This page intentionally left blank.
# Table of Contents

**Introductory Section (Unaudited)**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of Transmittal</td>
<td>2-30</td>
</tr>
<tr>
<td>List of Representatives – By District</td>
<td>31-33</td>
</tr>
<tr>
<td>List of Representatives – At Large</td>
<td>34</td>
</tr>
<tr>
<td>List of Administrative Staff</td>
<td>35</td>
</tr>
<tr>
<td>Permanent Committees</td>
<td>36</td>
</tr>
<tr>
<td>House of Representatives Legislative Organization Chart</td>
<td>37</td>
</tr>
<tr>
<td>Administrative Organization Chart</td>
<td>38</td>
</tr>
</tbody>
</table>

**Financial Section**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor’s Report</td>
<td>40-42</td>
</tr>
<tr>
<td>Required Supplementary Information – Management’s Discussion and Analysis (Unaudited)</td>
<td>44-53</td>
</tr>
<tr>
<td><strong>Basic Financial Statements:</strong></td>
<td></td>
</tr>
<tr>
<td>Government-wide Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>Statement of Net Position</td>
<td>55-56</td>
</tr>
<tr>
<td>Statement of Activities</td>
<td>57</td>
</tr>
<tr>
<td>Fund Financial Statement</td>
<td></td>
</tr>
<tr>
<td>Balance Sheet – Governmental Funds</td>
<td>58</td>
</tr>
<tr>
<td>Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Position</td>
<td>59</td>
</tr>
<tr>
<td>Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds</td>
<td>60</td>
</tr>
<tr>
<td>Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to the Government-wide Statements of Activities</td>
<td>61</td>
</tr>
<tr>
<td><strong>Notes to the Basic Financial Statements</strong></td>
<td>62-128</td>
</tr>
</tbody>
</table>
REQUIRED SUPPLEMENTARY INFORMATION SECTION

Required Supplementary Information: (Unaudited)

| Schedule of Revenues and Expenditures – Budget to Actual – General Fund | 130 |
| Notes to Schedule of Revenues and Expenditures – Budget to Actual – General Fund | 131 |
| Notes to Required Supplementary Information | 134 |

STATISTICAL SECTION (UNAUDITED)

| Introduction | 138 |
| Net Position Trends By Component For The Last Ten Fiscal Years | 139 |
| Net Position Changes For The Last Ten Fiscal Years | 140 |
| Fund Balance For The Last Ten Fiscal Years | 141 |
| Changes in Fund Balance For The Last Ten Fiscal Years | 142 |
| Capital Assets For The Last Ten Fiscal Years | 143 |
| Long-Term Liabilities For The Last Ten Fiscal Years | 144 |
| Debt Capacity For The Last Ten Fiscal Years | 145 |
| Revenue Capacity For The Last Ten Fiscal Years | 146 |
| Demographic and Economic Indicators of the Commonwealth of Puerto Rico For The Last Ten Fiscal Years | 147 |
| Operating Indicators For The Last Ten Fiscal Years | 148 |
INTRODUCTORY SECTION
This page intentionally left blank.
June 28, 2019

The Honorable Governor of Puerto Rico
The Honorable Members of the House of Representatives
Citizens of Puerto Rico

The Comprehensive Annual Financial Report (CAFR) of the House of Representatives of the Commonwealth of Puerto Rico (hereinafter referred to as the “House of Representatives”) for the fiscal year ended June 30, 2017, is submitted herewith. The responsibility for both accuracy of the presented data and completeness and fairness of presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the presented data is accurate in all material respects and is reported in a manner that fairly represents the financial position, and the result of the financial activities of the House of Representatives.

The Commonwealth’s laws require financial statements to conform to generally accepted accounting principles in the United States of America (GAAP), as applicable to governmental entities, and the applicable pronouncements issued by the Governmental Accounting Standard Board (GASB).

The CAFR is presented in three sections. The Introductory Section includes this transmittal letter, general information about the House of Representatives, an organizational chart, and a list of the Representatives and Standing Committees. The Financial Section includes the independent auditors’ report, management discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes, and required supplementary information. The Statistical Section contains selected unaudited financial, economic and demographic data on a multiyear basis.

GAAP require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction therewith. The MD&A for the House of Representatives can be found immediately after the independent auditor’s report.
PROFILE OF THE HOUSE OF REPRESENTATIVES

The House of Representatives is the oldest legislative body of Puerto Rico – a territory of the United States of America – whose residents are citizens of said Nation since 1917. To understand, from a fair standpoint, the origins of Puerto Rico’s parliamentary system, which begins with the establishment of the House of Representatives in 1898, it is necessary to present at least a synopsis of the beginning and development of the people of Puerto Rico, generally, and the Legislative Power, specifically.

The Autonomic Charter of 1897 authorized the formation of an autonomous government for Puerto Rico where the governor was designated by the King of Spain and served as the lawful representative thereof. The Charter also provided for an Insular Parliament composed of 2 bodies with equal powers, to wit, a House of Representatives and an Administration Council, and an Autonomous Cabinet, designated on February 10, 1898, by Governor Manuel Macías. The House, which was composed of 32 members, was elected by the people of Puerto Rico, while the Council was divided into 8 members elected locally (by a convention of delegates) and 7 members appointed by the Governor on behalf of the King. The Island must also elect 16 Representatives and 5 Senators who shall represent it at the Spanish Courts.

For purposes of the House elections –the first legislative body whose members were elected by its peers– the island was divided into 8 electoral districts. One representative was elected for every 25,000 inhabitants. It must be noted that the first and only election under the Autonomic Charter was held on March 27, 1898, and subsequently, the members-elect of the House of Representatives were called for an inaugural session on July 17 of said year. The Parliament and the Cabinet were barely commencing their works when the Spanish-American War between the United States of America and Spain broke and brought about a crisis, which would bring about a dramatic political change in Puerto Rico.

On April 12, 1900, the President of the United States, William McKinley, signed the Foraker Act–named after Congressman Joseph B. Foraker, who introduced said bill–which allowed Puerto Rico to have a civilian government. From that moment on, the Island would be governed by a civilian designated by the President of the United States. A Legislative Assembly was also established to be composed of a House of Delegates with 35 members to be solely elected by the people of Puerto Rico, and an Executive Council with 11 members (of which, 5 must be Puerto Rico natives) to be designated by the President of the United States, and a Judiciary composed of the Supreme Court of Puerto Rico with 5 members, also appointed by the President of the United States, and a District Court for the District of Puerto Rico (the Federal Court).

As a result of this change in the legal system, general elections were to be held every 2 years (the first Tuesday after the first Monday of November) to elect the 35 members of the House of Delegates, in addition to a Commissioner to the United States, known as the Resident Commissioner of Puerto Rico, who would be entitled to be recognized as such by all the executive departments, and to have voice but no voting rights at the U.S. House of Representatives.

The Foraker Act was substituted in 1917 for the second organic act passed by Congress for Puerto Rico: The Jones Act. Said Act provided for a House of Representatives with 39 members elected by the people, and created a Senate of 19 members who would also be elected by the people of Puerto Rico. The elections, in which the people would continue to elect the Resident Commissioner of Puerto Rico in the United States, would be held every four years beginning in 1917 (the reason being that in 1916 no election was held for the congressional process to pass the new organic act was still pending).
To elect the members of the Legislative Assembly, the Island was divided into 7 senate districts (San Juan, Arecibo, Aguadilla, Mayagüez, Ponce, Guayama, and Humacao), and 2 senators would be elected for each district, and 5 senators-at-large. In each senate district there were 5 representative districts, and for each one of these, 1 representative plus 4 representatives-at-large were elected.

The Constitution of Puerto Rico, approved in 1952, established the Legislative Power composed of the House of Representatives and the Senate, but it was modified as follows: today, the House of Representatives is composed of 51 Representatives (40 for each of the 40 representative districts and 11 Representatives-at-large). Each senate district must always include 5 representative districts. Moreover, the Resident Commissioner in the United States, who has voice but no voting rights in the Congress, continues to be elected.

The House of Representatives shall have exclusive power to initiate impeachment proceedings and, with the concurrence of two-thirds of the total number of members of which it is composed, to bring an indictment. The Senate shall have exclusive power to try and to decide impeachment cases. The grounds for impeachment shall be treason, bribery, other felonies, and misdemeanors involving moral turpitude. The Chief Justice of the Supreme Court shall preside at the impeachment trial of the Governor.

The Legislative Assembly is a continuous body during the term for which its members are elected, and currently, the Legislative Assembly—both the House of Representatives and the Senate—holds two regular sessions each year, to wit, first regular annual session of the Legislature shall commence on the second Monday of January of each year and adjourn on June 30 of the same year. The second session shall commence on the third Monday of August and adjourn on the Tuesday prior to the third Thursday of November. (However, in those years in which a general election is held, the Legislature shall not assemble to hold the Second Regular Session).

During the 15 remaining weeks, the Committees shall continue working full time, and the prior approval of the President of the Senate and the Speaker of the House of Representatives shall be required to hold meetings outside of business days.

It must be noted that the Governor of Puerto Rico has the constitutional power to call the Legislative Assembly into special sessions which shall not continue for longer than 20 calendar days, when in his judgment, it is in the public interest. When calling a special session, the Governor must include and describe the specific and unique matters that must be addressed during said sessions.

---

1 Let us clarify that the composition of 51 representatives and 27 senators will vary by increasing the representation of the minority parties, if in a general election more than two-thirds of the members of either house are elected from one political party or from a single ticket, according to the circumstances described in Section 7 of Article II of the Constitution of Puerto Rico. In such case, said Section provides that: “The measures necessary to implement these guarantees, the method of adjudicating fractions that may result from the application of the rules contained in this section, and the minimum number of votes that a minority party must cast in favor of its candidate for Governor in order to have the right to the representation provided herein shall be determined by the Legislative Assembly.”

2 The Constitution of Puerto Rico, Article III, Sec. 21.

3 Id., Article III, Sect. 10; and Act No. 9 of April 9, 1954, as amended, Sec. 1.

4 Id., Sec. 10.
All sessions of the House of Representatives—as well as of the Senate—shall be open and public.\textsuperscript{5} All bills for raising revenue shall originate in the House of Representatives.\textsuperscript{6}

Section 17 of Article III of the Constitution of Puerto Rico provides the basic legislative process to be followed to enact a bill into law. Said Section provides, in part, that: “No bill shall become a law unless it has been printed, read, referred to a committee and returned therefrom with a written report, but either house may discharge a committee from the study and report of any bill and proceed to the consideration thereof.” Moreover, Section 9 of said Article III, which establishes the powers of each of the houses that compose the Legislative Assembly of Puerto Rico, provides that: “Each house […] shall adopt rules for its own proceedings appropriate to legislative bodies.”

Act No. 140-2004 granted fiscal autonomy to the House of Representatives. Said Act amended Act No. 230 of July 23, 1974, as amended, known as the “Government of Puerto Rico Accounting Act,” in order to authorize the Legislative Assembly to exercise custody and control of its funds and public property; design and establish its own fiscal organization and accounting systems and procedures for conducting financial transactions; and authorize the regulations needed to attain the purpose of said Act. The foregoing, in recognition that despite the long-standing tradition of centralizing the fiscal organization of the Legislative Assembly through a system created by and in the Executive Branch of the Government, such tradition posed an issue, given the separation of powers doctrine. The Constitution of Puerto Rico essentially adopted the traditional system of the separation of powers provided in the Federal Constitution, based on the belief that the best kind of government was necessarily one whose powers would be distributed among different bodies. In doing so, our system of Government has been characterized by a harmonious balance between the three independent branches (the Executive Branch, the Legislative Branch, and the Judicial Branch), a check and balances system, which seeks to establish an equilibrium in the exercise of the total powers of the Government over the people of Puerto Rico.\textsuperscript{7}

In accordance with a constitutional mandate and the Regulations of the House of Representatives of Puerto Rico (H. R. 1 of January 2, 2017, as amended), said Legislative Body provided for the organization of its business through Standing and Special Committees, as well as for the designation of its members and their offices. Standing committees are created upon the approval of resolutions establishing their jurisdiction according to their area of expertise or scope of authority. Special committees, if any, have a fixed term (usually 1 year) and are created by the Speaker of the House or upon the approval of any resolution introduced by any of the Representatives providing for the composition and jurisdiction thereof to analyze or investigate certain specific matters.

**2016 ELECTIONS**

The New Progressive Party won a majority of the seats in the House of Representatives in the 2016 General Elections. After the election, the Honorable Carlos J. Méndez-Núñez was appointed Speaker of the House of the Representatives and has held said office from January 2017 to the present.

\textsuperscript{5} Id., Sec. 11.  
\textsuperscript{6} Id., Sec. 17.  
\textsuperscript{7} See, the Statement of Motives of Act No. 140-2004.
INDEPENDENT AUDIT

The independent auditors have completed an audit of the financial statements of the House of Representatives, which was performed to obtain reasonable assurance that said financial statements are free of material misstatements. The audit included 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 management, and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for issuing an unqualified opinion that the House of Representatives’ financial statements for the fiscal year ended on June 30, 2017, are fairly presented in accordance with GAAP.

The independent auditors’ report is presented at the beginning of the Financial Section of this CAFR.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance that the assets are safeguarded against loss, theft or misuse, and that financial records for preparing financial statements and maintaining accountability for assets are reliable.

