targeted measures to increase revenues (tuition, applying for patents and other intellectual property, and continuing to provide trainings to the Puerto Rico Department of Education and the Government more broadly) and reduce expenditures (consolidating campuses, optimizing human resources through reducing temporary and trust positions, improving procurement, reducing the cost of medical insurance, and reducing tuition exemptions and special scholarships) will allow UPR to operate sustainably under a reduced Commonwealth subsidy.

- A means-based scholarship fund supported by reductions to the budgets of the Oversight Board, General Court of Justice, Legislative Assembly, and AAFAF of about $60-$65 million annually in reinvestment funds starting in FY 2019, will be used to help build up an endowment, independently of the UPR, to pay for need-based scholarships for UPR students

- The New Fiscal Plan largely maintains the reductions to the municipal appropriations from the March 2017 Certified Fiscal Plan; however, the implementation ramp has been altered to reflect the post-María realities facing the municipalities. Already in FY 2018, the total municipal appropriation was reduced by $150 million, bringing the new baseline appropriations to $220 million per year. Going forward from this baseline, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY 2022 before ultimately phasing out all subsidies in FY 2024.

    - Municipal services consolidations in areas such as provide services to citizens, public works and infrastructure, public safety, family services, education, and housing.

    - Property tax reform – the municipalities should identify and register tens of thousands of non-registered properties to begin collecting tax on them, and re-categorize misclassified properties (e.g., residential properties marked as commercial and updating property valuations).

- Reductions to "other appropriations" (e.g., to the private sector) were included within the agency efficiency measures in the March 2017 Certified Fiscal Plan. Now, they are included within the Tax Law Initiatives.

Pension Reform

- The March 2017 Certified Fiscal Plan included all the measures from the New Fiscal Plan except for the Social Security enrollment.

    - Currently, teachers, police officers, and judges do not participate in Social Security.

    - Teachers, police officers, and judges under the age of 40 shall be enrolled in Social Security. This can be accomplished without either an employee referendum or new Federal legislation.

    - Teachers, police officers, and judges over the age of 40 should be provided the option to enroll in Social Security at a later date.

- The conformed Fiscal Plan documents released in August 2017 included the additional Social Security enrollment, as well as adjustments to the above measures, which rendered the savings largely similar to the measures included in the New Fiscal Plan.

    - Freeze Define Benefit Plan benefits for JRS and TRS and enroll employees in a Define Contribution Plan with segregated accounts.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- TRS members hired prior to August 1, 2014 and JRS members hired prior to July 1, 2014 are currently accruing benefits under their defined benefit retirement plans.

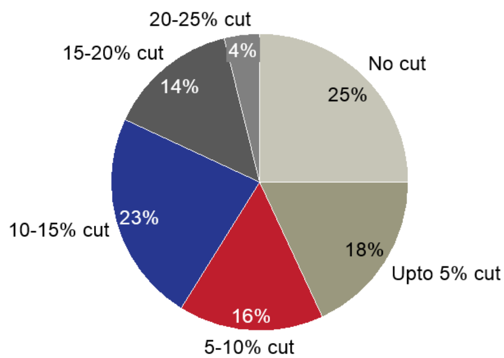
- JRS and TRS plans must be frozen as quickly as possible to avoid creating future pension liabilities and to stabilize the system.

- ERS members have already transitioned to hybrid cash balance plans (in 2000 and 2013), with a transition to Defined Contribution accounts targeted for June/July 2018.

- These actions of freeze should produce significant savings (from $0.8 million in FY 2020 to $50 million or more in FY 2026 and growing further in later years to $700 million or more) and play a significant role in restoring the budget to long-term sustainability.

- 10% Pension Benefit Average Reduction:

    - Although the average benefit reduction will be 10% there will be no reduction for those with combined retirement plan and Social Security benefits below the poverty level of $1,000 per month.



    - This formula of reduction will also apply to benefits earned by current employees who have yet to retire.

    - The 10% reduction shall take effect starting in FY 2020 to have sufficient time to implement it following the Plan's enactment.

Office of the Chief Financial Officer (OCFO)

- Government's current financial management functions remain decentralized, fragmented, obsolete, and in need of improvement. This must be solved by the establishment of a strong, centralized Office of the CFO, as proposed by the governor, into the executive branch of Government.

- By centralizing all financial management functions, the OCFO will improve fiscal governance and forecasting, increase transparency, substantiate accountability, heighten internal controls, and improve stakeholder confidence in Puerto Rico's financial management. Most importantly, it will enable the Government to achieve fiscal responsibility and restore access to the capital markets, two cornerstones of PROMESA

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- The OCFO will have authority and accountability over the following agencies, which could be consolidated or eliminated: Department of Treasury, Office of Management and Budget, Office of Administration and Transformation of Human Resources, Treasury (internal entity), General Services Administration, and Financial Advisory Authority and Tax Agency of Puerto Rico (FAATA).

- Core objectives of the OCFO must be as follows:

  - Centralize treasury and liquidity management.

    - Enforce and manage a consolidated treasury single account for the Government; this involves consolidating visibility and control of all Government bank accounts, including Component Units accounts at private banks and creating a true Treasury Single Account. All other public entities should maintain zero balance sweep accounts.

    - Serve as the sole authority for new bank account creation and closure, as well as ongoing and ad-hoc liquidity reporting, monitoring and analysis. It must rationalize this bank account portfolio, optimize cash pooling/daily cash sweeps and treasury operations, and implement uniform accounts payable and disbursement prioritization policies, processes and reports.

  - Enhance budget development process and improve monitoring / performance tracking.

    - Comply with the recently established Oversight Board budget guidelines and timeline to develop a budget that is consistent with the New Fiscal Plan and easily traceable to the New Fiscal Plan and the audited financials.

    - Forecast and managing receipts seasonality.

    - Oversee all tax decrees and tax agreements issues.

    - Operationalize the budget in the financial system to ensure consistency between accounts and facilitate monitoring of those accounts.

    - Estimate, protect, and enhance collections and revenue streams, and establish budgetary priorities and oversight, including effective expense controls and procurement reform.

  - Drive standardization and integration of financial IT systems across all agencies.

  - Ensure compliance with procurement, contracts, pensions, and human resources management policies.

    - Certify all contracts, bills, invoices, payrolls, and other evidences of claims, demands or charges related to the central Government and all entities reliant on the Government's taxing authority, including prescribing forms of receipts, vouchers, bills and claims to be used by all agencies.

    - Manage centralized insurance procurement and policy management.

continue

26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

  - Oversee human resources as well as all governmental payroll operations and all government-related financial transactions. The office must have the sole responsibility within the Government for reforming personnel policies, including the renegotiation of existing collective bargaining agreements (CBAs) consistent with the New Fiscal Plan objective to achieve budget savings and efficiencies and enhanced delivery of governmental services and be the one to negotiate all future CBAs to achieve the same ongoing results.

  - Implement uniform time and attendance processes, and payroll controls and reporting.

- Reduce special revenue funds deficits through enhanced control mechanisms and oversight.

  - Implement an additional measure to ensure responsible stewardship of Puerto Rico's Special Revenue Fund.

  - All dedicated revenue streams attributable to SRF must have their funds first deposited in the newly established Treasury Single Account. In this process, it will ensure a balance between current SRF revenues and expenses to align with the legislative mandate that SRF's cannot outspend their resources.

- Improve timeliness of CAFR (Comprehensive Annual Financial Report) and financial reporting.

  - Establish a clear timeline to publish the FY 2015, FY 2016, and FY 2017 CAFRs and manage it to completion as soon as possible.

  - Implement a new process for the publishing of the FY 2018 and subsequent CAFRs within the established regulatory timeframes, and drive improvements in the process and quality of the data provided. All releases should implement the modified-accrual basis of accounting as required in PROMESA and leverage the forecasting, e-settlement, and analytics capabilities to support all OCFO functions.

  - Enact measures implementation impact forecasting and reporting.

  - Supervise property tax assessment reforms, preparing tax maps, and providing notice of taxes and special assessments.

- Centralize and validate management of funds, debt, and other financial transactions.

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27. RECENTLY ADOPTED ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective for financial statements for periods beginning after June 15, 2016 (FY 2016-2017) and have been implemented when applicable during the year ended June 30, 2017:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

GASB No. 74 does not have any impact on the Municipality's financial statements.

GASB Statement No. 77, Tax Abatement Disclosures. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues

continue

27. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients

- The gross dollar amount of taxes abated during the period

- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements

- The specific taxes being abated

- The gross dollar amount of taxes abated during the period.

See Note 23 for more detail of implementation.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

continue

27. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

The GASB No. 78 is effective for the Municipality's fiscal year ending June 30, 2017 and there is no impact to the financial statements.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB No. 79 does not have any impact on the Municipality's financial statements.

GASB Statement No. 80, Blending Requirements for Certain Component Units. This Statement establishes an additional presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. This Statement amends Statement No. 14, The Financial Reporting Entity, paragraph 53, and Implementation Guide No. 2015-1, Question 4.30.1.

A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provision is paragraphs 21-37 of Statement 14, as amended.

GASB No. 80 does not have any impact on the Municipality's financial statements.

continue

28. SUBSEQUENT EVENTS

Oversight Board authorizes Government Development Bank to Restructure Debts under Title VI of PROMESA

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) created by Congress authorized the Government Development Bank for Puerto Rico (GDB) to pursue the restructuring of its debts under Title Vi of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA) under the relevant provisions of Title VI.

The Oversight Board's decision was in response to a Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB's operations and a comprehensive financial restructuring of GDB's obligations. FAFAA noted further that by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation.

The RSA provides for the organized and consensual restructuring of a substantial portion of GDB's liabilities, including GDB public bonds, deposit claims by municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees (Participating Bond Claims). In exchange for releasing GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the Issuer).

Due to the effects of the hurricanes, loss of communication, impairment to municipal revenues and liquidity, and the impact to GDB real estate owned assets, FAFAA, GDB and the RSA Requisite Bondholders agreed on revising certain milestones. They agreed on certain amendments to the RSA structure (Amended RSA) resulting in:

- Simplified structure (one security offered to Participating Bond Claims instead of original three).
- All municipal deposits will be applied against corresponding municipal loans to provide cash flow relief to municipalities to mitigate near-term impact of hurricanes.

The RSA Summary are as follow:

- RSA is consistent with the previously certified GDB Fiscal Plan, as it contemplates the conclusion of the orderly wind-down of GDB and a Title VI Qualifying Modification for the restructuring of GDB's Participating Bond Claims.
- RSA contemplates dividing GDB's assets into (i) the Recovery Authority for the benefit of bondholders, municipal depositors, and non-government entity depositors, and (ii) the Public Entity Trust (PET) for the benefit of other Government Entity Depositors.
- GDB will continue to exist as a legal entity for the purpose of resolving (i) outstanding legal matters and claims that exist or may be asserted by or against GDB and (ii) certain public entity loans that will remain at GDB and for which GDB shall have a contractual duty to the Recovery Authority to use commercially reasonable best efforts to maximize proceeds and transfer such proceeds, if any, to the Recovery Authority.
- GDB and the PET will be pre-funded at the time of closing of the Restructuring (as defined in the RSA) and will not require further financial assistance from the Recovery Authority, the PET or the Government.

continue

28. SUBSEQUENT EVENTS – continuation

- Prior to the closing of the Restructuring, the Amended RSA will simplify the GDB restructuring transaction while simultaneously providing additional relief to municipalities as they recover from the severe damage and devastation caused to Puerto Rico and its municipalities in the wake of Hurricanes Irma and María. The amendment to the RSA provides that, upon consummation of the transaction, each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB.

- The amendment also results in a simplified structure whereby GDB's financial creditors will exchange their claims for only one tranche of new bonds at an upfront exchange ratio of 55%. The RSA amendment is available on the Electronic Municipal Market Access website.

Management and Trust Structure Summary

- On or prior to the closing of the transaction, pursuant to the terms of the RSA and the GDB Restructuring Act, each as amended, available cash will be distributed as follows: Approximately (i) $21 million for payment to certain municipalities of the Excess CAE Settlement; (ii) $27.2 million for estimated operating cash and contingency requirements of GDB; (iii) transaction cost (including legal and professional fees and contemplated settlements); $1.5 million for estimated operating cash requirements of the PET; and (v) distributable cash to the Recovery Authority (~$324 million). All amount subject to change.

- Upon closing of the Restructuring, GDB will transfer the servicing of the Recovery Authority assets (or the New Bond Collateral) to a third-party servicer approved by GDB.

Also, the Oversight Board require a New Fiscal Plan that was approved on April 20, 2018.

- The Plan is based on the projected performance of GDB's existing loan asset portfolio, based on recent historical results.

- Based on the assessment of GDB's loan portfolio and the information available post-Hurricanes Irma and María, the Plan assumes currently performing municipal loans (after the corresponding application of municipal deposits against municipal loans), certain public-sector loans, and the sale of real estate owned assets are the only sources of revenue going forward.

- To the extent a loan asset is "non-performing", the Plan assumes such loan remains "non-performing" and therefore would not be a source of future inflows, although GDB, or any successor entity, reserves the right to pursue collection efforts, subject to the limitations imposed by the GDB Restructuring Act.

- The Plan assumes the continued orderly sale or other legally available disposition of real estate owned assets, until such assets are transferred to the Recovery Authority per terms of the RSA.

continue

28. SUBSEQUENT EVENTS – continuation

- GDB has segregated approximately $22 million in cash, corresponding to GDB's obligations to former GDB employees that retired pursuant to various pre-retirement and voluntary separation programs. Promptly after the certification of the Plan, GDB shall transfer such funds to a new trust to be constituted by GDB for the benefit of said retired employees, releasing GDB from such obligations.

Employees' Retirement System

On June 25, 2017, the Puerto Rico Legislature Assembly approved the Joint Resolutions Numbers 186, 187, 188 and 189 to adopt the budget for fiscal year 2017-2018 in the amount of $9.562 billion. This amount is compound of $9.172 billion from General Fund revenues and $390 million expected from the sale of Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), Judiciary Retirement System (JRS) and Teacher Retirement System (TRS)s' assets, except for the headquarters building of the TRS known as the Capital Center Building, North Tower, located in Hato Rey, Puerto Rico. To make retirement systems payments effective July 1, 2017, the budget separates $2.038 billion under Office of Management and Budget supervision.

On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. As a result of this financial emergency, it is estimated that by August 2017 the ERS will not have liquid funds to meet its obligations. Likewise, it is estimated that the TRS will be without liquid funds in September 2017 and that the JRS will not have sufficient liquid funds by February 2018.

On May 21, 2017, the Oversight Board, on behalf of the Government of Puerto Rico, filed a petition for the ERS to avail itself of Title III protections of PROMESA. With the submission of the petition under Title III of PROMESA, a process of restructuring of the obligations of said system under the supervision of the United States District Court for the District of Puerto Rico was initiated. Faced with this situation, the Puerto Rico Legislature Assembly approved the Act No. 106 on August 23, 2017, to ensure that retirees continue to receive their pensions, protect the individual contributions of public employees and protect the future of them. In addition, as a corrective measure, the contributions of public employees must be segregated and protected, and a New Defined Contribution Plan (DCP) was established to ensure the future of public employees. Accordingly, a Defined Contribution Account (DCA), a trust account, separated from the general assets and accounts of the Government, was created as of July 1, 2017 in the name of each Participant, as established in Chapter 3 of this Act.

The New Defined Contribution Plan created, consists of the establishment of a trust fund, which will not be subject to the provisions of Act No. 219-2012, as amended, known as the "Trusts Act". Which will contain an individual account for each Participant of the Retirement Systems that becomes part of said program, as provided in Chapter 3. Individual contributions will be credited to the New Defined Contribution Plan of each Participant and the return on investment in accordance with Article 3.6 of this Act. The benefit related to these contributions will be provided to each Participant after their separation from Service, whether by withdrawal or otherwise, will depend on the totality of the contributions to the New Defined Contribution Plan accumulated in its account from the moment this Act comes into force, or the date on which the Participant entered the DCP and the profitability of these.

continue

28. SUBSEQUENT EVENTS – continuation

By this Act is hereby declared as public policy of the Government of Puerto Rico the protection of pensions of all public service retirees who were Participants in the three Retirement Systems mentioned above. Therefore, as of July 1, 2017, pursuant to the Joint Resolution of the House of Representative No. 188 of 2017, as certified by the Oversight Board on July 13, 2017, the Government of Puerto Rico became the direct payer of the pensions of the retirees. Given the weight that this implies on the General Fund, which is estimated at billions of dollars a year, the employer's contributions that had been made to the three Retirement Systems, as well as the Additional Uniform Contribution, as per provisions of Joint Resolutions Nos. 186, 187 and 188 of 2017, the Retirement Systems shall provide their available funds and the net proceeds of the liquidation of their assets to the General Fund to assist in the payment of Accumulated Pensions.

Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "pay as you go" scheme, as established in Chapter 2 of this Act. This trust account will be centralized and segregated from the general assets and accounts of the Government, in charge of the Department of the Treasury and will be devoted solely and exclusively to the purposes set forth in this Act, and subject to the terms and conditions established therein. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

As of July 1, 2017, as per Act No. 106 of 2017, the Participant shall not make individual contributions or payments to the Account for the Payment of Accumulated Pensions, nor additional contributions to their respective Retirement Systems. As of the effective date of this Act, any Participant in the Retirement Systems shall obligatorily contribute a minimum of eight-point five percent (8.5%) of his/her monthly remuneration to his DCA, up to the limit established by the Code. In addition, may voluntarily provide additional amounts, as permitted by the Code. Upon entry into force of this Act, Participants in the DCP shall have the right to adjust their current contribution to Retirement Systems to the minimum authorized by this article. Participants in the DCP may vary the percentage they wish to contribute to said Plan from time to time but may never be less than the minimum percent required by this Act.