The internal control system is designed to provide reasonable, rather than absolute, assurance that these objectives are met and that the financial statements are free of material misstatement. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from that control and the evaluation of costs and benefits require estimates and judgments by management. We believe that the House of Representatives’ internal controls adequately safeguard assets and provide reasonable assurance that financial transactions are properly recorded.

The House of Representatives maintains extensive budgetary controls to ensure compliance with legal provisions embodied in the annual appropriations budget approved by the Legislative Assembly, internal rules, and administrative orders. The general fund activities are included in the annual appropriations budget. Budgetary control regarding the legislative functions shall be exercised by each of the Representative’s offices. However, with regard to administrative offices, control is exercised at the administration level. The House of Representatives also maintains an encumbrance accounting system as a method of upholding budgetary control.

ECONOMIC CONDITIONS AND OUTLOOK

Puerto Rico’s economy is closely linked to the United States’ economy, as most of the external factors that affect the local economy are determined by the implemented policies and the performance of the mainland economy. These external factors include the exports, direct investment, federal transfer payment amounts, interest rates, rate of inflation, and tourism expenditures.

From fiscal year 2008 to fiscal year 2016, the manufacturing and service sectors generated the largest portion of gross domestic product. Manufacturing is the largest sector in Puerto Rico’s economy in terms of gross domestic product. In the last three decades, Puerto Rico’s industrial development has been virtually capital intensive and dependent on skilled labor.
Puerto Rico has had mixed results in the service sector, which includes wholesale and retail trade, utilities, transportation and warehousing, information, finance and insurance, real estate and rental, and certain services such as professional, scientific, technical, management, administrative, support, educational, health care, social, recreational, lodging, food, and other services. Tourism also makes a significant contribution to the economic activity.

Puerto Rico continues to suffer the effects of a recession that started on fiscal year 2006. Since then, Puerto Rico’s Gross National Product (“GNP”) has decreased every fiscal year, except for fiscal year 2012, when it grew by 0.5%. The GPN for fiscal years 2009, 2010, and 2011, 2013, 2014, and 2015 decreased by 3.8%, 3.6%, 1.7%, 0.1%, 1.7% and 0.6%, respectively.

The Commonwealth’s economic development team has embarked on a comprehensive outreach strategy to diversify Puerto Rico’s economic base, pursue niche strategies such as aerospace/aeronautics, and leverage its human capital and fiscal autonomy to attract new investment opportunities. The Commonwealth’s goal is to protect its manufacturing core while it transitions its economic ecosystem into a regional service and high-tech industrial activity hub.

FAFFA’s Economic Activity Index (the “EAI”) for June 2016 reflected a 1.8%-reduction compared to June 2015. The average cumulative value for the fiscal year 2016 showed a reduction of 1.4% compared to fiscal year 2015. The EAI is a coincident index of ongoing economic activity, but it does not measure the actual GNP annual growth rates. Because the EAI is generated with only four variables (total payroll employment, cement sales, gasoline consumption, and electric power generation), it is more volatile than the actual GNP numbers. This means that both increments and declines reflected in the EAI amplify the corresponding movements of the actual GNP.

The most recent development with regards to Puerto Rico’s fiscal situation is the appointment of a Financial Oversight Board, following the enactment of PROMESA (Puerto Rico Oversight, Management and Economic Stability Act of 2016), which convened on September 2016.

BUDGET AND FISCAL POLICY

The fiscal year of the three branches of the Commonwealth of Puerto Rico begins every July 1 and ends on June 30 of the following year. The House of Representatives’ annual budget includes an estimate of operating expenses for its legislative and administrative functions. The Legislative Assembly is responsible for any variations in the budget allocations of each house. Any unreserved balance is available to cover nonrecurring expenses for a three-year period, according to Act No. 230 of July 23, 1974, as amended.

ADMINISTRATIVE & LEGISLATIVE

Our jurisdiction is facing critical times as a result of poor management and the implementation of management decisions that lead to increasing government expenditures and requiring administrative entities to solve the liquidity issues by taking on loans under financial, legislative, and legal terms, known in the financial market as bond issues. In this case, the government’s financial instruments are backed by the revenues from the various taxes imposed on taxpayers. As a result of these unwise management decisions made by government leaders, the lack of financial guarantees, and the establishment of a pattern of default, our government has lost access to financial markets.
The budget of the Legislative Assembly accounts for less than one percent (1%) of the Government’s consolidated budget. Both the House of Representatives and the Senate are able to operate in favor of the people. As part of our Republican form of government, the House is the legislative body closest to the people, given that its composition is based on the number of inhabitants. We reassert the provisions of the Constitution setting forth that all bills for raising revenue shall originate in the House of Representatives, but the Senate may propose or concur with amendments as on other bills.

It is no secret that we inherited a financial crisis from the preceding Government Administration. As part of our goals, the regulations in effect were thoroughly evaluated and oversight has been maximized and rendered more effective to avoid future complications. Upon the evaluation of internal rules, several administrative orders had been implemented geared to achieve efficiency and effectiveness in the operations of the House of Representatives. This shows its commitment to maintaining transparency and sound administration. All of this strengthens the importance and effectiveness of the rules by which representatives, officials and employees of the House of Representatives must abide.

The main causes of the financial constraints faced by the entities are related to cash flow, insolvency, or liquidity. Hence, establishing the methodology to analyze the financial behavior is one of the most feasible and safest options to guarantee the sound administration of the financial resources. In the last months, we have been consistent in the process of establishing a methodology that help us to learn about the financial behavior of the House of Representatives and the needs thereof, so that we are able to react, as necessary, promptly to correct any flaws or departure from what proper government administration entails.

On October 30, 2016, the Financial Oversight Board for Puerto Rico designated the Government of Puerto Rico as well as other governmental organizations and public corporations as covered territorial instrumentalities under Public Law 114-87 of June 30, 2016, better known as the “Puerto Rico Oversight, Management, and Economic Stability Act,” or “PROMESA.” The Financial Oversight Board (FOB) created under said federal legislation entrusts certain duties and responsibilities to its members, in order to make financial oversight feasible. Together with the Executive Branch, FOB must devise a strategic plan focused on stressing the importance of public administration and establishing the priorities for the financial restructuring of the Government of Puerto Rico. Before the close of fiscal year 2016-2017, the FOB suggested a $24 million cut for the Legislative Assembly for the next fiscal year, that is, 2017-2018. In view of this scenario, we began an analysis process to incorporate this budget cut into our projections and operating budget. To honor our commitment with maintaining and implementing fiscal control measures in the internal operations of the government, we strive to operate with a minimum budget compared to those that were approved for the last two administrations.

As part of the goals established, for the January to June 2017 period, we have implemented several administrative orders for the functioning and efficiency in the operations of the House of Representatives, to wit:

- Register of Lobbyists of the House of Representatives of Puerto Rico
- Public Bidding and Procurement Regulations of the House of Representatives of Puerto Rico
- To repeal Administrative Order Number 09-06 to Reimburse the Bar Membership Fee to the Attorneys Who Work at the House of Representatives of Puerto Rico
To regulate the travel processes and requirements for Representatives, Officials, and Employees who travel abroad on official business.

Regulations for the Establishment and Operations of the Regional Offices of the House of Representatives of Puerto Rico

Rules for the Use, Access, and Operation of the “Salón Café”

Attendance Control and Leave Management and Use Manual for the Personnel of the House of Representatives of Puerto Rico

To amend Administrative Order No. 2007-08, denominated “House Regulations for Traveling within Puerto Rico”

Regulations for the Administration and Control of the Official Fleet of the House of Representatives of Puerto Rico

On the other hand, the Speaker of the House is responsible for designating all the members of the Special and Standing Committees and determining the minority representation therein. Every political party, whether a majority or a minority party, shall be duly represented and actively involved in every Special and Standing Committee of this Legislative Body.

For the 2017-2020 Legislature, the House of Representatives of Puerto Rico organized its Standing Committees through H. R. 16, which were divided into 5 specific areas, which are: I. Governmental Sector; II. Economic Sector; III. Social Sector; IV. Law and Order Sector; and V. House of Representative Proceedings. The current Committee composition is the following.  

I. GOVERNMENTAL SECTOR

a) Committee on Municipal Affairs composed of 9 Representatives

It has jurisdiction over all that pertains to municipal finances and operations; every proposal to create municipalities and consolidate inter-municipal and regional services with the services provided by the Office of the Commissioner of Municipal Affairs, the Municipal Revenues Collection Center (CRIM), and other related instrumentalities that render services to the municipalities; any municipal reform proposal and special laws that administer or affect the municipalities; government programs that affect the municipalities, and the formulation of proposals seeking the integral development of the municipalities for the purpose of addressing any needs related to economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection. It also has jurisdiction over any agency, body, or instrumentality whose duties affect the development of the municipalities, provided, that the matter at issue is not essentially related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; in which case the Committee on Government shall have primary jurisdiction. The Committee on Municipal Affairs also evaluates any proposal to invest municipalities with greater powers and increase their capacities by confirming autonomous regions, as well as any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

---

8 Based on H.R. 16 of January 4, 2017, as amended.
b) Committee on Ways and Means, Budget, and Puerto Rico Oversight, Management, and Economic Stability composed of 15 Representatives

It has jurisdiction over all that pertains to the fiscal situation of the Government of Puerto Rico, the General Fund and special funds revenues; estimates of potential revenues and income, and financing by issuing debt, estimates of income and investments and disbursements of public corporations relating to legislation that eliminates or imposes any kind of taxes; the public debt of the Government and public corporations, as well as the repayment conditions of recommended debt issues; collection, revenues, custody, deposit, and accountability of public funds; pre-intervention and use of public funds in accordance with the purposes for which they were authorized; the study and evaluation of the General Budget; budget requests recommended by the Governor for the departments, public corporations, agencies, and other instrumentalities; and all agencies, instrumentalities and public corporations under the jurisdiction of the Department of Treasury, provided, that the matter at issue is not essentially related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; in which case the Committee on Government shall have primary jurisdiction; and over any matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker. In addition, it is responsible for any legislative measure relating to fund appropriations and for the appropriations included in any legislative measure. Furthermore, it has jurisdiction over all matters related to the fiscal situation of the Government of Puerto Rico, the Fiscal Plan proposed by the Government, and over the quarterly reports on income and expenditures to be submitted by the Governor to the Financial Oversight Board which it shall analyze and review to determine if they are compliant with the approved budget projections. This Committee shall also review any bill that represents a financial commitment in the Government's general budget, evaluating cost estimates and certifying compliance with the Fiscal Plan. Moreover, it shall review and oversee the restructuring process of any kind of public debt incurred by the departments, public corporations, agencies, and other government instrumentalities; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

c) Committee on Government composed of 15 Representatives

This Committee has jurisdiction over any matter related to the creation, modification, division, consolidation, integration, or elimination of agencies, bodies, or instrumentalities of the Government of Puerto Rico; legislation affecting the Office of the Governor and government offices, departments and instrumentalities, except for tax legislation; legislation relating to personnel laws, the impeachment process, and the government in general; evaluating and making recommendations relating to the confirmation or rejection of appointments that require the confirmation of the House of Representatives by law; and legislation relating to the administration and holding of elections. In addition, this Committee shall work on legislation regarding any type of referendum, except for those proposing amendments to the Constitution; legislation of general character relating to the state government that is not assigned to other Committees; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.
d) Committee on Federal and International Relations and Status composed of 9 Representatives

This Committee is responsible for all matters related to the relationship between the Government of Puerto Rico and the Federal Government, the governments of all other territories and states of the United States of America, and its political subdivisions; intergovernmental agreements and contracts; Puerto Rico and the House of Representatives’ participation in public or private intergovernmental organizations; the study of plans, the organization and rendering of services directed under the “Federal Relations Administration Act” as well as for all offices and activities of the Government of Puerto Rico’s instrumentalities developed outside of Puerto Rico; services and treatment provided by federal agencies that operate in Puerto Rico or have jurisdiction over the rendering of such services to the Island’s residents; proposals to federal or international agencies or entities for the establishment of programs or projects on the Island; and legislation related to the political relationship between Puerto Rico and the continental U.S. and the holding of plebiscites and referendums on Puerto Rico’s political status.

e) Committee on Retirement Systems and Veterans’ Affairs composed of 9 Representatives

This Committee has jurisdiction over all matters related to legislation and studies regarding the operation of the government retirement systems and the welfare of the beneficiaries thereof; legislation necessary and convenient to improve the administration of these systems, to render such systems more dynamic, robust, and preserve the solvency thereof, as well as all that pertains to the benefits such systems provide to participants and pensioners; proposals made by the Executive Branch, the Legislative Branch, the Retirement Systems and Retirement System participants, jointly or individually regarding public employees retirement and to oversee the operations and solvency of the public sector’s retirement funds and the services and treatment provided by federal agencies that operate in Puerto Rico or have jurisdiction over the rendering of such services to the Island’s residents.