As per Act No. 106 of 2017, effective July 1, 2017 the Additional Uniform Contribution imposed by Act No. 32 of 2011 and the employer contribution imposed by Act No. 3 of 2013, was eliminated and imposes the "Pay-Go" Charge that the Financial Advisory Authority and Fiscal Agency of Puerto Rico (FAAFA) created by Act No. 2-2017, determines and imposes on the Government, the Municipalities, the Legislative Branch, the Administration of Courts, the Public Corporations and other covered entities. This charge will be equivalent to the amount in effect paid to Pensioners and Beneficiaries from each covered entity. The Secretary of the Treasury or the person or entity designated by him shall be authorized to collect the "Pay-Go" Charge. In the case of the Municipalities, the administrative charges of the "pay as you go" scheme will not be included in the computation of the "Pay-Go" Charge. Regardless of the payment of the "Pay-Go" Charge by the employer, the disbursement of the benefits of all Pensioners and Beneficiaries are guaranteed by the General Fund through the "pay as you go" scheme, with the responsibility of the entities to remit the payment of said Charge in compliance with its obligations under this Act.

continue

28. SUBSEQUENT EVENTS – continuation

The FAAFA is authorized, after making a determination that the fiscal situation of the Government has stabilized and that the condition of the fiscal permits, to recommend to the Governor, in coordination with the Retirement Board, that a quantity be included in the budget to match the contributions of the Participants to the Defined Contribution Account. This determination must be made in accordance with the Certified Fiscal Plan and the provisions of PROMESA.

Hurricanes Irma and María

On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the daily lives of 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations. The response to the catastrophe by the U.S, and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history. The eye of Hurricane Irma, a powerful Category 5 storm, skirts north of San Juan, Puerto Rico experiences a deluge and 100-mile-per-hour gusts but is avoids the worst of the storm's effects. Irma kills four people. It cuts off power to about two-thirds of the island's electricity customers, and about 34 percent of its population loses access to water.

María was the most devastating hurricane to hit Puerto Rico in nearly a century. Many lives were lost, homes and businesses suffered enormous damage, most crops and other agricultural assets were wiped out, and a significant part of the island's infrastructure was severely damaged: knocked out electric power across the entire island and triggered heavy flooding after estimated 30 inches of rain, severe destruction of the housing infrastructure, commercial and public buildings damaged and devastated agriculture and tourism. After María, only 5% of cell service, 44% of potable water since there are no electric power, and gas stations are destroyed in 60%. Puerto Rico authorities have estimated in $94 billion to cover damages from insurances and assignments required from the Congress, part of which was approved by them.

Following the hurricanes, the initial job losses in Puerto Rico totaled about 4%, though employment is beginning to improve somewhat. This loss is considerably steeper than what has typically been experienced after most major natural disasters that have hit the United States. That being said, domestic air passenger data suggest that from September through November more than 150,000 people left Puerto Rico, net of arrivals. Looking ahead, recovery will be affected by a variety of factors, most notably the degree of out-migration, the level of external aid the economy receives, and the effectiveness of fiscal and other reforms in Puerto Rico.

Given the effects of this natural disaster on commercial activity in Caguas, both the Municipal Administration and the Central Government have implemented measures to support entrepreneurs, recognizing that a large percentage of them are not in a position to comply with the payment of taxes and other obligations to the government. These measures include the granting of waivers, payment plans, extensions and exemptions in some lines of taxes. Conversely, Central Government measures have also been implemented to support consumers. These include exempting small and medium merchants from the collection and payment of the sales and use tax, as well as the sale of prepared foods.

Measures taken by the Central Government, although may facilitate the process of recovery of employers and consumers of our City, represent a considerable reduction in municipal revenues. This, added to the number of businesses that still remain closed and to the low or limited levels of production of those that have managed to start operations, lead us to project a loss of income of $16.4 million, associated with Hurricane Maria.

continue

28. SUBSEQUENT EVENTS – continuation

PROMESA

In accordance with the provisions described on Note 26 of the basic financial statements, the Oversight Board approved on April 19, 2018 the New Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. With the New Fiscal Plan, the municipalities will receive the subsidy that will be amortized until fiscal year 2024 instead of eliminating it in fiscal year 2019. The scope of the Fiscal Plan is described in that Note.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through May 23, 2018, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	(See Notes 1 and 2)	Final Budget
Resources (Inflows):				
Property Taxes	$ 32,313,819	$ 32,313,819	$ 32,313,819	$ -
Volume of Business Taxes	24,800,000	24,800,000	24,271,144	(528,856)
Sales and Usage Taxes	17,920,000	17,920,000	16,909,527	(1,010,473)
Construction Excise Taxes	9,284,000	9,284,000	1,866,973	(7,417,027)
Intergovernmental Revenues	10,357,297	10,357,297	10,301,470	(55,827)
Interest	665,000	665,000	52,821	(612,179)
Rent and Other Resources	6,752,205	6,752,205	3,935,750	(2,816,455)
Fines and Penalties	610,000	610,000	410,708	(199,292)
Total Resources (Inflows)	102,702,321	102,702,321	90,062,212	(12,640,109)
Charges to Appropriations (Outflows):				
General Government	39,398,760	40,539,300	39,773,573	765,727
Public Safety	10,842,812	10,502,206	10,032,746	469,460
Public Works	11,692,335	11,957,314	11,482,169	475,145
Culture and Recreation	5,381,712	5,212,432	5,068,088	144,344
Health and Welfare	10,308,488	10,299,617	10,231,988	67,629
Economic and Social Development	5,040,719	4,901,803	4,786,195	115,608
Housing	893,499	881,555	781,678	99,877
Sanitation and Environmental	16,494,035	16,085,881	15,777,694	308,187
Education	2,649,961	2,322,214	2,293,753	28,461
Total Charges to Appropriations	102,702,321	102,702,321	100,227,884	2,474,437
Excess of Resources Over Appropriations	**$ -**	**$ -**	**$ (10,165,672)**	**$ (10,165,672)**

The Notes to the required supplementary information are an integral part of this Schedule.

1. RECONCILIATION OF BUDGET/ GAAP

The 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 perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2017 is presented below for the general fund.

2. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 152)	$ 90,062,212
Difference – Budget to GAAP:	
Transfers from Other Funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(2,663,929)
Basis of accounting:	
Net change in assets and deferred inflow of resources	(1,354,388)
Perspective Difference:	
Budgetary items - Appropriations from previous years	27,350
Non Budgetary items - Revenues of Other Funds	4,528,979
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 31)	$ 90,600,224
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 152)	$ 100,227,884
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary items - Expenditures of Other Funds	7,135,924
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(2,813,612)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	2,447,201
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(7,191,325)
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 31)	$ 99,806,072

END OF NOTES

	2015	2016	2017
Proportion of the Net Pension Liability **	0.65806%	0.65806%	0.65806%
Proportionate Share of the Net Pension Liability	$ 198,331,723	$ 219,380,325	$ 248,132,822
Covered - Employee Payroll	$ 22,960,345	$ 21,842,854	$ 22,008,040
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	863.80%	1004.36%	1127.46%
Plan's Fiduciary Net Position	$ 530,831	$ (3,807,752)	$ (8,382,658)
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	0.27%	-1.74%	-3.38%

Notes to Schedule:

Benefit Changes: In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary. Beginning July 1, 2017 the pension benefits was paid through pay-as-you-go method.

Changes Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the first year of implementation, therefore only threee years are shown.

The first measurement date used was June 30, 2014.

Data Reference: Employees' Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

** The Schedule of Proportionate Share for 2015 through 2017 are unaudited. The Schedule assume any change.

	2015	2016	2017
Contractually Required Contribution (Actuarially Determined)	$ 6,876,727	$ 9,278,646	$ 10,193,349
Contributions in Relation to the Actuarially Required Contributions	5,469,163	6,633,353	3,622,658
Contribution Deficiency (Excess)	$ 1,407,564	$ 2,645,293	$ 6,570,691
Covered - Employee Payroll	$ 22,960,345	$ 21,842,854	$ 22,008,040
Contributions as a Percentage of Covered-Employee Payroll	23.82%	30.37%	16.46%

Methods and Assumptions Used in Calculation of the ERS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Assets Valuation Method	Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.55% , Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	3.80% , as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	3.80%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

Mortality

Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.

100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table Males and 95% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

1. The Municipality implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, during fiscal year 2015, and these schedules are now required.

2. This information is intended to help users assess the Municipality's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

3. The information presented relates solely to the Municipality and not Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

END OF NOTES

COMBINING FINANCIAL STATEMENTS

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Non-Major Governmental Funds

Housing Funds – Accounts for the funds of those federal and state assignments for eligible participants and related to housing and welfare.

Social & Welfare Activities – Accounts for the funds to improve the quality of life in the communities.

Economic Development – Accounts for the funds to improve the development and economic growth in the Municipality.

Mass Transportation System – Accounts for the funds to improve the transportation in the Municipality and construction of a train.

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	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	$ 1,234,203	$ 1,088,292	$ 1,007,837	$ -	$ 3,330,332
Cash with Fiscal Agent	-	-	101	191,206	191,307
Receivables:					
Sales and Usage Taxes	-	-	-	-	-
Volume of Business Taxes	-	-	-	-	-
Due from Governmental Units	-	-	89,946	-	89,946
Federal Grants	1,346,958	169,441	67,605	-	1,584,004
Construction Excise Taxes	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Other	72,975	-	62	-	73,037
Total Current Assets	2,654,136	1,257,733	1,165,551	191,206	5,268,626
Non-Current Assets:					
Loans Receivable	13,164	61,152	352,138	-	426,454
Restricted Cash	-	-	1	-	1
Total Non-Current Assets	13,164	61,152	352,139	-	426,455
Total Assets	**$ 2,667,300**	**$ 1,318,885**	**$ 1,517,690**	**$ 191,206**	**$ 5,695,081**
LIABILITIES:					
Account Payable	$ 129,308	$ 78,625	$ 117,520	$ 3,940	$ 329,393
Bond Payable	-	-	-	-	-
Interest on Bonds Payable	-	-	-	-	-
Due to Other Funds	208,026	144,146	1,265,100	50,108	1,667,380
Advance Deposits	1,000	-	-	-	1,000
Unearned Revenues - Volume of Business Tax	-	-	-	-	-
Total Liabilities	**338,334**	**222,771**	**1,382,620**	**54,048**	**1,997,773**
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues:					
Commonwealth of Puerto Rico	-	-	-	-	-
Federal Grants	1,069,925	-	-	-	1,069,925
Total Deferred Inflows of Resources	**1,069,925**	**-**	**-**	**-**	**1,069,925**
FUND BALANCES:					
Restricted	1,264,423	1,500,668	1,102,772	59,151	3,927,014
Committed	-	-	-	78,007	78,007
Assigned	-	-	-	-	-
Unassigned (Deficit)	(5,382)	(404,554)	(967,702)	-	(1,377,638)
Total Fund Balances	**1,259,041**	**1,096,114**	**135,070**	**137,158**	**2,627,383**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 2,667,300**	**$ 1,318,885**	**$ 1,517,690**	**$ 191,206**	**$ 5,695,081**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-
Construction Excise Taxes	-	-	-	-	-
Federal Grants	8,962,092	2,943,620	321,376	-	12,227,088
Fines and Penalties	-	-	-	-	-
Intergovernmental	-	72,233	299,335	-	371,568
Interest	1,739	2,554	11,985	-	16,278
Rent and Other Services	-	4,224	51,763	-	55,987
Solid Waste Disposal	-	-	-	-	-
Other General Revenues	267,491	309,657	9,510	425,844	1,012,502
Total Revenues	**9,231,322**	**3,332,288**	**693,969**	**425,844**	**13,683,423**
EXPENDITURES:					
Current:					
General Government	11,455	92	131,100	-	142,647
Public Safety	-	174,480	4,304	-	178,784
Public Works	85,587	23	189,203	362,409	637,222
Culture and Recreation	-	-	12,405	-	12,405
Health and Welfare	8,680	161,857	157,954	-	328,491
Education	-	1,869,949	96,674	-	1,966,623
Sanitation and Environmental	-	-	-	-	-
Economic and Social Development	-	137,630	97,399	-	235,029
Housing	8,996,166	-	-	-	8,996,166
Capital Outlay	5,434	131,564	135,907	4,284	277,189
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Total Expenditures	**9,107,322**	**2,475,595**	**824,946**	**366,693**	**12,774,556**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**124,000**	**856,693**	**(130,977)**	**59,151**	**908,867**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):					
Refunding Bonds Issued	$ -	$ -	$ -	$ -	$ -
Payment to Refunded Bonds	-	-	-	-	-
Transfers – In	-	339,037	-	-	339,037
Transfers – Out	(102,083)	-	(6,784)	-	(108,867)
Total Other Financing Sources (Uses)	**(102,083)**	**339,037**	**(6,784)**	**-**	**230,170**
SPECIAL ITEMS:					
Sales of Other Assets	72,975	-	-	-	72,975
Total Special Items	**72,975**	**-**	**-**	**-**	**72,975**
Net Change in Fund Balances	**94,892**	**1,195,730**	**(137,761)**	**59,151**	**1,212,012**
Fund Balances – Beginning	1,164,149	(99,616)	272,831	78,007	1,415,371
FUND BALANCES – ENDING	**$ 1,259,041**	**$ 1,096,114**	**$ 135,070**	**$ 137,158**	**$ 2,627,383**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

Statistical Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2017

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STATISTICAL SECTION

This part of the Autonomous Municipality of Caguas comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page

Except where noted, the information in these schedules is derived from the Autonomous Municipality of Caguas audited financial reports for the corresponding year. The Municipality implemented GASB Statement Nos. 63 and 65 in fiscal year ended June 30, 2013; schedules presenting government-wide information were changed accordingly. During Fiscal Year 2014-2015, the Municipality implemented the requirements of GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements required prior year adjustments. Accordingly, some figures are adjusted to consider such restatements.

Sources: The Municipality's audited financial reports for the previous ten years. District files and public records from various local and state agencies.

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental										
Net Invested in Capital Assets	$ 266,578,875	$ 275,432,752	$ 266,744,576	$ 280,137,995	$ 270,985,585	$ 297,583,980	$ 360,577,001	$ 370,652,456	$ 387,689,421	$ 344,613,386
Restricted	44,572,024	35,585,406	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569
Unrestricted (Deficit)	(296,662,418)	(274,729,471)	(265,004,703)	(255,272,010)	(67,369,074)	(59,415,949)	(55,880,319)	(51,368,451)	(32,910,505)	8,363,042
Total	$ 14,488,481	$ 36,288,687	$ 44,962,603	$ 61,657,557	$ 251,670,442	$ 271,461,883	$ 344,797,729	$ 358,218,122	$ 370,950,828	$ 403,106,997
Business-Type Activities										
Net Invested in capital assets	$ -	$ -	$ -	$ -	$ -	$ 23,147,188	$ 23,604,950	$ 23,722,874	$ 17,155,385	$ 13,006,233
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	1,981,356	2,636,538	5,579,396	4,692,281	5,379,357
Total	$ -	$ -	$ -	$ -	$ -	$ 25,128,544	$ 26,241,488	$ 29,302,270	$ 21,847,666	$ 18,385,590
Activities Totals										
Net Invested in Capital Assets	$ 266,578,875	$ 275,432,752	$ 266,744,576	$ 280,137,995	$ 270,985,585	$ 320,731,168	$ 384,181,951	$ 394,375,330	$ 404,844,806	$ 357,619,619
Restricted	44,572,024	35,585,406	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569
Unrestricted (Deficit)	(296,662,418)	(274,729,471)	(265,004,703)	(255,272,010)	(67,369,074)	(57,434,593)	(53,243,781)	(45,789,055)	(28,218,224)	13,742,399
Total	$ 14,488,481	$ 36,288,687	$ 44,962,603	$ 61,657,557	$ 251,670,442	$ 296,590,427	$ 371,039,217	$ 387,520,392	$ 392,798,494	$ 421,492,587

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental Activities:										
Expenses										
General Government	$ 37,256,309	$ 35,425,207	$ 40,651,105	$ 38,255,865	$ 42,596,455	$ 46,853,541	$ 39,743,963	$ 40,414,023	$ 43,407,060	$ 36,885,789
Public Safety	11,114,028	12,636,567	11,954,408	9,804,511	11,094,742	11,060,805	10,410,999	11,721,689	9,965,172	10,734,003
Public Work	22,603,280	23,866,136	23,525,790	22,565,224	28,739,562	30,008,248	29,591,596	23,517,464	31,999,201	25,560,207
Culture and Recreation	10,061,304	10,791,132	10,374,870	10,120,801	11,963,260	6,584,416	4,577,429	5,310,329	7,429,284	12,403,733
Health and Welfare	12,263,337	12,330,653	12,543,232	11,994,232	12,994,565	17,995,172	19,084,763	19,589,340	19,062,734	15,819,886
Economic and Social Development	8,416,047	8,272,443	9,328,833	8,199,012	9,482,715	6,765,876	14,063,387	9,563,934	9,675,386	5,378,274
Housing	10,145,348	10,572,877	10,545,647	11,030,562	11,799,459	11,907,765	11,045,789	12,034,862	18,836,679	12,405,463
Sanitation and Environmental	16,518,828	17,191,880	16,387,879	15,347,716	16,019,816	16,298,783	15,637,305	14,573,005	15,092,658	15,109,993
Education	21,505,081	20,321,130	20,033,373	17,028,422	18,542,112	16,931,864	15,887,413	15,691,577	14,691,953	16,545,308
Unallocated Interest	10,280,401	10,323,912	10,802,643	10,636,609	11,681,762	10,676,171	9,258,116	8,611,307	9,448,175	11,775,259
Loss of Disposition Asset	-	-	-	-	1,412,427	-	-	-	-	-
Total expenses	160,163,963	161,731,937	166,147,780	154,982,954	176,326,875	175,082,641	169,300,760	161,027,530	179,608,302	162,617,915
Program Revenues										
Charge for services:										
General Government	-	-	-	-	-	105,238	153,805	758,210	240,552	227,051
Culture and Recreation	34,400	25,300	27,868	-	-	122,987	-	-	-	-
Public Safety	812,771	457,126	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892
Health and Welfare	-	-	-	-	-	-	-	-	-	-
Economic and Social Development	661,057	673,877	409,708	368,948	581,564	1,787,815	369,335	374,107	145,214	190,856
Housing	-	-	1,400	250	-	-	-	-	-	-
Sanitation and Enviromental	99,853	81,130	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408
Education	-	-	-	-	-	-	-	-	-	-
Operating Grants and Contributions	27,083,165	29,271,828	29,465,623	27,371,911	29,639,476	31,463,254	35,241,185	33,176,474	32,729,207	31,614,880
Capital Grants and Contributions	1,381,999	1,047,754	2,181,931	2,022,386	3,037,004	2,524,865	4,979,585	4,264,705	2,736,340	60,901,514
Total program revenues	30,073,245	31,557,015	32,822,986	30,722,932	33,927,071	36,630,005	41,752,548	39,522,423	36,339,019	93,130,601
Total Net Expense	**130,090,718**	**130,174,922**	**133,324,794**	**124,260,022**	**142,399,804**	**138,452,636**	**127,548,212**	**121,505,107**	**143,269,283**	**69,487,314**
Business-Type Activities:										
Community Development Bank	-	-	-	-	-	(65,329)	10,422	(48,935)	(441,583)	(51,056)
Multitenant	-	-	-	-	-	(426,408)	(214,897)	(278,456)	(5,760)	1,067,991
Total Net (Expense) Revenue	**-**	**-**	**-**	**-**	**-**	**(491,737)**	**(204,475)**	**(327,391)**	**(447,343)**	**1,016,935**