This Committee is also responsible for evaluating every legislation concerning international and federal agencies or entities for the establishment of programs or projects for veterans on the Island; and on the legal rights of veterans including, but not limited to, employment, education, labor, health, and housing; on government or civic efforts aimed at addressing the issues that affect veterans; the Veteran’s Advocate Office; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Women’s Affairs composed of 9 Representatives

This Committee is in charge of addressing all that pertains to the full development of women in society by promoting opportunities that provide women with access to education and training for their personal, occupational, and professional growth; exalting women’s role in society; promoting efforts aimed at transforming and improving women’s living conditions in communities; achieving true equality by promoting, implementing and disclosing the public policy on gender equality, and the legal and constitutional rights of
women and the situation and status of women in society in legal, financial, political and social terms; preventing discriminatory acts against women or potential violations of their legal and constitutional rights; the needs of single mothers and their families; young women who, due to violence, teenage pregnancies or financial issues, among others, leave school; women who, due to abuse or divorce, chose to leave school or require a safe home; professional women who require government support to care for their children and access to job opportunities and business activities, and women who require adequate access to sexual and reproductive, prenatal, delivery and postpartum health care services; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

II. ECONOMIC SECTOR

a) Committee on Agriculture, Natural Resources, and the Environment composed of 9 Representatives

This Committee is in charge of all matters pertaining to proposed legislative measures and integral reforms that address the needs and foster the development of the agricultural industry in Puerto Rico for the purpose of defining, implementing, administering, overseeing, and establishing the appropriate public policy; the regulation, oversight and inspection of agricultural activities and products; agricultural mechanization, marketing and distribution of agricultural products; agricultural capital and credit; training on agricultural techniques to improve agricultural exploitation, conservation, rescue and use of agricultural lands, agricultural experimentation and research; and agriculture in general. In addition, this Committee has jurisdiction over all that pertains to legislative studies, research and recommendations for public policy on land preservation, use, and irrigation, flood control, the preservation and use of reservoirs; mangroves, forests, fisheries, wildlife, mineral deposits and the responsible exploitation thereof, the conservation of important or endangered animal and plant species; environmental pollution, solid waste disposal, including recycling and landfills; studies and research for the formulation of public policy on environmental quality, including land, water, and air cleanup to ensure the best quality of life, air pollution control, pollutant discharge in land and water waste management, and controlling the degradation of hazardous waste so that it does not harm animals and plants, among others. It is also responsible for everything related to specific determinations on capital improvements, and construction and land use permits that require an environmental impact assessment pursuant to the existing regulations, maps or plans, forest resources, fishery and wildlife, mineral deposits and archeological sites, and the environmental quality in general; the proposals for and formulation of the energy policy on the Island, among others; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Economic Development, Planning, Telecommunications, Public-Private Partnerships, and Energy composed of 9 Representatives

Its mission is to study all matters pertaining to economic priorities consistent with the economic development of the Island; planning; telecommunications; trade and business competition at local or interstate level, or with other jurisdictions outside of the United
States of America; monopoly in its different forms; technology and biotechnology; knowledge economy; strategic infrastructure projects in the planning or construction phase that promote economic development and those matters and issues pertaining to industry, commerce, telecommunications, and the economy in general. Likewise, it also deals with federal matters on the economic development of Puerto Rico; the interaction between purposes, resources and the efforts of government agencies or between the public and the private sector in connection with economic development; studies and research in connection with the promotion of economic development, commerce, industry, and telecommunications; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

c) Committee on Small- and Medium-Sized Businesses and Commerce composed of 9 Representatives

It has jurisdiction over all matters pertaining to strategic programs, plans and projects consistent with the economic and financial development and promotion of small- and medium-sized businesses; conducting of studies and research and the making of recommendations for the approval of measures that allow for the promotion and growth of such businesses, including seeking technical assistance and training; trading; local marketing and its competition; incentives and financing; business and industrial priorities consistent with commercial development; trade and business competition whether local, interstate, or with other jurisdictions outside of the United States. Likewise, it has jurisdiction over matters of business and industry in general; shall conduct studies and research and recommend the approval of measures that encourage the promotion and development of commerce; commercial and industrial incentives and financing; and it has jurisdiction over the Commerce Code, and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

d) Committee on Tourism and Social Welfare composed of 9 Representatives

This Committee has jurisdiction over all matters pertaining to the promotion and development of the tourism industry as an essential part of the economic growth of Puerto Rico; research and studies that allow us to define, implement, direct, and focus the government’s policy on tourism, technical assistance, incentives and related matters; the management, operations, and conservation of hotels, inns and other tourism facilities; tourist services and attractions; hotel schools and employment in the tourist industry; games of chance, cruise ships, coastal zones and ports; food, luxury, sports, group tourism and ecotourism; governmental and private entities related to tourism and the strengthening and expansion of the tourism industry in general.

In addition, it has jurisdiction over all matters pertaining to the operations and oversight of social welfare services for individuals, families, and communities, specifically, special populations such as older adults and marginalized communities for the purpose of implementing a public policy that guarantees the services required by these populations; economic assistance benefits, physical, financial and emotional rehabilitation; food and nutrition assistance; housekeepers, care centers; care and rehabilitation institutions for children with social issues; measures to fight child abuse, as well as social security
systems; services aimed at a better quality of life; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

e) Committee on the Development of the Capital City and Youth Affairs composed of 7 Representatives

This Committee is in charge of all matters pertaining to the socioeconomic development of San Juan, the Capital City, the metropolitan area surrounding it, and all that affects its population. For such purposes, the metropolitan region is composed of the following municipalities: Aguas Buenas, Bayamón, Canóvanas, Carolina, Cataño, Dorado, Guaynabo, Toa Alta, Toa Baja, Trujillo Alto, and San Juan. Likewise, it has jurisdiction over the government programs that affect the Municipality of San Juan; recommendations for legislation as necessary to find solutions and achieve the harmonious and integrated development of the Municipality and the services rendered by the municipal government; and over the Puerto Rico Conventions District Authority.

The Committee also has jurisdiction over all matters pertaining to the public policy that promotes the entry of youth in the job market; vocational training; prioritizing the seeking of solutions to issues affecting youth at all stages; public and private institutions for the social treatment of minors; training, employment and vocational rehabilitation of minors by the Department of Labor and Human Resources; the Police Juvenile Matters Division; the Youths Affairs Office, cultural youth programs promoted by the Institute of Puerto Rican Culture; government and private institutions that address youth’s needs and concerns; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Cooperativism composed of 9 Representatives

This Committee is in charge of all measures geared toward the promotion, organization, oversight, inspection, reorganization and dissolution of cooperatives; the cooperative movement in all of its modalities, such as consumption, savings, credit, financing, production, housing, and any other kind of modality, while always bearing in mind the cooperative philosophy, including, the study and evaluation of issues and situations that affect in one way or another the stability, development, progress and wellbeing of cooperativism; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

g) Committee on the Integrated Development of the North Central Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Adjuntas, Arecibo, Barceloneta, Camuy, Ciales, Comerío, Corozal, Florida, Hatillo, Isabela, Lares, Las Marias, Manati, Maricao, Morovis, Naranjito, Quebradillas, San Sebastián, Utuado, Vega Alta, and Vega Baja; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency,
body and instrumentality whose functions affect the development of the region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

h) Committee on the Integrated Development of the Northeast Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Ceiba, Culebra, Vieques, Fajardo, Humacao, Loíza, Luquillo, Naguabo, and Río Grande; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of said municipalities; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

i) Committee on the Integrated Development of the Eastern Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Caguas, Gurabo, Juncos, Las Piedras, Maunabo, Patillas, San Lorenzo, and Yabucoa; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body, and instrumentality whose functions affect the development of the Eastern Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

j) Committee on the Integrated Development of the Western Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Aguada, Aguadilla, Añasco, Cabo Rojo, Hormigueros, Mayagüez, Moca, Rincón, and San Germán, proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the Western Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

k) Committee on the Integrated Development of the South-Central Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Aibonito, Arroyo, Barranquitas, Cayey, Cidra, Coamo, Guayama, Orocovis, Salinas, Santa Isabel, and Villalba; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas:
economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the South-Central Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

l) Committee on the Integrated Development of the Southern Region composed of 7 Representatives

It has jurisdiction over all matters pertaining to the government programs that affect the municipalities of Guánica, Guayanilla, Jayuya, Juana Díaz, Lajas, Peñuelas, Ponce, Sabana Grande, and Yauco; proposals that seek the integral development of these municipalities for the purpose of addressing their needs in the following areas: economic, urban, and rural development, employment, the environment, recreation, transportation, and public protection; any government agency, body and instrumentality whose functions affect the development of the Southern Region; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

m) Committee on Labor composed of 9 Representatives

This Committee has jurisdiction over working conditions, hours and wages, employer-employee relations; workers training and retraining, labor services and guidance; labor union training; unemployment and occupational safety in general; workplace accident prevention and compensation, and work injury rehabilitation; migrant workers; labor in general; and over any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

n) Committee on Transportation and Infrastructure composed of 9 Representatives

This Committee is in charge of all that pertains to the design, investigation, programming, construction, and use of highways and mass transit systems; parking facilities and transit or public highways; these systems’ safety; studies on new transport methods; state public works; public thoroughfares in general; the strengthening of the infrastructure through strategic projects for mass ground, rail, maritime and air transportation; airports, ports, highways and roads, aqueduct, sewer, electric power, energy production and transmission projects, among others; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

III. SOCIAL SECTOR

a) Committee on Consumer Affairs, Banking and Insurance composed of 9 Representatives

This Committee is entrusted with all matters relative to the fixing of prices, rentals, rates, and product quality, including the sale of school text books and the enrollment in and monthly payments to private schools at all levels; to installment sales, financing and credit affecting consumers, including agencies, public corporations, and other government instrumentalities that render direct services to the people; to product warranties and services, weights and measures, deceptive practices, advertisements and publicity,
consumer services and education; to the analysis and review of all legislation regarding consumer affairs, the banking industry, and the analysis of legislation regarding banking matters, local, federal and international investment and financial lending institutions, as well as all that pertains to insurance, including the Insurance Code, except for savings and credit unions (cooperatives); and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Education, Arts and Culture composed of 9 Representatives

This Committee has jurisdiction over all measures directed to guidance, objectives and methods of the public education system; the regulation, oversight and accreditation of the educational services provided by private institutions and schools; vocational education, guidance, and rehabilitation; the promotion of education and culture; student services, scholarships and other assistance; the regulation, accreditation, and creation of conditions that help teachers become better and more engaged; and the development of supplemental educational services for greater efficiency; university direction, administration, research and education, including facilities and equipment; nonprofit entities, including knowledge management organizations, such as universities and institutions that make private sector’s contributions feasible.

It has jurisdiction over all matters pertaining to the preservation and promotion of cultural values, the arts, and sciences; policies that foster the arts; the Institute of Puerto Rican Culture, and the dissemination of culture and the preservation of historic sites and areas; the Luis A. Ferré Fine Arts Center, the Puerto Rico Conservatory of Music, the School of Visual Arts, the Puerto Rico Art Museum, the Contemporary Art Museum, and fine arts; the promotion of the Film and Audiovisual Industry as a source of artistic and cultural reference; the Puerto Rico Public Broadcasting Corporation, as entities that promote arts and culture; artistic and cultural exchange between Puerto Rico, the United States and the world; public art and artistic and cultural events and activities; the Puerto Rico General Archives as a source of cultural reference; as well as all matters related to arts and culture in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

c) Committee on Special Education and People with Disabilities composed of 9 Representatives

This Committee has primary or exclusive jurisdiction over matters and legislative measures related to educational programs and services for the special education population and people with physical and mental disabilities. It is also responsible for overseeing the implementation of public policy that guarantees the rendering of services, specialized education, therapy and vocational rehabilitation as well as any necessary effort to help this population achieve independent living.