(continued)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Revenues										
Property Taxes	$ 48,607,009	$ 57,424,592	$ 50,700,722	$ 51,678,096	$ 53,565,168	$ 56,891,271	$ 54,082,666	$ 55,698,431	$ 45,200,224	$ 53,966,882
Volume of Business Taxes	22,864,481	23,191,310	23,624,260	24,735,251	25,805,434	24,084,347	26,227,325	23,060,087	37,477,506	25,672,625
Sales and Usage Taxes	20,645,222	21,077,117	20,916,340	20,580,433	20,604,386	20,187,076	18,845,077	19,464,329	19,653,668	18,978,615
Construction Excise Taxes	2,367,046	3,911,557	4,947,664	2,991,732	3,107,824	5,453,189	2,428,661	-	4,935,551	4,463,529
Interest	287,432	428,359	756,516	981,420	816,993	836,107	758,315	699,719	2,105,345	3,262,871
Gain or (Loss) on disposal of Capital Assets	-	2,750,000	-	-	-	95,807	-	1,528,317	(44,589)	-
Indirect costs	-	-	-	-	-	-	-	-	-	750,000
Intergovernmental	9,856,720	10,058,290	13,648,070	14,012,671	16,649,898	14,333,905	11,766,517	11,272,151	10,902,119	-
Donated Capital Assets	22,295	276,075	-	66,911	-	-	-	-	-	-
Other	3,640,307	2,383,706	2,260,199	2,147,933	2,058,660	595,700	1,503,460	1,091,739	(200,328)	1,021,244
Total revenues	108,290,512	121,501,006	116,853,771	117,194,447	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766
Special Items										
Contributions to Nonprofit Entity	-	-	-	(767,917)	-	-	-	-	-	-
Total General Revenues and Special Items	108,290,512	121,501,006	116,853,771	116,426,530	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766
CHANGE IN NET POSITION										
Governmental Activities	(21,800,206)	(8,673,916)	(16,471,023)	(7,833,492)	(19,791,441)	(15,975,234)	(11,936,191)	(8,690,334)	(23,239,787)	38,628,452
Business-Type Activities	-	-	-	-	-	(1,010,422)	(2,317,262)	6,934,498	3,115,773	1,352,692
Total Primary Government	$ (21,800,206)	$ (8,673,916)	$ (16,471,023)	$ (7,833,492)	$ (19,791,441)	$ (16,985,656)	$ (14,253,453)	$ (9,017,725)	$ (23,687,130)	$ 39,645,387

Fund Balances- Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2017	2016	2015	2014	2013	2012	2011*	2010	2009	2008
General Fund:										
Commited	$ -	$ 5,862,368	$ 8,731,817	$ 6,436,469	$ 6,887,214	$ 3,993,401	$ 893,795	-	-	-
Assigned	-	2,650,689	2,344,985	2,715,496	2,171,778	2,453,824	2,235,950	-	-	-
Unassigned	(6,267,060)	493,306	5,994,026	5,719,987	5,629,486	10,491,443	6,444,769	-	-	-
Restricted/Reserved	2,771,270	2,746,186	2,791,023	2,064,020	3,649,683	-	-	2,302,160	4,383,200	6,143,629
Unreserved	-	-	-	-	-	-	-	3,379,316	(4,138,068)	2,219,413
Total General Fund	**(3,495,790)**	**11,752,549**	**19,861,851**	**16,935,972**	**18,338,161**	**16,938,668**	**9,574,514**	**5,681,476**	**245,132**	**8,363,042**
Capital Project Fund:										
Restricted/ Reserved	7,692,689	9,884,592	12,880,627	17,935,948	24,451,526	24,832,522	13,600,623	12,315,145	24,443,301	35,056,375
Assigned	-	454,593	1,753,352	2,352,609	-	-	-	-	-	-
Unassigned (deficit)	(183,057)	-	-	-	-	-	-	-	-	17,183,068
Total Capital Project Fund	**7,509,632**	**10,339,185**	**14,633,979**	**20,288,557**	**24,451,526**	**24,832,522**	**13,600,623**	**12,315,145**	**24,443,301**	**52,239,443**
Debt Service Fund:										
Restricted/ Reserved	19,371,177	18,078,261	11,459,393	17,098,233	17,444,896	19,963,005	27,232,079	19,995,667	7,209,097	3,941,040
Total Debt Service Fund	**19,371,177**	**18,078,261**	**11,459,393**	**17,098,233**	**17,444,896**	**19,963,005**	**27,232,079**	**19,995,667**	**7,209,097**	**3,941,040**
Health and Human Services Fund:										
Restricted/ Reserved	12,658	30,012	27,512	95,150	-	-	-	-	-	-
Unassigned (deficit)	(143,374)	(69,395)	-	-	-	-	-	-	-	-
Total Health and Human Services Fund	**(130,716)**	**(39,383)**	**27,512**	**95,150**	**-**	**-**	**-**	**-**	**-**	**-**
Other Govermental Funds:										
Commited	78,007	140,485	264,273	539,699	942,538	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(1,377,638)	(1,943,987)	(1,460,446)	(410,506)	(423,703)	-	-	-	-	4,257,657
Restricted	3,927,014	3,218,873	3,181,754	3,295,775	3,318,288	5,996,896	7,773,228	9,227,818	1,244,008	3,169,301
Total Other Governmental Fund	**2,627,383**	**1,415,371**	**1,985,581**	**3,424,968**	**3,837,123**	**5,996,896**	**7,773,228**	**9,227,818**	**1,244,008**	**7,426,958**
Total Fund Balances	$ 25,881,686	$ 41,545,983	$ 47,968,316	$ 57,842,880	$ 64,071,706	$ 67,731,091	$ 58,180,444	$ 47,220,106	$ 33,141,538	$ 71,970,483

*The Municipality implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective July 1st, 2010.

Changes in Fund Balance- Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Property Taxes	$ 48,968,112	$ 56,822,898	$ 51,489,610	$ 55,504,656	$ 48,949,720	$ 56,891,271	$ 53,167,198	$ 55,698,431	$ 45,200,224	$ 53,764,606
Volume of Business Taxes	22,864,481	23,191,310	23,624,260	24,735,251	25,805,434	24,446,587	26,265,718	26,043,011	27,054,049	25,672,625
Sales and Usage Taxes	20,645,222	21,077,117	20,916,340	20,580,433	20,604,386	20,035,853	18,940,708	20,051,076	17,531,315	18,978,615
Construction Excise Taxes	2,367,046	3,911,557	4,947,664	2,991,732	3,107,824	5,453,189	2,583,023	1,297,115	4,033,924	4,463,529
Federal Grants	28,489,407	27,350,263	27,543,277	29,453,456	29,181,144	31,523,008	32,019,158	31,258,252	26,451,538	26,141,461
Fines and Penalties	812,771	457,126	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892
Interest	280,550	421,867	756,516	981,786	816,993	834,404	755,974	682,234	2,088,394	3,203,797
Intergovernmental	12,444,457	12,768,425	16,037,892	16,998,516	19,739,987	17,443,293	22,930,091	18,981,159	19,916,128	10,720,031
Parking fees	-	-	-	-	-	105,238	153,805	220,031	240,552	227,051
Rent and Other Services	1,423,192	771,784	707,183	912,997	642,189	1,787,815	369,335	294,561	145,214	190,856
Indirect cost	-	-	-	-	23,228	-	-	-	-	750,000
Solid Waste Disposal	99,853	81,130	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408
Other General Revenues	3,123,911	2,283,150	2,077,188	1,848,394	2,035,432	1,116,540	1,493,917	1,075,040	235,591	1,021,244
Total Revenues	141,519,002	149,136,627	148,836,386	154,966,658	151,575,364	160,263,044	159,687,565	156,549,837	143,384,635	145,330,115
Expenditures										
General Government	32,725,097	36,082,944	36,122,860	37,586,925	42,476,419	38,411,214	36,040,433	35,588,049	36,835,062	30,147,616
Public Safety	10,331,074	10,390,401	10,275,282	9,956,068	10,398,620	9,950,281	10,276,704	10,731,195	9,490,952	10,379,889
Public Works	14,564,825	14,670,749	14,605,288	13,614,572	18,126,190	19,516,855	22,073,362	14,719,619	23,311,211	17,197,882
Culture and Recreation	5,689,959	5,925,871	5,618,689	5,535,141	6,209,382	6,108,679	4,261,700	5,072,011	7,179,247	8,264,925
Health and Welfare	11,975,221	11,891,793	12,142,314	11,857,137	12,883,440	12,737,153	14,094,371	14,283,042	14,543,053	15,749,859
Economic and Social Development	7,284,482	7,234,092	7,203,716	6,690,860	7,602,515	3,855,726	9,271,739	4,352,604	4,322,837	5,178,600
Housing	9,925,436	9,882,894	9,823,444	10,884,363	11,356,593	12,003,737	11,045,326	11,889,816	18,479,742	11,920,904
Sanation and Enviromental	16,114,280	16,143,727	15,518,486	15,692,720	16,035,909	15,931,482	15,409,251	14,452,698	14,777,784	14,849,915
Education	18,880,760	18,275,354	17,914,495	16,097,631	16,994,331	16,556,906	16,843,621	15,658,563	14,666,929	14,123,498
Capital Outlay	6,399,946	7,077,900	6,667,417	14,852,612	13,250,190	21,045,938	14,284,324	20,965,871	27,233,715	32,532,007
Debt Service :										
Bond Issurance Cost	-	-	-	-	98,313	-	-	-	-	-
Principal	13,494,903	14,493,597	16,148,893	15,131,804	15,617,575	15,541,341	12,841,059	15,691,623	11,412,339	9,098,033
Interest and Other Charges	10,280,401	10,323,912	10,802,643	10,636,609	11,681,762	10,664,031	8,975,105	8,611,307	9,448,175	11,775,259
Total Expenditures	157,666,384	162,393,234	162,843,527	168,536,442	182,731,239	182,323,343	175,416,995	172,016,398	191,701,046	181,218,387