It also has primary or exclusive jurisdiction, without being subject to the jurisdiction that other standing or special committees, the laws, or the agencies of the Government of Puerto Rico may have, over all matters and legislative measures related to the formulation of public policy and education and training, employment, self-management, economic
development, housing, health aspects, among others, as well as discrimination, oppression or marginalization of people with a physical, cognitive, mental or sensory impairment that substantially limits one or more major life activities; or are people who are regarded as having a physical, mental or sensory impairment under Act No. 238-2004, as amended, known as the “Bill of Rights of Persons with Disabilities”; or who have a mental, cognitive, sensory or physical impairment or any other disability covered under Public Law No. 106-402, known as the “Developmental Disabilities Assistance and Bill of Rights Act of 2000,” and Public Law No. 93-112, as amended, known as the “Rehabilitation Act of 1973,” or any other federal or state regulation created in the future by federal or state law, seeking to ensure this population’s full participation in social, political, economic, governmental and cultural aspects of life; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

d) Committee on Sports and Recreation composed of 9 Representatives

This Committee has jurisdiction over the formulation of public policy that promotes sports as an essential element of our lives and social development; the strengthening of physical education programs in public schools; physical and sports facilities; physical education and recreation and sports in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

e) Committee on Health composed of 9 Representatives

This Committee has jurisdiction over the implementation of public policy on all public and private services that affect health; prevention, diagnosis and treatment of diseases; as well as the preservation of health; medical-hospital and outpatient services; research and vital statistics; physical, medical, and paramedical facilities and equipment; the administration, implementation, and management of any general health systems modification, such as the Health Reform; mental health; regulation and oversight of the manufacture, distribution, and sale of medical products; health professionals; alcoholism and drug dependence treatment services; health in general; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

f) Committee on Housing and Urban Development composed of 9 Representatives

This Committee has jurisdiction over the formulation and adoption of measures directed at implementing the public policy on the provision of decent and sanitary housing in a suitable living environment for its residents, as well as the adequate planning and use of lands in the development and construction of housing and neighboring infrastructure facilities; rural and urban housing; horizontal property; marginalized communities, public and private housing developments; land invasions; housing programs; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

IV. LAW AND ORDER SECTOR

a) Committee on the Judiciary composed of 9 Representatives
This Committee has jurisdiction over all matters related to the Judicial System, including the quasi-judicial bodies of the Executive Branch, judges and courts, the practice of law, social services in court, legal services for the state and municipal governments, and indigent citizens, as well as the notary practice; the Department of Justice, the Attorney General of Puerto Rico, the Property Registry and registrars; the Constitution of Puerto Rico, and constitutional amendments, Congress and state legislation, federal and state court and lawsuits against the State; the body of laws that governs the civil system, such as the Civil Code, the Rules of Civil Procedure, the Mortgage Law and the regulations thereunder, and the Building Code, among others; the body of laws that governs the criminal system, such as the Penal Code and the Rules of Criminal Procedure; the Rules of Evidence; the Civil Rights Commission; the protection of civil rights, constitutional guarantees of citizens and the allocation of funds and resources to citizens’ rights programs; any legislation relating to the prevention of crime and the rehabilitation of offenders; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Public Safety composed of 9 Representatives

This Committee has jurisdiction over security and law enforcement; the strengthening of government’s law enforcement efforts against violence; drug crimes and trafficking; the Department of Justice, the Puerto Rico Police, the Department of Corrections and Rehabilitation, the Institute of Forensic Sciences and its components; the Armed Forces of the United States of America; federal and state security agencies such as the U.S. Department of Homeland Security, FBI and NSA, as well as the different state police departments, among others; any legislation aimed at controlling and reducing delinquency and controlling and preventing crime; the allocation of funds and resources to public safety programs and others that may have a direct impact on crime prevention; the formulation of public policy by law to ensure the physical safety of the residents of urban and rural areas; the plans, programming, public work, organization and rendering of services directed by law to the Puerto Rico National Guard, the Firefighters Corps, the Emergency Management and Disaster Administration State Agency, and the Traffic Safety Commission.

V. HOUSE OF REPRESENTATIVES PROCEEDINGS

a) Committee on Internal Affairs composed of 9 Representatives

This Committee has jurisdiction over studies on the House of Representatives’ structure, procedures, administration and operations; measures on the relations between the House of Representatives and the Senate of Puerto Rico and other government branches as well as measures related to the Legislative Branch’s reform efforts; the consideration of resolutions introduced by the Speaker of the House of Representatives for conducting investigations, creating special committees, and making official statements of the House of Representatives; general advise to the Speaker on administrative matters; and any other matters delegated thereto by the House of Representatives of Puerto Rico or the Speaker.

b) Committee on Special Debate Rules and Calendars composed of 9 Representatives
This Committee is responsible for selecting the measures to be listed in every Special Order of the Day Calendar. Likewise, it establishes the special rules that shall govern any debate, and which shall become effective at the time in which the measure and the report by the appropriate Committee are up for consideration, thus rendering ineffective the regulatory provisions on debates. This Committee shall have no ex officio members.

c) Committee on Ethics composed of 7 Representatives

It has jurisdiction over all that pertains to regulating the conduct of the members, officials, and heads of the offices of the House of Representatives and their compliance with the ethical and legal standards that govern the House of Representatives specifically and the public service in general. It also has exclusive jurisdiction to become aware of, investigate, follow the appropriate process, report its findings and conclusions to the House of Representatives, recommend actions to be taken in the event that a member, official, or head of an office of the House of Representatives engages in any conduct constituting a violation of law or the Code of Ethics of the House of Representatives. This Committee shall not intervene or issue opinions within thirty (30) days prior to a general election and shall have no ex officio members.

The constitutional authority granted to the Legislative Assembly to enact its own legislation as well as to evaluate, through its Committees and through public hearings, every bill introduced by citizens and the Executive Branch, for approval, amendment or rejection, highlights the leading role it plays in the general development of Puerto Rico. For example, bills considered by the House of Representatives for the January 2, 2017 to June 30, 2017 period include the following:

1. **ACT NO. 1-2017 (JANUARY 11, 2017)**

   To amend Section 2 by adding new subsections (a) and (u) and renumber all other subsections; amend the first paragraph of Section 3; add a paragraph (vi) to subsection (b) of Section 6; add paragraphs (xii) and (xiii) to subsection (b) of Section 7; amend paragraph (ii) of subsection (b) of Section 9; amend subsection (d) of Section 10; add a new subsection (e) to Section 17; amend Section 22 of Act No. 29-2009, as amended, known as the “Public-Private Partnership Act,” in order to include greater participatory elements by incorporating the concept of Participatory Public-Private Partnerships; define and authorize Pre-Development Agreements and Unsolicited Proposals; ensure greater oversight of the fulfillment of Partnership contracts; contribute to the capitalization of the retirement systems of the Government of Puerto Rico; and for other related purposes.

2. **ACT NO. 2-2017 (JANUARY 18, 2017)**

   To create the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act of 2016; delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions, and regulations of the agencies and instrumentalities of the Government of Puerto Rico; provide
that the Authority shall be the only entity authorized to enter into a creditors’ agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank in every Board, Committee, Commission, or Council; repeal Chapter 6 of Act No. 21-2016, as amended; repeal the Puerto Rico Fiscal Oversight and Economic Recovery Organic Act, Act No. 208-2015; and for other related purposes.


To create the “Act to Address the Economic, Fiscal, and Budget Crisis to Guarantee the Operations of the Government of Puerto Rico”; in order to take temporary emergency measures as are necessary to enable the Government of Puerto Rico to continue operating and offering essential services to the people; set forth prohibitions against the contracting of professional services; set the Government on the path toward responsible management of its debt and obligations; amend Section 2101 of Act No. 120-1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” in order to extend the effectiveness of the excise tax on the acquisition of certain personal property and services; provide that every member of the governing board or body of a public corporation, except for certain members of the Governing Board of the University of Puerto Rico, the Electric Power Authority, the Aqueduct and Sewer Authority, the Board of the Martin Peña Canal ENLACE Project Corporation, and the members of the Board of the Company for the Integral Development of the Cantera Peninsula shall enjoy the trust of the Governor of Puerto Rico to implement and carry out the established public policy; and for other related purposes.

4. **ACT NO. 4-2017 (JANUARY 26, 2017)**

To enact the “Labor Transformation and Flexibility Act,” in order to establish the rules applicable to the employment contract; amend Sections 4, 5, 6, 7, and 8; repeal Sections 9 through 12; amend the first paragraph of Section 13 and renumber it as Section 9; amend the second paragraph of Section 14 and renumber it as Section 10; amend Section 15 and renumber it as Section 11; renumber Section 16 as Section 12; amend Section 17 and renumber it as Section 13; amend Section 18 and renumber it as Section 14; amend Section 19 and renumber it as Section 15; and amend Section 20 and renumber it as Section 16 of Act No. 379 of May 15, 1948, as amended; amend Sections 4 and 5 of Act No. 289 of April 9, 1946, as amended, and repeal any provision in a mandatory decree which refers to the payment of working hours or overtime; repeal Act No. 1 of December 1, 1989, as amended; amend subsection (b) of Section 5; amend subsection (a) of Section 6; add a second paragraph to subsection (d) of Section 6; add a subsection (c) to Section 8; amend Section 12; and repeal Section 17 of Act No. 180-1998, as amended; amend Sections 1, 2, and 7 of Act No. 148 of June 30, 1969, as amended; add a paragraph eleven (11) to Section 1031.01(b); amend Sections 1032.06(d)(3) and 1062.01(a)(1)(G) of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; amend Sections 2, 3, and 9 of Act No. 427-2000, as amended; amend the third paragraph of Section 3(b)(1); amend the third paragraph of Section 3(b)(2); add a paragraph (6) to Section 8(b) of Act No. 74 of June 21, 1956,
as amended; amend Sections 1, 2, 3, 5, 7, 8, 9, 10, 11, and 12; add a Section 3-A, renumber Section 14 as Section 15; and add a new Section 14 to Act No. 80 of May 30, 1976, as amended; amend Section 5-A of Act No. 45 of April 18, 1935, as amended; amend Section 3(q) of Act No. 139 of June 26, 1968, as amended; establish standards that shall apply uniformly to all laws related to discrimination and retaliation in the workplace; amend Section 3 of Act No. 100 of June 30, 1959, as amended, in order to create an environment that fosters job creation and retention; provide more certainty for employment contracts and labor relations; allow for more flexibility in the contracting, retention, schedules, and workplace; establish provisions on vacation leave, sick leave, and Christmas Bonus benefits; grant small employers more flexibility under certain laws; increase unemployment benefits; promote the voluntary offering of fringe benefits to workers; grant more rights to nursing mothers; conform our labor laws to analogous federal labor laws; and for other related purposes.

5. ACT NO. 5-2017 (JANUARY 29, 2017)

To create the “Puerto Rico Financial Emergency and Fiscal Responsibility Act” in order to establish mechanisms to allow the Government of Puerto Rico to meet its obligations recognizing, in turn, its responsibility of providing essential services to the residents of Puerto Rico; empower the Governor to implement the mechanisms needed by the Government of Puerto Rico to overcome the financial emergency; as well as to recognize the Governor’s authority to delegate these functions to any component of the Executive Branch; repeal Chapters 1 and 2; and renumber current Chapters 3, 4 and 5 as 1, 2 and 3 of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended; to add Section 23 to Act No. 22 of July 24, 1985, as amended, in order to establish that the amendments made through Act No. 21-2016 to its Organic Act, in case of conflict between the English and the Spanish language, the English language shall prevail; and to renumber Section 23 as 24 of Act No. 22 of July 24 1985, as amended; provide that the English text shall prevail over the Spanish text; and for other related purposes.


To amend Section 5 of Act No. 80-1991, as amended, known as the “Municipal Revenues Collection Center Act,” to set forth the manner in which mayors shall be elected as members of the Governing Board of CRIM; and for other related purposes.


To enact the “Puerto Rico Immediate Decolonization Act”; provide the rules to conduct plebiscites that comply with the Federal Government proposal set forth in “Public Law 113-76 of 2014” with status options that are final, permanent, non-colonial, and non-territorial, and compatible with the Constitution, laws, and policies of the United States of America, and with International Law; to appropriate funds; and for other purposes.
8. ACT NO. 8-2017 (FEBRUARY 4, 2017)

To adopt the “Government of Puerto Rico Human Resources Administration and Transformation Act” and, in turn, designate the Government as a Sole Employer and establish the concept of Mobility; repeal Act No. 184-2004, as amended, known as the “Public Service Human Resources Administration Act of the Commonwealth of Puerto Rico”; amend Act No. 15 of April 14, 1931, as amended, known as the “Organic Act of the Department of Labor and Human Resources of Puerto Rico,” in order to add a new paragraph (23) to subsection (h) of Section 3 and amend Section 10; and for other related purposes.


To amend Sections 2, 11, 19, 44, 51, and 61, add a new Chapter IV, renumber current Chapter IV and Sections 69, 70, 71, and 72 of Act No. 219-2012, as amended, known as the “Trust Act”; amend Sections 1032.08, 1033.09(a)(3), 1033.09(a)(1)(A)(ii)(I), 1081.01(a)(11)(B), 1081(a)(11)(B), 1081.01(d)(3), 1081(e)(2)(B), 2022.01(b), 2023.02(b)(2), and 1033.09(a)(1)(C) of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” in order to incorporate incentives to retain and enable the return of professionals to Puerto Rico; incentivize the creation of retirement plans; make technical amendments; and for other related purposes.


To create the Puerto Rico Socioeconomic and Community Development Office for the purpose of modernizing, simplifying, unifying, and expediting government processes and services to achieve the full development of the Third Sector and of Communities; create the office of Executive Director; establish the duties and functions of the Office and the Executive Director thereof; create the Puerto Rico Social Reinvestment Fund; establish the public policy on community development; amend Act No. 1-2001, as amended; amend Act No. 271-2002, as amended; amend Section 2 of Act No. 137-2014; create the Digital Community Program in order to provide needy individuals with better access to technology; and for other related purposes.


To amend Section 5 of Act No. 80-1991, as amended, known as the “Municipal Revenues Collection Center Act,” in order to clarify the manner in which mayors shall be elected as members of the Governing Board of CRIM; clarify the legislative intent of Act No. 6-2017; and for other related purposes.


To add a fourth and fifth paragraph to Section 6 of Act No. 261-2004, as amended, known as the “Puerto Rico Volunteer’s Act,” in order to create volunteer programs directed to the elderly; create the Elderly Integral Services Program to be administered by the Office of the General Coordinator for Socioeconomic Financing and Self-management, or its legal successor; and for other related services.

To authorize the creation of a nonprofit corporation, which shall adopt the concept “Enterprise Puerto Rico,” in order to promote the economic development of Puerto Rico using the expertise of the public and private sectors in conjunction with the Department of Economic Development and Commerce of Puerto Rico; establish its organization, duties, functions, and powers; repeal Act No. 201-2014, known as an “Act to Create the Foreign Trade Board of the Government of the Commonwealth of Puerto Rico”; and for other related purposes.


To enact the “Act to Incentivize the Retention and Return of Medical Professionals” in order to establish a tax rate on income and dividends earned in the practice of medicine for physicians residing in Puerto Rico; amend Section 4 of Act No. 187-2015, as amended, known as the “Interagency Validation Portal for the Granting of Incentives for the Economic Development of Puerto Rico Act”; and for other related purposes.


To declare the public policy on government integrity and efficiency; create the Office of the Inspector General of Puerto Rico; provide its purpose, organization, duties, and powers; authorize the transfer of internal audit offices of the Executive Branch and public corporations to said Office; repeal Section 2 of Act No. 110-1995; appropriate funds for the initial organizational costs of the Office; and for other purposes.

16. ACT NO. 16-2017 (MARCH 8, 2017)

To enact the “Puerto Rico Equal Pay Act” to establish a dynamic and vigorous public policy on equal pay for equal work in order to eradicate the existing wage discrimination among public and private employees on the basis of sex; and for other related purposes.

17. ACT NO. 17-2017 (MARCH 30, 2017)

To adopt an “Act to Promote Puerto Rico as a Destination”; authorize the creation and development of a destination marketing organization for Puerto Rico to be known as the “Corporation for the Promotion of Puerto Rico as a Destination, Inc.”; amend Sections 2 and 31 of Act No. 272-2003, as amended, known as the “Commonwealth of Puerto Rico Room Occupancy Rate Tax Act”; repeal Act No. 70-2013, as amended, known as an “Act for the Development of a Country Brand”; and for other related purposes.


To add a new subsection (g) to Section 1.3 and renumber subsections (g) through (q) as subsections (h) through (r), respectively, and amend Sections 3.10 and 5.3 of Act No. 54 of August
15, 1989, as amended, known as the “Domestic Violence Prevention and Intervention Act,” in order to allow the presence of mediators, technicians who assist victims and witnesses and, at the discretion of the court, support personnel during the testimony of victims of domestic violence; make the presence of a representative of the Prosecutor’s Office compulsory at the probable cause hearing and determination in certain offenses; amend Rule 6 of the Rules of Criminal Procedures of 1963, as amended, to adjust it to the provisions of this Act; and for other related purposes.


To amend Sections 1.2, 1.5, 2.1, 2.2, 2.3, 2.4, 2.5, 2.7, 2.10, 2.11, 2.12, 2.13, 2.16, 2.17, 2.18, 3.1, 3.2, 7.3, 7.4, 7.9, 8.1, 8.2, 8.3, 8.4, 8.5, 8.8, 8.8A, 8.10, 8.11, 8.13, 8.14, 9.1, 9.2, 9.5, 9.6, 9.7, 9.8, 9.9, 9.12, 13.1, 14.1, 14.2, 15.1, 16.1, 18.2, 18.7, 18.9, 18.10, 19.7; repeal Sections 2.3B, 2.8A, and 7.8 and renumber the subsequent Sections; repeal and replace Sections 14.4, 14.5, and 14.6 for new Sections 14.4, 14.5, and 14.6; add Sections 14.7, 14.8, 14.9, 14.10, 14.11, 14.12, 14.13; repeal and replace Sections 8.15 and 8.16 for new Sections 8.15 and 8.16; repeal Section 16.2; and add a Section 8.4A and Chapters VI and XI to Act No. 161-2009, as amended, known as the “Puerto Rico Permit Process Reform Act”; amend subsection (d) of Section 10 of Act No. 8 of January 8, 2004, as amended, known as the “Sports and Recreation Department Organic Act”; amend Sections 13.008, 13.012 and 3.015 of Act No. 81-1991, as amended, known as the “Autonomous Municipalities Act”; amend Sections 1, 4, 5, 6, and 7 of Act No. 374 of May 14, 1949, as amended; amend Section 4 of Act No. 416-2004, as amended, known as the “Environmental Public Policy Act”; repeal subsection (31) of Section 11 of Act No. 75 of June 24, 1975, as amended, known as the “Puerto Rico Planning Board Organic Act”; amend Sections 3, 5, and 7 of Act No. 76-2000, known as the “Procedures for Emergency Situations or Events Act,” for purposes of simplifying and transforming the permitting process in the jurisdiction of Puerto Rico in order to provide certainty, reliability, efficiency, and stability thereto; continue taking concerted action aimed at opening Puerto Rico for business by improving the permitting process as provided by the Financial Oversight Board created pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act, known as “PROMESA,” Pub. L. 114-187; direct the Planning Board to review and amend Land Use Plans; and for other related purposes.


To establish the Puerto Rico Department of Public Safety for the purposes of creating a new system comprised of all of the components that administer the public safety in Puerto Rico; allow for the sharing of personnel and administrative expenses; create the Puerto Rico Police Bureau; create the Bureau of the Puerto Rico Firefighters Corps; create the Forensic Science Bureau; create the 9-1-1 Emergency Systems Bureau; create the Emergency Management and Disaster Administration Bureau; create the Bureau of the Puerto Rico Medical Emergency Corps; create the Puerto Rico Special Investigations Bureau; repeal Act No. 53-1996, as amended, known as the “Puerto Rico Police Act”; repeal Act No. 43 of June 21, 1988, as amended, known as the “Puerto Rico Firefighters Corps Act”; repeal Act No. 211-1999, as amended, known as the “Puerto Rico Emergency Management and Disaster Administration Agency Act”; repeal Act No. 539-2004, as amended, known as the “Medical Emergency Corps of the Commonwealth of Puerto Rico Act”; repeal Act No. 144-1994, as amended, known as the “9-1-1 Calls Act”; repeal Act No. 13 of July 24, 1985, as amended, known as the “Puerto Rico Institute of Forensic Sciences Act”; repeal
Chapter III of Plan 5-2011, better known as the “Reorganization Plan of the Department of Justice of 2011”; repeal Reorganization Plan 2-1993, as amended, known as the “Safety and Public Protection Commission”; provide for the orderly transition towards the integration of the entities that shall form part of the Department of Public Safety in the aim of achieving savings and efficiency, improving the services rendered to the citizenry, meeting the requirements of the Police Reform, and securing federal funding; and for other related purposes.


To repeal and replace Section 2.001 for a new Section 2.001; amend Section 11.009 of Act No. 78-2011, as amended, known as the “Commonwealth of Puerto Rico Election Act,” in order to adjust said Act to the code of laws in effect, clarify the legislative intent, and safeguard the constitutionality of the election process in Puerto Rico; and for other related purposes.

22. ACT NO. 22-2017 (APRIL 19, 2017)

To repeal Section 2 of Act No. 97-2015, which creates the “Puerto Rico Commission for the Comprehensive Audit of the Public Credit,” in order to reallocate permanently the surplus funds allocated to such Commission to the University of Puerto Rico to provide it with additional assistance to address the fiscal crisis of our First Teaching Center; and for other related purposes.


To amend Articles II, III, IV, V, VI, VII, IX, and X of Act No. 7-2017, known as the “Puerto Rico Immediate Decolonization Act,” in order to include the current territorial status that subjects Puerto Rico to the plenary powers of the Congress of the United States of America, among the status options available to voters in the ballot of the Plebiscite to be held on June 11, 2017; modify the plebiscite in order to fulfill the requests of the United States Department of Justice and ensure that the federal Government abides by the outcome of the Plebiscite; and for other related purposes.


To repeal Chapters II, III, IV, V, VI, VII, VIII, IX, X, XII, XXIII, XXVI, XXVII, and Sections 11.03, 11.04, 13.03, 14.25, 15.05, 21.02; adopt new Chapters II, III, IV, V, VI, VII, VIII, IX, X, XII, XXIII, XXVI, and Sections 11.03, 11.04, 13.03, 14.25, 15.05, 21.02; and amend Sections 13.01, 13.02, 14.12, 14.15, 15.06, 15.08, 17.04, 21.06, 22.02, 22.08, 24.03, 25.04 of Act No. 22-2000, as amended, known as the “Puerto Rico Vehicles and Traffic Act,” in order to reform said statute, simplify the language thereof, adjust it to other legal provisions, and comply with the provisions of the Fiscal Plan Certified by the Financial Oversight Board created pursuant to PROMESA; repeal subsection k of Section 17, repeal subsections b and c of Section 18 of Act No. 123-2014, as amended, known as the “Puerto Rico Integrated Transit Authority” in order to temper it with the amendments incorporated to the Traffic Act and the provisions of the Certified Fiscal Plan; and for other related purposes.

To amend Section 4010.01(h)(6) and (h)(9); add paragraph (5) to subsection (a) of Section 4020.05; amend Section 4020.08(a), (d), (e) and add subsection (f); amend Section 4041.02(a) and (b); add Section 4041.03; amend Section 4042.03(a)(1)(A); amend Section 4060.01(c), (d), and (f); amend Section 6043.04(a), (b), and (d); amend Section 6043.05(a) and (c); amend Section 6043.06 to add a new subsection (e); and amend subsection (a), add paragraph (2) to subsection (a), renumber paragraphs (2) through (5) as (3) through (6) of subsection (a), amend subsection (a)(2) renumbered as (a)(3), (a)(3) renumbered as (a)(4), (b), (c), (e), and (g) of Section 6080.14 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” in order to establish documentation requirements for retailers selling tangible personal property to buyers in Puerto Rico and provide the Department of Treasury with the necessary tools to collect the Sales and Use Tax (SUT) on the sale of taxable items in Puerto Rico over the Internet; and for other related purposes.


To create the “Fiscal Plan Compliance Act,” in order to take measures as necessary to adjust the existing legal and juridical framework so as to allow the fullest compliance with the Fiscal Plan approved by the Financial Oversight Board, created by virtue of the Federal Law PROMESA; establish a uniform fringe benefit system, which includes the Christmas bonus and the healthcare plan contribution, for all the government employees and officials of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico, except for the University of Puerto Rico; amend paragraphs (a), (e), and (m) of subsection 2 of Section 4.3 of Article 4, Section 5.2 of Article 5, subsections 1(d) and 4(1) of Section 6.4, subsection 2(b) of Section 6.8, Section 6.9 of Article 6, and subsections 3 and 5 of Section 7.2 of Article 7, add a new Section 2.11(a) to amend Section 3 of Act No. 125 of June 10, 1967, as amended, suspend the effectiveness of Article 9 and Section 10.2 of Act No. 8-2017, known as the “Government of Puerto Rico Human Resources Administration and Transformation Act”; renumber current Sections 10 through 20, as Sections 9 through 19; repeal Act No. 89-2016, known as the “Public Service Temporary Employment”; amend Sections 3, 6, and 7 of Act No. 253-1995, as amended, known as the “Compulsory Motor Vehicle Liability Insurance Act,” in order to broaden the compulsory motor vehicle liability insurance coverage from four thousand dollars ($4,000) to four thousand five hundred dollars ($4,500); to authorize the review of premiums before June 30, 2017; to allow the members of the Joint Underwriting Association of the Compulsory Motor Vehicle Liability Insurance to report a special dividend as well as apply an incentivized tax to such dividend; provide for the distribution of the revenues collected on account of the incentivized tax and the premium adjustment to be covered into the General Fund; authorize the Government to use the surplus of public corporations as “available funds” to contribute to the General Fund; authorize a Committee composed of the heads of the Fiscal Agency and Financial Advisory Authority, the Office of Management and Budget, and the Department of the Treasury to modify the rates of public corporations in order to comply with the metrics of the Fiscal Plan; establish the rules and principles that shall govern the sale process of real property of the Government of Puerto Rico; create a Real Property Evaluation and Disposal Committee; establish the public policy on the sale of real property; amend Sections 3, 7, and 8 of Act No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting
Act,” in order to establish that appropriations and funds without specific fiscal year that have remained in the books without being disbursed or set aside for one (1) year shall be deemed to have fulfilled their purposes, and therefore, shall be closed and covered into the General Fund; provide that any special funds created by law for specific purposes shall be credited to the General Fund of the Commonwealth Fund and shall be deposited in the regular bank account of the Secretary of the Treasury for him to have full control thereof; amend Sections 2 and 6 of Act No. 129-2005, as amended, known as the “Government of the Commonwealth of Puerto Rico Procurement Reserves Act,” in order to provide that the gradual increase in the general budget’s item allocated to procurement for micro-, small-, and medium-sized businesses shall be granted if the fiscal situation of the Government so allows; to add a new Section 3020.05A and 3020.15, and amend Section 3020.05, Section 3020.13, Section 3020.14, Section 3030.14, Section 3030.18, Section 3050.01, Section 6042.08, and Section 6042.15 of Act No. 1-2011, as amended, better known as the “Internal Revenue Code for a New Puerto Rico,” in order to modify the excise tax applicable to cigarettes and tobacco byproducts to increase the liquidity, address the economic and fiscal crisis that Puerto Rico is undergoing, and to prevent any impact on the most vulnerable sectors, as well as to discourage cigarette consumption; amend Section 2 of Act No. 91 of June 21, 1966, as amended, to provide that until Fiscal Year 2020-2021 the annual contribution to the Emergency Fund shall be in the amount of ten million dollars ($10,000,000), and that beginning in Fiscal Year 2020-2021 said contribution shall not be less than zero point five percent (0.5%) of the estimated net revenues submitted by the Department of the Treasury to prepare the Recommended Budget chargeable to the General Fund; and for other related purposes.