(continued)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(16,147,382)	(13,256,607)	(14,007,141)	(13,569,784)	(31,155,875)	(22,060,299)	(15,729,430)	(15,466,561)	(48,316,411)	(35,888,272)
Other financing sources (uses)										
Proceeds from Debt Issuance	-	-	3,850,000	7,415,000	24,601,621	32,120,000	25,659,817	32,025,000	30,592,500	25,996,000
Refunding Bonds Issued	26,855,000	-	-	27,669,088	-	-	-	-	-	-
Payment to Refunded Bonds	(26,730,000)	-	-	(27,470,000)	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	(199,088)	-	-	-	-	-	-
Proceeds from debt refinancing	-	-	-	-	-	13,325,000	34,451,293	-	-	-
Payments of debt refinancing and other uses	-	-	-	-	-	(13,325,000)	(34,451,293)	-	-	-
Advance from Other Governments	-	-	-	-	-	-	-	-	1,386,083	-
Transfers - In	10,422,375	9,041,960	11,976,969	5,247,152	5,247,152	25,981,726	5,330,823	9,051,710	10,710,169	17,194,331
Transfers - Out	(10,422,375)	(9,041,960)	(11,976,969)	(5,247,132)	(5,247,152)	(25,717,733)	(5,330,823)	(14,751,098)	(14,692,253)	(17,471,013)
Total Other Financing Sources (Uses)	125,000	-	3,850,000	7,415,020	24,601,621	32,383,993	25,659,817	26,325,612	27,996,499	25,719,318
Special Items:										
Sales of Other Assets	358,085	-	-	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCE	$ (15,664,297)	$ (13,256,607)	$ (10,157,141)	$ (6,154,764)	$ (6,554,254)	$ 10,323,694	$ 9,930,387	$ 10,859,051	$ (20,319,912)	$ (10,168,954)
Debt Service as a percentage of non-capital expenditures	15.7%	16.0%	17.3%	16.8%	16.1%	16.2%	13.5%	16.1%	12.7%	14.0%

Real Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal Year Ended											Total direct
June 30	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value	tax rate
2017*	48,838	$ 7,313,847,020	1390	$ 666,742,010	47,448	$ 6,647,105,010	33,604	$3,290,863,400	13,844	$3,356,241,610	0.98%
2016*	48,350	7,226,257,430	1255	626,068,540	47,095	6,600,188,890	33,837	3,305,675,900	13,258	3,294,512,990	0.98%
2015*	48,143	7,181,187,980	1271	600,587,180	46,872	6,580,600,800	33,830	3,303,136,910	13,042	3,277,463,890	0.98%
2014*	48,015	7,756,389,441	1158	651,709,600	46,857	7,104,679,841	33,929	3,310,892,440	12,928	3,793,787,401	0.98%
2013*	47,822	7,192,693,390	1073	611,753,350	46,749	6,580,940,040	33,805	3,295,580,880	12,944	3,285,359,160	0.98%
2012*	47,732	7,189,854,910	1000	491,301,280	46,732	6,698,553,630	33,637	3,278,494,240	21,689	3,420,059,390	0.98%
2011*	47,227	7,031,730,668	741	447,166,944	46,486	6,584,563,724	33,505	3,256,559,845	21,365	3,328,003,879	0.98%
2010*	46,442	6,908,458,026	623	451,354,212	45,819	6,457,103,814	32,876	3,180,445,153	12,943	3,276,658,661	0.98%
2009	44,999	668,709,652	520	49,905,209	44,479	618,804,443	31,770	305,425,970	20,174	313,378,473	9.53%
2008	44,125	653,072,232	469	47,517,534	43,656	605,554,698	31,106	296,769,315	19,940	308,785,383	9.53%

Personal Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal Year Ended											Total direct
June 30	# Property	Value	# Property	Value	# Property	# Property	# Property	Value	# Property	Value	tax rate
2017	2,801	$ 438,981,497	154	$ 153,523,413	2,647	$ 285,458,084	535	$ 2,904,484	2,112	$ 282,553,600	7.83%
2016	2,811	456,138,271	157	157,065,643	2,654	299,072,628	539	2,853,698	2,115	296,218,930	7.83%
2015	2,822	442,402,043	140	118,486,504	2,682	323,915,539	561	3,108,249	2,121	320,807,290	7.83%
2014	2,936	542,977,551	143	212,942,877	2,793	330,034,674	578	3,134,580	2,215	326,900,094	7.83%
2013	2,976	595,686,235	138	253,852,889	2,838	341,833,346	596	3,533,915	2,242	338,299,431	7.83%
2012	3,048	576,386,120	157	234,189,018	2,891	342,197,102	620	4,196,437	2,384	338,000,665	7.83%
2011	3,042	639,021,679	170	269,892,877	2,872	369,128,802	573	3,734,501	2,408	365,394,301	7.83%
2010	2,909	641,411,184	143	259,018,920	2,766	382,392,264	585	4,626,510	2,181	377,765,754	7.83%
2009	3,296	612,839,684	154	229,378,366	3,142	383,461,318	591	4,900,647	1,993	378,560,671	7.53%
2008	3,020	594,315,969	141	197,298,357	2,879	397,017,612	634	4,602,732	2,363	392,414,880	7.53%

(continued)

Total Property Fiscal Year Ended June 30	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE	
	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value
2017*	51,639	$ 7,752,828,517	1544	$ 820,265,423	50095	$ 6,932,563,094	34139	$3,293,767,884	15956	$3,638,795,210
2016*	51,161	7,682,395,701	1412	783,134,183	49749	6,899,261,518	34376	3,308,529,598	15373	3,590,731,920
2015*	50,965	7,623,590,023	1411	719,073,684	49554	6,904,516,339	34391	3,306,245,159	15163	3,598,271,180
2014*	50,951	8,299,366,992	1301	864,652,477	49650	7,434,714,515	34507	3,314,027,020	15143	4,120,687,495
2013*	50,798	7,788,379,625	1211	865,606,239	49587	6,922,773,386	34401	3,299,114,795	15186	3,623,658,591
2012*	50,780	7,766,241,030	1157	725,490,298	49623	7,040,750,732	34257	3,282,690,677	24073	3,758,060,055
2011*	50,269	7,670,752,347	911	717,059,821	49,358	6,953,692,526	34,078	3,260,294,346	23,773	3,693,398,180
2010*	49,351	7,549,869,210	766	710,373,132	48,585	6,839,496,078	33,461	3,185,071,663	15,124	3,654,424,415
2009	48,295	1,281,549,336	674	279,283,575	47621	1,002,265,761	32361	310,326,617	22167	691,939,144
2008	47,145	1,247,388,201	610	244,815,891	46,535	1,002,572,310	31,740	301,372,047	22,303	701,200,263

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

Source: Municipal Collection Tax Center

Real Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2017	0.58%	0.300%	0.103%	0.98%
2016	0.58%	0.300%	0.103%	0.98%
2015	0.58%	0.300%	0.103%	0.98%
2014	0.58%	0.300%	0.103%	0.98%
2013	0.58%	0.300%	0.103%	0.98%
2012	0.58%	0.300%	0.103%	0.98%
2011	0.58%	0.300%	0.103%	0.98%
2010	0.58%	0.300%	0.103%	0.98%
2009	5.80%	2.50%	1.03%	9.33%
2008	5.80%	1.75%	1.03%	8.58%