To amend Articles 74, 152, 177, 179, 182, 184, 194, 197, 201, 230, 248, 268, 281, and 307; and add new Articles 200, 200A, 242A, and 247 to Act No. 146-2012, as amended, known as the “Puerto Rico Penal Code,” in order to reinstate certain provisions to the criminal code of laws as well as certain penalties and applicable provisions; make technical amendments; and for other related purposes.


To designate May 18 of each year as the “Huntington's Disease Awareness Day,” with the objective of creating awareness among the population about this disease in children, youths, and adults; and for other related purposes.


To create the “Puerto Rico Art Museum Trust”; and repeal Act No. 486-2004, in order to establish the Trust, invest it with powers, provide for applicable exemptions, its accounting system, establish that the debts and obligations thereof shall not constitute debts and obligations of the Government of Puerto Rico, with regard to its immunity and liabilities; determine its tax treatment; provide for the transfer of property of the Government Puerto Rico to the Trust, including those recorded in the Property Registry; and for other related purposes.
30. ACT NO. 30-2017 (JUNE 5, 2017)

To establish an “Act for Equality and Congressional Representation of the United States Citizens of Puerto Rico”; create, as a transitory measure, the Puerto Rico Equality Commission attached to the Puerto Rico Federal Affairs Administration, to be constituted by the first delegation of two U.S. Senators and five U.S. Representatives who shall promote, in the Congress and the Federal Government, the electoral mandate ensuing from the November 6th, 2012 plebiscite and any equivalent, future electoral mandate rejecting the current territorial, colonial status and seeking admission as a state into the Union on an equal footing with the citizens of all other states; and for other purposes.

31. ACT NO. 31-2017 (JUNE 6, 2017)

To amend subsection (u) of Section 2.004 of Act No. 81-1991, as amended, known as the “Autonomous Municipalities Act of Puerto Rico,” in order to empower the municipalities that wish to establish franchises or municipal ventures, to establish the same in private facilities duly leased by the municipality; and for other purposes.

32. ACT NO. 32-2017 (JUNE 6, 2017)

To amend subsection (u) of Section 2.004 of Act No. 81-1991, as amended, known as the “Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991,” in order to require municipalities to register their ventures, franchises, or corporations, including their names, brands, and logos in the Department of State; and for other related purposes.

33. ACT NO. 33-2017 (JUNE 7, 2017)

To enact the “Church School Act,” establish the legal parameters regarding the existence and operations of church schools in Puerto Rico for the purpose of guaranteeing the freedom of religion and the fundamental rights of parents to educate their children in said schools according to their preferences, beliefs and values, thus guaranteeing the constitutional right to the freedom of association including the right not to associate; repeal Act No. 82-1995; define the nature and the scope of church schools and authorize the Education Council of Puerto Rico to issue the corresponding certifications without licensing; and for other related purposes.

34. ACT NO. 34-2017 (JUNE 9, 2017)

To amend Section 7 of Chapter III of Act No. 213-1996, as amended, known as the “Puerto Rico Telecommunications Act,” in order to empower the Telecommunications Regulatory Board of Puerto Rico to administer the Puerto Rico Universal Service Fund; and for other purposes.
35. ACT NO. 35-2017 (JUNE 12, 2017)

To amend Section 2.008 of Act No. 81-1991, as amended, better known as the “Autonomous Municipalities Act”; add a new subsection (e)(7), a new subsection (f)(6), and renumber subsequent subsections, in order to provide that, as part of the disclosure efforts directed under the Act regarding the Public Law and Order Codes adopted by the municipalities, the Office of the Commissioner of Municipal Affairs shall post every adopted Public Law and Order Codes on its webpage and to keep them updated; and for other related purposes.

36. ACT NO. 36-2017 (JUNE 20, 2017)

To recognize the month of January of each year as the “Cervical Cancer Prevention Month” in Puerto Rico; and to officially declare January 27 as the “Symbolic Cervical Cancer Prevention Day,” as part of the commitment towards this cause, raise awareness, and instill the importance of prevention against this disease in the people; and for other related purposes.

37. ACT NO. 37-2017 (JUNE 6, 2017)

To repeal current subsection (a) and substitute it for a new subsection (a), repeal current subsection (b) and substitute it for a new subsection (b), and amend subsections (c) and (f) of Section 4 of Act No. 83 of May 2, 1941, as amended, known as the “Puerto Rico Electric Power Authority Act,” in order to reorganize the Governing Board of the Puerto Rico Electric Power Authority; and for other related purposes.

38. ACT NO. 38-2017 (JUNE 6, 2017)

To enact the “Government of Puerto Rico Uniform Administrative Procedure Act” and repeal Act No. 170 of August 12, 1988, as amended, known as the “Commonwealth of Puerto Rico Uniform Administrative Procedures Act.”

I would like to acknowledge all administrative employees and staff for maintaining the main principles of financial management and for their contribution to the timely preparation of the CAFR.

Respectfully submitted,

Moisés D. Cortés Rosado, MBA
Chief Administrative Officer
House of Representatives of Puerto Rico
This page intentionally left blank.
<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Name</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eddie Charbonier Chinea</td>
<td>1</td>
<td>Lydia Méndez Silva</td>
<td>21</td>
</tr>
<tr>
<td>Luis R. Torres Cruz</td>
<td>2</td>
<td>Michael A. Quiñones Irizarry</td>
<td>22</td>
</tr>
<tr>
<td>Juan O. Morales Rodríguez</td>
<td>3</td>
<td>Víctor M. Torres González</td>
<td>23</td>
</tr>
<tr>
<td>Víctor L. Parés Otero</td>
<td>4</td>
<td>José A. Banchs Alemán</td>
<td>24</td>
</tr>
<tr>
<td>Jorge L. Navarro Suarez</td>
<td>5</td>
<td>Jacqueline Rodríguez Hernández</td>
<td>25</td>
</tr>
<tr>
<td>Antonio L. Soto Torres</td>
<td>6</td>
<td>Urayoán Hernández Alvarado</td>
<td>26</td>
</tr>
<tr>
<td>Luis Pérez Ortiz</td>
<td>7</td>
<td>Ramón L. Rodríguez Ruiz</td>
<td>27</td>
</tr>
</tbody>
</table>
## REPRESENTATIVES – BY DISTRICT – (cont.)

<table>
<thead>
<tr>
<th>Name</th>
<th>District</th>
<th>Name</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yashira Lebrón Rodríguez</td>
<td>8</td>
<td>Rafael Rivera Ortega</td>
<td>28</td>
</tr>
<tr>
<td>Nelson Del Valle Colón</td>
<td>9</td>
<td>José Aníbal Díaz Collazo</td>
<td>29</td>
</tr>
<tr>
<td>Pedro J. Santiago Guzmán</td>
<td>10</td>
<td>Luis R. Ortiz Lugo</td>
<td>30</td>
</tr>
<tr>
<td>Rafael Hernández Montañez</td>
<td>11</td>
<td>Jesús Santa Rodríguez</td>
<td>31</td>
</tr>
<tr>
<td>Guillermo Miranda Rivera</td>
<td>12</td>
<td>José M. Varela Fernández</td>
<td>32</td>
</tr>
<tr>
<td>Gabriel Rodríguez Aguiló</td>
<td>13</td>
<td>Angel R. Peña Ramírez</td>
<td>33</td>
</tr>
<tr>
<td>José O. González Mercado</td>
<td>14</td>
<td>Ramón L. Cruz Burgos</td>
<td>34</td>
</tr>
<tr>
<td>Name</td>
<td>District</td>
<td>Name</td>
<td>District</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------</td>
<td>-------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Joel I. Franqui Atiles</td>
<td>15</td>
<td>Samuel Pagán Cuadrado</td>
<td>35</td>
</tr>
<tr>
<td>Félix G. Lasalle Toro</td>
<td>16</td>
<td>Carlos &quot;Johnny&quot; Méndez Núñez</td>
<td>36</td>
</tr>
<tr>
<td>José Luis Rivera Guerra</td>
<td>17</td>
<td>Angel Bulerín Ramos</td>
<td>37</td>
</tr>
<tr>
<td>José J. Pérez Cordero</td>
<td>18</td>
<td>Javier A. Aponte Dalmau</td>
<td>38</td>
</tr>
<tr>
<td>Maricarmen Mas Rodríguez</td>
<td>19</td>
<td>Roberto Rivera Ruiz De Porras</td>
<td>39</td>
</tr>
<tr>
<td>Carlos A. Bianchi Angleró</td>
<td>20</td>
<td>Angel N. Matos García</td>
<td>40</td>
</tr>
</tbody>
</table>
This page intentionally left blank.
REPRESENTATIVES – AT LARGE

José E. Torres Zamora

Néstor A. Alonso Vega

José F. Aponte Hernández

María M. Carbonier Laureano

José E. Meléndez Ortiz

María de Lourdes Ramos Rivera

Brenda López de Arrarás

Denis Márquez Lebrón

Manuel Natal Albelo

Jesús Manuel Ortiz González

Luis R. Vega Ramos
This page intentionally left blank.
ADMINISTRATIVE STAFF

Moisés D. Cortés Rosado – Chief Administrative Officer

Elizabeth Stuart Villanueva – Chief Clerk

Henry J. Taboada – Chief Sergeant of Arms

Maritza Torres López – Director of Finance and Budget
PERMANENT COMMITTEES

Agriculture, Natural Resources and Environmental Affairs
Budget
Calendars and Special Rules of Debate
Capital City Development and Youth Affairs
Consumer Affairs, Banking and Insurance
Cooperativism
Development of the Central South Region
Economic Development, Planning, Telecommunications, Public Private Partnerships and Energy
Education, Art and Culture
Estate
Ethics
Federal, International and Status Relations
Government
Health
Housing and Urban Development
Integrated Development of the Central North Region
Integrated Development of the Eastern Region
Integrated Development of the Northeast Region
Integrated Development of the Southern Region
Integrated Development of the Western Region
Internal Affairs
Laboral things
Legal
Local Issues
Public Security
Recreation and Sports
Retirement Systems and Veteran Affairs
Small and Medium Businesses and Trade
Special Education and People with Disabilities
Supervision, Administration and Economical Stability of P.R. "PROMISE"
Tourism and Social Welfare
Transportation and Infrastructure
Women's Issues
This page intentionally left blank.
COMPREHENSIVE ANNUAL FINANCIAL REPORT
HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

HOUSE OF REPRESENTATIVES LEGISLATIVE CHART
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Hon. Carlos J. Méndez Núñez
Speaker

Hon. José E. Torres Zamora
Vice-President

Hon. María de Lourdes Ramos Rivera
Vice-President

Henry J. Táboada Collazo
Chief Sargent of Arms

Lcda. Elizabeth Stuart Villanueva
Clerk

Hon. Gabriel F. Rodríguez Agüero
Majority Leader-PNP

Hon. Rafael Hernández Montañez
Minority Leader-PPD

Hon. Dennis Márquez Lebrón
Minority Delegation-PNP

Hon. Urayoán Hernández Alvarado
Alternate Majority Leader-PNP

Hon. Ramón L. Cruz Buxeda
Alternate Minority Leader-PPD

Majority Delegation
Majority Delegation
District (28)
District (11)
Representatives
Representatives
At Large (6)
At Large (5)
This page intentionally left blank.
INDEPENDENT AUDITOR’S REPORT

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the House of Representatives’ 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 Members of the House of Representatives
of the Commonwealth of Puerto Rico

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives 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.

Emphasis of Matters

As discussed in Note 2, the financial statements of House of Representatives are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the House of Representatives. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The House of Representatives is part of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statement of House of Representatives have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 19 on pages 95-97 to the financial statements, 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 Commonwealth’s ability to continue as a going concern. Management’s plans regarding these matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 18 to the financial statements, the 2016 financial statements have been restated the Net Pension Liability for the implementation of GASB Statement No. 68 and other adjustment. 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 44-53, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 130-131, and employees’ retirement systems information, on pages 132-134 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.
INDEPENDENT AUDITOR'S REPORT
To the Members of the House of Representatives
of the Commonwealth of Puerto Rico

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 House of Representatives, 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 House of Representatives’ basic financial statements. The Introductory Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 June 28, 2019 on our consideration of the House of Representatives’ 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 the House of Representatives’ internal control over financial reporting and compliance.

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

Caguas, Puerto Rico
June 28, 2019

Stamp No. E383643 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.
MANAGEMENT’S DISCUSSION AND ANALYSIS
This page intentionally left blank.
The House of Representatives of the Commonwealth of Puerto Rico (the “House of Representatives”) provides this Management Discussion and Analysis to the readers of these basic financial statements. This narrative overview and analysis of the financial activities of the House of Representatives is for the fiscal year ended June 30, 2017.

Since the Management’s Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the House of Representatives basic financial statements.

FINANCIAL HIGHLIGHTS

Government – Wide Financial Statements

- The House of Representatives net deficit amounted to $(12,714,353) at June 30, 2017. Such net deficit decreased by $2,953,237 during the fiscal year ended June 30, 2017 when compared to the June 30, 2016 net deficit, amounting to $(15,667,590), as restated. This increase is mostly attributable to the increase of $2,815,872 in legislative appropriation and an excess of revenues over net expenses. Expenses reflected a net decrease of $418,179.
- The total assets of the House of Representatives amounted $14,305,905 at June 30, 2017. This represented an increase of $1,300,102 during the fiscal year ended June 30, 2017 when compared to the June 30, 2016 total assets, as restated. It is mainly attributable to an increase in cash balances by $1,723,448 at the end of the fiscal year.
- The total liabilities of the House of Representatives amounted to $25,532,836 include the accrual for vacations and sick leave in the amount of $4,668,855, $957,276 due to contractors and suppliers, payroll and other taxes for $513,754, Due to Governmental Units amounting $549,901, obligations under capital leases $101,116 and net pension liability $18,741,934 at the close of the fiscal year ended June 30, 2017. The House of Representatives has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Management’s Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the House of Representatives. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains required supplementary information (statement of revenues and expenditures – budget to actual – general fund) and additional supplementary information (Statistical Data) in addition to the basic financial statements themselves. These components are described below in Figure 1.
Government – Wide Financial Statements

The government- wide financial statements are designed to provide users of the basic financial statements with a broad overview of the House of Representatives finances in a manner similar to the private sector business. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. These statements present short and long-term information about the House of Representatives financial position, which assists in assessing the House of Representatives economic condition at the end of the year. The House of Representatives functions are governmental activities as most Commonwealth of Puerto Rico government services.

The Statement of Net Position presents all of the House of Representatives assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator of whether the financial position of the House of Representatives is improving or deteriorating.
The Statements of Activities presents information showing how the House of Representatives 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 the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 55-57 of this report.

**Funds Financial Statements**

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 House of Representatives like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of the House of Representatives belong to categories of governmental Funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government – wide financial statements. However, unlike the government – wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable House of Representatives resources available at the end of the fiscal year. Such information is useful in evaluating the House of Representatives near term financial requirements.

Because the focus of Governmental funds is narrower than that of the government – wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government – wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the House of Representatives near term financial decisions. The governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The House of Representatives maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with such budget.

The governmental fund financial statements can be found on pages 58-61 of this report.

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government -wide and fund financial statements and can be found immediately after the basic financial statements.

The notes to the basic financial statements can be found on pages 62-128 of this report.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.
Also, the required supplementary information reported are related to the GASB Statement No. 68 for pension liability reporting, and those required supplementary information are presented immediately following the notes to the financial statements and can be found on pages 130 through 134 of this report.

**FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS**

**Net Position**

The Statement of Net Position serves over time as a useful indicator of the House of Representatives financial position at the end of the fiscal year. The House of Representatives net position (deficit) decreased by $2,953,237 when compared to 2016. The House of Representatives net position (deficit) includes investment in capital assets, net of related debt, for $1,344,124, restricted net position for $2,203,040 and unrestricted net position (deficit) of ($16,261,517).

The following are the condensed statements of net deficit for the fiscal years ended June 30, 2017 and 2016:

<table>
<thead>
<tr>
<th>Condensed Statements of Net Position</th>
<th>2017</th>
<th>Restated 2016</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$ 12,860,665</td>
<td>$ 11,180,260</td>
<td>$ 1,680,405</td>
<td>15.03%</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>1,445,240</td>
<td>1,825,543</td>
<td>(380,303)</td>
<td>-20.83%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$ 14,305,905</td>
<td>$ 13,005,803</td>
<td>$ 1,300,102</td>
<td>10.00%</td>
</tr>
<tr>
<td>Deferred Outflows of Resources</td>
<td>2,827,085</td>
<td>1,415,744</td>
<td>1,411,341</td>
<td>99.69%</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>3,018,823</td>
<td>4,472,299</td>
<td>(1,453,476)</td>
<td>-32.50%</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>22,514,013</td>
<td>18,652,379</td>
<td>3,861,634</td>
<td>20.70%</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>25,532,836</td>
<td>23,124,678</td>
<td>2,408,158</td>
<td>10.41%</td>
</tr>
<tr>
<td>Deferred Inflows of Resources</td>
<td>4,314,507</td>
<td>6,964,459</td>
<td>(2,649,952)</td>
<td>-38.05%</td>
</tr>
<tr>
<td><strong>Net Position (Deficit)</strong></td>
<td>$ (12,714,353)</td>
<td>$ (15,667,590)</td>
<td>$ 2,953,237</td>
<td>-18.85%</td>
</tr>
</tbody>
</table>

**Capital Assets**

The House of Representatives investment in capital assets for its governmental activities amounted to $7,032,640, net of accumulated depreciation of $5,587,400, for a net book balance of $1,445,240, at June 30, 2017. These investments in capital assets include equipment, computer equipment, furniture and vehicles. Capital assets also include equipment under capital lease agreements with a net book value of $94,431. Capital assets with an acquired value of $535,192 and net book value of $4,330 were disposed during the year. Depreciation and amortization charges totaled $572,787 for the year ended June 30, 2017. Adjustments to prior year balance related to incorrect accounting of intangible assets with acquired value of $334,451 and net book value of $67,064 were made.
Long-Term Liabilities

Total liabilities of the House of Representatives as of June 30, 2017, were $25,532,836 of which $3,018,823 are due within one year. Long term obligations increased by $3,861,634, or approximately 21% when compared with the prior fiscal year. The increase is mainly related to the accrued amount of compensated absences and net pension liability.

Additional information of the House of Representatives’ capital assets and long-term liabilities can be found in Notes 8 and 10 to the basic financial statements on pages 80 and 81 of this report.

Changes in Net Position

The following condensed statements of activities reflects how the House of Representatives net position (deficit) changed during the fiscal years ended June 30, 2017 and 2016.

### Condensed Statements of Activities

<table>
<thead>
<tr>
<th>Expenses</th>
<th>2017</th>
<th>Restated 2016</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Activities</td>
<td>$47,504,466</td>
<td>$47,922,645</td>
<td>$(418,179)</td>
<td>-0.87%</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative Appropriations</td>
<td>50,361,667</td>
<td>47,545,795</td>
<td>2,815,872</td>
<td>5.92%</td>
</tr>
<tr>
<td>Other</td>
<td>34,850</td>
<td>161,786</td>
<td>(126,936)</td>
<td>-78.46%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>50,396,517</td>
<td>47,707,581</td>
<td>2,688,936</td>
<td>5.64%</td>
</tr>
</tbody>
</table>

Increase (decrease) in Net Position before Transfers and Special Items

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>Restated 2016</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Transfers</td>
<td>-</td>
<td>(1,551,679)</td>
<td>1,551,679</td>
<td>-100.00%</td>
</tr>
<tr>
<td>Special Items</td>
<td>61,186</td>
<td>-</td>
<td>61,186</td>
<td>100.00%</td>
</tr>
<tr>
<td>Change in Net Position</td>
<td>2,953,237</td>
<td>(1,766,743)</td>
<td>4,658,974</td>
<td>-263.69%</td>
</tr>
</tbody>
</table>

Net Position (Deficit), Beginning of Year, As Restated

<table>
<thead>
<tr>
<th></th>
<th>(15,667,590)</th>
<th>(13,900,847)</th>
<th>(1,766,743)</th>
<th>12.71%</th>
</tr>
</thead>
</table>

Net Position (Deficit), End of Year

|                                | $ (12,714,353) | $ (15,667,590) | $ 2,953,237 | -18.46%|

The House of Representatives mayor expense is related to salaries, benefits that include accrued vacations and sick leave and payroll taxes, which represent approximately 74% and 73% of total expenses, before transfers, for the fiscal year ended June 30, 2017 and 2016, respectively. When compared to fiscal year ended June 30, 2016, such expense reflected an increase of approximately 1%.
Follows is a detail expenses of the Condensed Statement of Activities for the years ended June 30, 2017 and 2016.

### Detail Expenses of the Condensed Statements of Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Payroll Related Costs</td>
<td>$35,440,009</td>
<td>$34,834,206</td>
<td>$605,803</td>
<td>1.74%</td>
</tr>
<tr>
<td>Meals and Travels</td>
<td>460,222</td>
<td>549,641</td>
<td>(89,419)</td>
<td>-16.27%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>8,942,130</td>
<td>9,010,526</td>
<td>(68,396)</td>
<td>-0.76%</td>
</tr>
<tr>
<td>Insurance</td>
<td>42,670</td>
<td>19,971</td>
<td>22,699</td>
<td>113.66%</td>
</tr>
<tr>
<td>Rent</td>
<td>299,065</td>
<td>263,282</td>
<td>35,783</td>
<td>13.59%</td>
</tr>
<tr>
<td>Non-Capitalized Equipment</td>
<td>61,389</td>
<td>243,169</td>
<td>(181,780)</td>
<td>-74.75%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>572,787</td>
<td>624,292</td>
<td>(51,505)</td>
<td>-8.25%</td>
</tr>
<tr>
<td>Interest</td>
<td>5,442</td>
<td>7,953</td>
<td>(2,511)</td>
<td>-31.57%</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>370,032</td>
<td>352,719</td>
<td>17,313</td>
<td>4.91%</td>
</tr>
<tr>
<td>Utilities</td>
<td>302,488</td>
<td>431,656</td>
<td>(129,168)</td>
<td>-29.92%</td>
</tr>
<tr>
<td>Supplies</td>
<td>454,799</td>
<td>688,725</td>
<td>(233,926)</td>
<td>-33.97%</td>
</tr>
<tr>
<td>Announcements and Media Publications</td>
<td>185,558</td>
<td>516,402</td>
<td>(330,844)</td>
<td>-64.07%</td>
</tr>
<tr>
<td>Postage</td>
<td>114,812</td>
<td>126,212</td>
<td>(11,400)</td>
<td>-9.03%</td>
</tr>
<tr>
<td>Loss on Disposition of Assets</td>
<td>4,330</td>
<td>22,132</td>
<td>(17,802)</td>
<td>-80.44%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>248,733</td>
<td>231,759</td>
<td>16,974</td>
<td>7.32%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$47,504,466</td>
<td>$47,922,645</td>
<td>$(418,179)</td>
<td>-0.87%</td>
</tr>
</tbody>
</table>

Following is a presentation of Chart 1 and Chart 2 based on the information presented above.

This space intentionally left blank.
Governmental Funds Highlights

The focus of the House of Representatives governmental funds is to provide information on near-terms inflows, outflows, and balances of spendable resources. Such information is useful in assessing the House of Representatives financing requirements. In addition, fund balance for the governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the House of Representatives is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The following are the condensed balance sheets-governmental fund as of June 30, 2017 and 2016, respectively:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$12,860,665</td>
<td>$11,180,260</td>
<td>$1,680,405</td>
<td>15.03%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$2,020,931</td>
<td>$2,076,570</td>
<td>$(55,639)</td>
<td>-2.68%</td>
</tr>
<tr>
<td>Fund Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonspendable</td>
<td>114,851</td>
<td>160,980</td>
<td>(46,129)</td>
<td>-28.66%</td>
</tr>
<tr>
<td>Restricted</td>
<td>2,203,040</td>
<td>2,269,623</td>
<td>(66,583)</td>
<td>-2.93%</td>
</tr>
<tr>
<td>Unassigned</td>
<td>8,521,843</td>
<td>6,673,087</td>
<td>1,848,756</td>
<td>27.70%</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>10,839,734</td>
<td>9,103,690</td>
<td>1,736,044</td>
<td>19.07%</td>
</tr>
<tr>
<td>Total Liabilities and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$12,860,665</td>
<td>$11,180,260</td>
<td>$1,680,405</td>
<td>15.03%</td>
</tr>
</tbody>
</table>

As of the end of the fiscal year 2017, the House of Representatives governmental funds reported a combined ending balance of $10,839,734. The general fund is the chief operating fund of the House of Representatives. There are nonspendable fund balances amounting $114,851. Nonspendable fund balances reflect the portion of fund balance that cannot be spent with cash or are legally or contractually required not to be spent. There are also restricted fund balances amounting $2,203,040. Restricted fund balance reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. An unassigned fund balance of $8,521,843 was reported in the governmental funds at June 30, 2017. The House of Representatives fund balance increased by $1,736,044 or approximately 19.07% as a result of the current fiscal year's net changes.

The general fund budget for the fiscal year ended June 30, 2017 was $50,361,667 and the actual expenditures were $47,409,430. The total expenditures represented approximately 94% of the total budget availability for the fiscal year 2017 and increased by $1,505,900 when compared with fiscal year 2016. The House of Representatives achieved an economy of $2,917,387 in its management of the general fund budget for the fiscal year ended June 30, 2017.
Governmental Funds Highlights – continued

The following table summarizes the budget, expenditures and unexpected balance for fiscal years ended June 30, 2017 and 2016:

<table>
<thead>
<tr>
<th></th>
<th>2017 Budget</th>
<th>2016 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$47,696,000</td>
<td>$47,196,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>2,665,667</td>
<td>499,857</td>
<td>2,165,810</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>50,361,667</td>
<td>47,695,857</td>
<td>2,665,810</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>47,409,430</td>
<td>46,284,370</td>
<td>1,125,060</td>
</tr>
<tr>
<td><strong>Unexpended Balance</strong></td>
<td>$2,952,237</td>
<td>$1,411,487</td>
<td>$4,363,724</td>
</tr>
<tr>
<td><strong>Expenditure Rate</strong></td>
<td>94.14%</td>
<td>97.04%</td>
<td>42.20%</td>
</tr>
</tbody>
</table>

Economic Factors and Next Year Budget

The economic factors of the House of Representatives must be analyzed as a component of the Commonwealth of Puerto Rico.