Personal Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2017	3.80%	3.00%	1.03%	7.83%
2016	3.80%	3.00%	1.03%	7.83%
2015	3.80%	3.00%	1.03%	7.83%
2014	3.80%	3.00%	1.03%	7.83%
2013	3.80%	3.00%	1.03%	7.83%
2012	3.80%	3.00%	1.03%	7.83%
2011	3.80%	3.00%	1.03%	7.83%
2010	3.80%	3.00%	1.03%	7.83%
2009	3.80%	2.50%	1.03%	7.33%
2008	3.80%	2.50%	1.03%	7.33%

Source: Municipal Collection Tax Center

Personal Property	2017			2008		
Taxpayer	Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Wal-mart Puerto Rico, Inc.	$ 1,819,811	1	8.23%	$ 1,923,959	1	7.23%
Costco Wholesale	1,043,485	2	4.72%	652,514	5	2.45%
K Mart Corporation C/o Burr Wolff	727,995	3	3.29%	655,228	4	2.46%
New Avon, LLC	604,956	4	2.73%	-		
Walgreen's of Puerto Rico	592,915	5	2.68%	541,682	9	2.04%
WDC Puerto Rico, Inc	497,553	6	2.25%	-		
Sears Operations LLC	444,237	7	2.01%	-		
Home Depot Puerto Rico, Inc.	401,642	8	1.82%	541,870	8	2.04%
Banco Popular de Puerto Rico	388,094	9	1.75%	-		
Plaza Warehousing & Realty Corp.	378,683	10	1.71%	-		
Avon Products, Inc	-			1,120,825	2	4.21%
Airport Shoppes and Hotel Corp.	-			686,280	3	2.58%
Sears Roebuck de Puerto Rico, Inc.	-			591,580	7	2.22%
Pfizer Pharmaceutical, LLC	-			591,943	6	2.22%
Flour Daniel Caribbean	-			532,505	10	2.00%
Total	$ 6,899,371		31.19%	$ 7,838,386		29.46%

(continued)

Real Property	2017			2008		
Taxpayer	Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Puerto Rico Telephone Company, Inc.	$ 1,413,692	1	4.28%	$ 1,535,224	1	5.79%
Urban Edge Caguas LP	390,234	2	1.18%	370,385	2	1.40%
P.D.C.M. Associates, SE	258,414	3	0.78%	190,957	8	0.72%
First SB SCA ASSOC/MJS Caguas limited	225,494	4	0.68%	214,024	6	0.81%
Kim Sam PR Retail LLC	211,546	5	0.64%	200,786	7	0.76%
Wal-mart Puerto Rico, Inc.	185,948	6	0.56%	298,764	3	1.13%
Puerto Rico Telephone Company Inc.	183,717	7	0.56%	214,627	5	0.81%
TSCPR Family Partnership #8, LTD, SE	172,970	8	0.52%			
Seritage SRC Finance LLC	163,276	9	0.49%			
Taroco, SE	159,175	10	0.48%			
CCPR Services, Inc.	-			276,420	4	1.04%
Downtown Dev. Corp.	-			189,475	9	0.72%
Ernesto Vilanova Vélez, Inc.	-		-	179,396	10	0.68%
Total	$ 3,364,465		10.20%	$ 3,670,058		13.85%

Source: Municipal Collection Tax Center

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

		Collected within the fiscal year of the levy				
Fiscal Year ended June 30	Taxes Levied for the Fiscal Year	Amount	Percentage of levy	Collections from prior years levied taxes	Total Collections to Date	Ratio of Total Tax Collections to Total Tax Levy
2017	$ 54,352,922	$ 40,577,685	75%	$ 9,342,119	$ 49,919,804	92%
2016	54,935,788	37,048,209	67%	10,889,501	47,937,710	87%
2015	56,637,094	39,626,877	70%	8,183,101	47,809,978	84%
2014	56,878,932	28,464,925	50%	20,698,463	49,163,388	86%
2013	57,369,030	34,165,051	60%	17,847,544	52,012,595	91%
2012	58,594,113	34,643,304	59%	15,790,399	50,433,703	86%
2011	61,199,448	40,592,294	66%	11,336,060	51,928,354	85%
2010	61,809,774	36,253,449	59%	15,074,274	51,327,723	83%
2009	55,861,044	38,467,806	69%	13,299,991	51,767,797	93%
2008	58,023,498	45,692,028	79%	5,302,089	50,994,116	88%

Source: Municipal Tax Collection Center

Municipality's Outstanding Debts	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental Activities										
General Obligation Bonds[a]	$ 159,577,847	$ 169,226,108	$ 179,959,520	$ 190,044,937	$ 183,991,263	$ 193,774,956	$ 207,117,677	$ 211,783,677	$ 115,180,680	$ 115,103,680
Special Obligation Bonds	68,340,000	72,620,000	77,937,000	78,889,000	3,800,000	4,200,000	4,870,000	5,470,000	6,555,000	8,229,000
Federal Loans	1,800,000	2,400,000	3,000,000	3,400,000	92,728,000	74,283,000	37,855,000	17,939,000	96,058,500	66,032,758
Total	$ 229,717,847	$ 244,246,108	$ 260,896,520	$ 272,333,937	$ 280,519,263	$ 272,257,956	$ 249,842,677	$ 235,192,677	$ 217,794,180	$ 189,365,438
Business Type Activities										
Special Bonds	-	-	-	-	-	3,593	39,571	74,840	224,165	279,435
Total General Outstanding Debts	$ 229,717,847	$ 244,246,108	$ 260,896,520	$ 272,333,937	$ 280,519,263	$ 272,261,549	$ 249,882,248	$ 235,267,517	$ 218,018,345	$ 189,644,873

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Percentage of personal income[b]	12.67%	13.47%	17.89%	15.50%	13.75%	13.91%	14.77%	13.54%	13.55%	10.50%
Total long-term debt per capita[b]	1,708	1,816	1,889	1,919	1,972	1,926	1,751	1,646	1,520	1,323
Bonds payable per capita[b]	1,187	1,258	1,303	1,339	1,293	1,370	1,452	1,482	804	804
Net Assessed Value of Taxable Property	$ 3,638,795,210	$ 3,590,731,920	$ 3,598,271,180	$ 4,120,687,495	$ 3,623,658,591	$ 3,758,060,055	$ 3,693,398,180	$ 3,654,424,415	$ 691,939,144	$ 701,200,263
Percentage of bonds payable of net assessed value of property	4.39%	4.71%	5.00%	4.61%	5.08%	5.16%	5.61%	5.80%	16.65%	16.42%

[a] Details regarding the Municipality's outstanding debts can be found in the Note 15 in the current financial statements.
[b] See Demographical and Economic Statistics for personal income population data for the Municipality. The ratios are calculated using personal income and population for the fiscal year.

Legal Debt Margin Calculation as of June 30, 2017:

Assessed Value of Taxable Property	$ -
Legal debt limit -	
10% of assesed value of taxable property	-
Debt applicable limit:	
General obligation	-
Less: GO's Debt Service Fund Balance	-
Total Net applicable to limit	-
Legal Debt Margin	$ - [a]

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Legal Debt Limit	$ -	$ -	$ 775,638,944	$ 829,936,699	$ 778,837,963	$ 776,624,103	$ 767,075,235	$ 754,986,921	$ 128,154,934	$ 126,037,644
Total net applicable to limit	-	-	161,309,329	251,835,704	242,535,104	242,535,104	242,535,104	194,860,800	110,637,495	112,884,406
Legal Debt Margin	$ -	$ -	$ 614,329,615	$ 578,100,995	$ 536,302,859	$ 534,088,999	$ 524,540,131	$ 560,126,121	$ 17,517,439	$ 13,153,238
Total net applicable to the limit as a percentage of debt limit	0.0%	0.0%	20.8%	30.3%	31.1%	31.2%	31.6%	25.8%	86.3%	89.6%

Note:

[a] The Municipality does not have debt margin, see Note 25 in the Current Financial Statements.

Fiscal Year	Population		Personal Income	Per Capita		Unemployment Percentage Rate
2017	132,162	****	$ 1,848,549,894	$ 13,987	****	16.6
2016	134,481	***	1,813,610,766	13,486	*	9.8
2015	138,149	***	1,458,162,695	10,555	*	8.9
2014	137,032	*	1,757,024,304	12,822	*	13.8
2013	142,270	***	2,040,720,880	14,344	**	12.1
2012	141,392	*	1,957,855,024	13,847	*	14.1
2011	142,678	*	1,691,590,368	11,856	*	15.4
2010	142,893	*	1,737,293,094	12,158	*	15.6
2009	143,274	*	1,608,680,472	11,228	*	14.3
2008	143,176	*	1,805,449,360	12,610	*	11.4

Source: US Census Bureau
*American Community Survey 1-year estimate
**Estimate by Advantage Business Consultant
*** Planning Board of Puerto Rico
**** Still in force with 2016

	2017			2008		
Industry	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
RETAIL TRADE	8,291	1	19.0%	9,750	1	20.72%
HEALTH AND WELFARE	4,793	2	11.0%	4,861	3	10.33%
ADM. SERVICES AND SOLID WASTE	4,580	3	10.5%	2,795	7	5.94%
EDUCATIONAL SERVICES	4,261	4	9.8%	3,977	4	8.45%
PUBLIC ADMINISTRATION	4,005	5	9.2%	6,138	2	13.04%
ACCOMMODATION AND FOOD SERVICES	3,828	6	8.8%	3,633	6	7.72%
MANUFACTURING	3,812	7	8.7%	3,683	5	7.83%
WHOLESALE TRADE	1,813	8	4.2%	1,948	9	4.14%
PROFESSIONAL TECHNICAL SERVICES	1,587	9	3.6%			0.00%
INFORMATION	1,378	10	3.2%			0.00%
CONSTRUCTION	-			2,266	8	4.82%
COMPANIES AND ENTERPRISE MANAGEMENT	-		0.0%	1,578	10	3.35%
TOTAL	38,348		87.86%	40,629		86.34%

Source: Puerto Rico Department of Labor and Human Resources.

FUNCTION	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
GENERAL GOVERNMENT	292	304	304	286	299	424	409	326	288	322
PUBLIC SAFETY	236	242	243	243	305	311	332	355	337	326
PUBLIC WORK	319	337	338	332	352	325	322	304	336	386
CULTURE AND RECREATION	126	130	133	137	133	144	171	134	175	176
HEALTH AND WELFARE	527	525	544	467	85	539	563	467	450	482
ECONOMIC AND SOCIAL DEVELOPMENT	78	75	74	75	488	36	35	79	61	67
HOUSING	47	47	46	48	53	62	61	62	55	59
SANITATION AND ENVIRONMENTAL	124	122	119	123	123	136	138	118	111	119
EDUCATION	20	19	17	17	28	28	31	27	20	31
TOTAL	**1,769**	**1,801**	**1,818**	**1,728**	**1,866**	**2,005**	**2,062**	**1,872**	**1,833**	**1,968**

Source: Information was obtain from Municipality's Human Resource Department.

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
PUBLIC SAFETY										
Physical arrests	161	117	223	125	393	1,633	4,027	3,816	3,222	-
Parking violations	3,738	5,240	6,915	8,660	9,820	7,658	6,788	6,984	14,345	15,919
Traffic violations	8,009	9,805	13,778	10,950	2,602	14,683	8,622	12,596	21,004	18,147
PUBLIC WORK										
Walk side construction (cubic yd.)	1,119	1,828	2,518	1,590	1,726	2,423	3,869	2,654	2,311	3,407
Street resurfacing (tons.)	2,443	16,229	17,651	19,911	10,069	18,951	17,970	8,498	10,395	27,010
Potholes repaired (tons.)	1,667	2,113	4,055	3,586	5,421	5,890	4,651	3,502	3,967	3,706
Traffic signals	235	482	383	262	482	678	603	704	310	580
Bus lines (Trolleys):										
Total route miles	29,265	28,343	25,391	40,345	41,833	39,835	29,956	29,586	23,724	17,648
Passengers	134,957	129,515	134,335	200,896	208,132	143,239	117,762	140,972	79,516	75,316
CULTURE AND RECREATION										
Museum attendance	39,250	41,787	42,868	45,608	41,350	53,268	41,675	43,232	37,623	37,668
Arts workshops	64	76	66	106	83	87	23	23	25	25
Arts workshops attendance	1,040	1,221	1,133	1,319	8,371	6,299	1,985	2,390	1,002	1,008
Cultural activities	114	113	153	171	442	22	30	27	12	15
Cultural activities attendance	111,744	74,508	71,422	109,589	152,469	779,350	391,871	106,753	130,104	122,301
Sports organizations	37	37	36	36	36	36	22	22	36	36
Sports activities attendance	107,537	140,186	117,128	116,635	105,850	113,350	22,253	19,407	3,217	3,218
Sports played	17	16	16	16	16	16	14	16	14	14
HEALTH AND WELFARE										
Elderly transportation*	39,857	45,647	44,135	41,384	37,627	36,698	34,586	349	285	285
ADA transportation*	3,377	1,927	1,971	1,186	1,440	1,865	1,978	446	37	38
Food-services (nutricional program)*	100,405	104,293	102,970	90,131	126,800	61,980	49,205	46,116	100	100
Child care (Acuden) enrollment	180	134	1,557	221,000	2,023	1,586	1,514	1,514	1,482	1,482
Elderly care center	156	183	341	161	126	80	80	80	80	80
ECONOMIC AND SOCIAL DEVELOPMENT										
Community organizations	80	80	80	82	81	81	196	196	196	192
Business Support Center:										
Orientation or individual support	728	666	732	788	250	187	870	791	428	316
Group training	75	58	51	52	50	45	30	179	38	-
Training attendance	1,832	1,666	1,213	1,298	456	842	500	821	-	-
Business trainings	18	7	75	52	42	21	79	59	44	-
New business created	35	12	30	12	36	23	12	36	10	18
Jobs created	254	80	665	81	198	295	436	104	482	152
Tourism:										
Orientation for visitors	15,128	9,516	10,050	9,898	5,282	9,299	5,719	5,098	3,103	1,478
Website visits	40,686	22,156	20,209	12,072	13,695	20,756	-	-	-	-
School groups	50	25	58	55	47	86	50	100	-	-
Students served	2,695	1,485	3,650	3,316	1,800	4,387	2,379	6,000	-	-
Tourists tours	76	100	147	121	54	91	87	40	51	-
Tourists tours attendance	2,814	2,355	4,300	4,347	1,080	3,744	4,580	1,040	1,211	-
Botanical and garden attendance	153,400	57,373	130,000	122,159	33,447	85,512	91,325	87,367	105,473	19,506
HOUSING										
Vouchers	1,325	1,325	1,325	1,325	1,325	1,324	1,325	125	1,279	1,279
Donations minimum rehabilitation	133	136	58	104	278	258	164	113	125	251
Home grants	18	23	10	17	23	26	11	33	24	9
SANITATION AND ENVIRONMENTAL										
Waste Disposal Collected (tons)	68,146	57,789	54,279	43,846	60,020	56,470	55,959	68,631	44,145	59,851
Recyclables Collected (tons)	19,182	9,711	10,026	7,414	10,209	9,071	7,879	9,000	8,214	13,474
EDUCATION										
Public school enrollment	12,333	12,060	12,250	13,752	13,990	14,829	15,710	16,946	17,139	17,138
Municipal school enrollment	333	334	351	370	365	316	279	243	160	80
School transportation service	944	863	950	997	1,015	1,035	1,071	1,386	1,219	1,219
Visit to Science and Technology Center	50,487	60,014	42,435	10,260	-	-	-	-	-	-

Source: Various Municipality's Departments

Capital Assets by Function
Last Ten Fiscal Years

	June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Function										
Public safety										
Police:										
Mobile unit	3	2	2	1	1	1	1			
Stations and substations	3	10	10	12	12	12	12	12	12	12
Patrol units	46	59	63	49	61	33	45	62	58	46
Emergency:										
Emergency units	8	8	8	10	5	3	1	4	4	4
Public works										
Highways and streets (lineal miles)	318	318	318	318	331	364	364	346	346	346
**Public works units	1	1	-	12	-	-	-	-	-	1
Culture and recreation										
Civic Center	1	1	1	1	1	1	1	1	1	1
Museums	10	10	10	10	8	8	8	7	7	6
Recreational facilities:										
Soccer parks	7	7	7	7	3	2	2	-	-	-
Basketball courts	126	126	126	126	126	126	126	90	90	90
Baseball parks	39	39	39	39	39	39	39	42	42	42
Jogging tracks	42	42	42	42	42	42	42	38	38	38
Pasive parks	78	78	78	78	78	78	78	26	26	26
Community's center-facilities	67	63	67	57	57	56	62	62	62	62
Health and welfare:										
Public Hospitals	-	-	-	1	1	1	1	2	2	2
Community health center	2	2	1	1	1	1	1	1	1	1
Emergency Centers	1	2	1	1	1	1	1	6	6	6
Vaccination center	3	3	-	1	1	1	1	2	2	2
Movil health unit	1	1	-	1	1	1	1	1	1	1
Head Start centers-owned premised	18	17	17	17	18	18	14	14	14	14
Head Start centers-leased premised	11	12	10	14	14	16	20	20	20	20
Municipal care centers (children)	2	2	2	2	2	2	2	3	3	3
Municipal care centers (elderly)	3	3	3	3	3	3	3	3	3	
Economic and Social Development										
Urban centers	1	1	1	1	1	1	1	1	1	1
Commercial spaces	55	55	53	62	45	45	45	66	66	67
Main event venues	7	8	5	4	4	1	1	1	1	1
Sanitation and enviromental										
*** Collection truck	-	-	-	-	-	-	-	-	-	-
Education										
Science and Technology School (Jr. High)	2	2	1	2	2	2	1	1	1	1
Science and Technology Center	1	1	1	1	-	-	-	-	-	-
Library	1	1	1	1	1	1	1	1	1	1
Electronic library	9	9	9	11	11	11	10	11	11	9

Source: Various City Departments
*No data was available
**Public work units are the vehicles purchased per year
***Collections truck are the vehicles purchased per year

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

William E. Miranda Torres, Mayor

Autonomous Municipality of Caguas
Commonwealth of Puerto Rico