Puerto Rico’s economy entered a recession in the fourth quarter of the fiscal year 2006. The Commonwealth’s gross national product (GNP) contracted (in real terms) every fiscal year between 2007 and 2017, except for fiscal year 2012. The lower rate of GNP decline during fiscal year 2012 is due to the fund received by the commonwealth related to American Recovery and Reinvestment Act, local stimulus funded by bond proceeds and tax cuts.

According to the Puerto Rico Planning Board most recent report submitted to the Puerto Rico’s Governor on March 2017, Puerto Rico’s real gross national product decreased by 1.1% on fiscal year 2016 and by 0.7% on fiscal year 2015. The Puerto Rico Planning Board projected and decrease on the gross national product between of 1.7% for the fiscal year 2017 and 1.5% for 2018. The Planning Board’s forecast took into account the estimated effect of the projected growth of the United States gross domestic product, tourism activity, personal consumption expenditures, and federal transfers to individuals.

Employment

According to the Economic Report to the Governor issued by the Puerto Rico Planning Board (PRPB) on March 2017, the total of people employed during the fiscal year 2016 amounted to approximately 992,000 or an increase of 1.0% when compared to fiscal year 2015. During the first semester of the fiscal year 2017, total of people employed amounted to 989,000 or a decrease of approximately 1.0%, when compared to the previous year. The reduction in total employment began in fiscal year 2007. When employments total was 1,263,000, and has continued consistently through fiscal year 2017.
Economic Factors and Next Year Budget – continued

The preliminary average unemployment rate for the fiscal year 2016 and determined by the PRPB was 11.8%. This represented a reduction of 1.2% when compared to fiscal year 2015 (13.0%). The preliminary average participation rate for the fiscal year 2016 was 40.4%. This represented an increase of 0.5% when compared to the fiscal year 2015 (39.9%).

The House of Representatives adopted the 2017-2018 fiscal year budgets on July 13, 2017. The legislative appropriations for the fiscal year ending June 30, 2018 amount to $47,109,044, a decrease of $3,252,623, when compared with previous fiscal year, and following the public policy adopted by the government to reduce and control public expenditures.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the House of Representatives’ finances for all the citizens, taxpayers, costumer and creditors. Also, this report serves to demonstrate the House of Representatives’ accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests, please contact: Puerto Rico House of Representatives, Office of Finance, Budget and Contracts, PO Box 9022228, San Juan, PR 00902-2228.
Basic Financial Statements
This page intentionally left blank.
# ASSETS:

**Current Assets:**
- Cash: $12,669,980
- Receivables (Net):
  - Governmental Entities: 53,794
  - Other: 22,040
- Inventories: 114,851
  
**Total Current Assets:** 12,860,665

**Non-Current Assets:**
- Capital Assets, Net: 1,445,240

**TOTAL ASSETS:** 14,305,905

# DEFERRED OUTFLOWS OF RESOURCES:

- Contributions to Employees Retirement System: 2,827,085

**TOTAL DEFERRED OUTFLOWS OF RESOURCES:** 2,827,085
### LIABILITIES:

#### Current Liabilities:
- Accounts Payable $957,276
- Due to Governmental Units $549,901
- Accrued Liabilities $513,754

#### Short-Term Obligations:
- Obligations under capital leases $64,121
- Compensated absences $933,771

**Total Current Liabilities** $3,018,823

#### Non-Current Liabilities:
- Obligations under capital leases, net of current portion $36,995
- Compensated Absences $3,735,084
- Net Pension Liability $18,741,934

**Total Non-Current Liabilities** $22,514,013

**TOTAL LIABILITIES** $25,532,836

### DEFERRED INFLOWS OF RESOURCES:

- Unamortized Investment in Employees Retirement System $4,314,507

**TOTAL DEFERRED INFLOWS OF RESOURCES** $4,314,507

### NET POSITION (DEFICIT):

- Net Investment in Capital Assets $1,344,124
- Restricted for:
  - Subsidies and Incentives $2,203,040
  - Unrestricted $(16,261,517)

**TOTAL NET POSITION (DEFICIT)** $(12,714,353)

The accompanying notes to basic financial statements are an integral part of this statement.
### HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

#### PRIMARY GOVERNMENT:

**Governmental Activities:**

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Program Revenues</th>
<th>Net (Expense)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government - Administrative and Operating</td>
<td>$47,504,466</td>
<td>$ - $ - $ - $ -</td>
<td>$(47,504,466)</td>
</tr>
<tr>
<td>Total Primary Government</td>
<td>$47,504,466</td>
<td>$ - $ - $ - $ -</td>
<td>$(47,504,466)</td>
</tr>
</tbody>
</table>

**General Revenues:**

- Intergovernmental: $50,381,667
- Donated Capital Assets: $34,850

**Total General Revenues:** $50,396,517

**Special Item:**

- Insurance Reimbursement: $61,186

**Total Special Item:** $61,186

**CHANGES IN NET POSITION:** $2,953,237

**Net Position (Deficit), As Restated – Beginning of Year:** $(15,667,590)

**NET POSITION (DEFICIT) – ENDING OF YEAR:** $(12,714,353)

The accompanying notes to basic financial statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>GENERAL FUND</th>
<th>SPECIAL FUND</th>
<th>TOTAL FUNDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,283,983</td>
<td>$4,385,997</td>
<td>$12,669,980</td>
</tr>
<tr>
<td>Receivables (Net):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Entities</td>
<td>53,794</td>
<td>-</td>
<td>53,794</td>
</tr>
<tr>
<td>Other</td>
<td>21,815</td>
<td>225</td>
<td>22,040</td>
</tr>
<tr>
<td>Due from Other Funds</td>
<td>2,143,735</td>
<td>(2,143,735)</td>
<td>-</td>
</tr>
<tr>
<td>Inventory Supplies</td>
<td>114,851</td>
<td>-</td>
<td>114,851</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$10,618,178</td>
<td>$2,242,487</td>
<td>$12,860,665</td>
</tr>
</tbody>
</table>

| LIABILITIES: | | | |
| Accounts Payable | $936,132 | $21,144 | $957,276 |
| Due to Governmental Units | 549,901 | - | 549,901 |
| Accrued Liabilities | 495,451 | 18,303 | 513,754 |
| **Total Liabilities** | 1,981,484 | 39,447 | 2,020,931 |

| FUND BALANCES: | | | |
| Nonspendable - Inventory | 114,851 | - | 114,851 |
| Spendable: | | | |
| Restricted | - | 2,203,040 | 2,203,040 |
| Unassigned | 8,521,843 | - | 8,521,843 |
| **Total Fund Balances** | 8,636,694 | 2,203,040 | 10,839,734 |
| **Total Liabilities and Fund Balances** | $10,618,178 | $2,242,487 | $12,860,665 |

The accompanying notes to basic financial statements are an integral part of this statement.
The accompanying notes to basic financial statements are an integral part of this statement.
### Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

For the Fiscal Year Ended June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Special Fund</th>
<th>Total Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$47,696,000</td>
<td>$2,665,667</td>
<td>$50,361,667</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$47,696,000</td>
<td>$2,665,667</td>
<td>$50,361,667</td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government - Administrative and Operating Activities</td>
<td>45,492,163</td>
<td>3,032,682</td>
<td>48,524,845</td>
</tr>
<tr>
<td>Capital Outlays</td>
<td>161,964</td>
<td>-</td>
<td>161,964</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>45,654,127</td>
<td>3,032,682</td>
<td>48,686,809</td>
</tr>
<tr>
<td><strong>Excess of Revenues Over (Under) Expenditures</strong></td>
<td>$2,041,873</td>
<td>$(367,015)</td>
<td>$1,674,858</td>
</tr>
<tr>
<td><strong>Special Item:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Reimbursement</td>
<td>61,186</td>
<td>-</td>
<td>61,186</td>
</tr>
<tr>
<td>Total Special Item</td>
<td>61,186</td>
<td>-</td>
<td>61,186</td>
</tr>
<tr>
<td>Net Change in Fund Balances</td>
<td>2,103,059</td>
<td>$(367,015)</td>
<td>1,736,044</td>
</tr>
<tr>
<td>Fund Balances – Beginning</td>
<td>6,533,635</td>
<td>2,570,055</td>
<td>9,103,690</td>
</tr>
<tr>
<td><strong>Fund Balances – Ending</strong></td>
<td><strong>$8,636,694</strong></td>
<td><strong>$2,203,040</strong></td>
<td><strong>$10,839,734</strong></td>
</tr>
</tbody>
</table>

The accompanying notes to basic financial statements are an integral part of this statement.
The accompanying notes to basic financial statements are an integral part of this statement.
This page intentionally left blank.
1. FINANCIAL REPORTING ENTITY

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

A. Organization

House of Representatives of the Commonwealth of Puerto Rico ("the House of Representatives") was organized by virtue of Article 3, Sections 1 to 3 of the Constitution of the Commonwealth of Puerto Rico ("the Constitution") enacted on July 25, 1952, as approved by the people of Puerto Rico and the United States Congress. The Commonwealth’s Constitution provides for separations of powers of the executive, legislative and judicial branches of the government. The Constitution establishes that the Commonwealth’s Legislative power will be exercised by a legislature composed of two bodies: a House of Representatives and a Senate, whose members will be elected through direct vote in each general election. This four-year term, The House of Representatives is composed of fifty-one representatives who are elected by the citizens. The majority and minority caucuses nominate candidates for the House of Representatives officer positions. The administration of the House of Representatives is autonomous and is under the direction of the Speaker of the House of Representatives.

The House of Representatives and the Senate enact and approve all legislation related to public safety, public health, public housing, public works and transportation, culture and recreation, welfare, urban development, education, and economic development; while the Executive Branch executes the legislation to provide such services to the citizens of the Commonwealth of Puerto Rico.

B. Reporting Entity

The House of Representatives is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Its financial data is included as part of the general government section in the general fund of the Commonwealth of Puerto Rico financial statements.

Effective August 1, 2007, the House of Representatives became fiscally autonomous pursuant to the provisions of Act 230 of July 23, 1974, as amended on June 11, 2004, known as the “Commonwealth of Puerto Rico Accounting Law”. The funds of the House of Representatives are under the custody of the Secretary of Treasury of Puerto Rico until transferred to the House of Representatives. The accompanying basic financial statements are issued solely and for the information and use of the Secretary of Treasury, the President of the House of Representatives, the Senators, the Governor, and the citizens of the Commonwealth of Puerto Rico.

GASB Statement 61, The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34, as amended, 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 House of Representatives’ balances and transactions; and discrete – presentation of the component unit’s financial data in column separate from the House of Representatives’ 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 financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the House of Representatives, 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 House of Representatives have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to state and local governmental units. The basic financial statements include both government-wide (based on the House of Representatives 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 House of Representatives 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 House of Representatives’ financial activities.

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 House of Representatives.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the House of Representatives’ 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 House of Representatives’ management are not presented as restricted net position.

The Statement of Activities presents a comparison between direct expenses and program revenues for the activities of the House of Representatives and for each function of the House of Representatives’ Governmental Activities. Direct expenses are those that are clearly identifiable with a specific function or segment.

Governmental Funds (GFFS)

The GFFS [the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance] provide information about the House of Representatives’ funds. The emphasis of fund financial statements is on major governmental, each displayed in a separate column.

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 House of Representatives uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.
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 House of Representatives reports the following major governmental funds:

- **General Fund** – This is the general operating fund of the House of Representatives. It is used to account for all financial resources, except those required to be accounted for in another fund.

- **Special Fund** – This is the fund used to account for all transactions with special assignment resolution.

The House of Representatives 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 House of Representatives 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.

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 Balance** – 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.

During the course of operations, the House of Representatives 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 House of Representatives reports its financial position (Balance Sheet) and results of operations in funds (Statement of Revenues, Expenditures and Changes in Fund Balance), 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.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

**Notes to the Basic Financial Statements**

The notes to the basic 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 – Budgetary Comparison Schedule**

The Budgetary Comparison Schedule – General Fund, 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 House of Representatives’ fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the House of Representatives to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of House of Representatives’ 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.

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The statement of net position presents the assets and liabilities with the difference reported as net position. Net position is reported in three categories.

- **Net Invested in Capital Assets** – consists of capital assets, net of accumulated depreciation, that are attributed to the acquisition, construction or improvement of those assets, net of debts.

- **Restricted Net Position** – consists of restricted net assets with constraints placed on the use of resources which either a) externally imposed by creditors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted Net Position** – consist of net assets that are neither restricted nor investment in capital assets. Unrestricted net assets have often constraints that are imposed by management, but that can be removed or modified.
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 this purpose, the House of Representatives considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are considered to be measurable and available only when collected by the House of Representatives. At June 30, 2017, all revenues sources met this availability criterion.

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 debt are recorded when they matured (when payment is due). Proceeds of acquisitions under capital leases, if any, are reported as other financing sources.

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

1) Cash

The House of Representatives held its cash balances in commercial banks. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of Federal Depository Insurance Corporation. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

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”. 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. Intergovernmental receivables represent amounts owed to the House of Representatives for reimbursement of expenditures incurred pursuant to state appropriations.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

3) **Inventories**

Inventories consist primarily of material and supplies, furniture construction materials and vehicle spare parts and are value at cost, using the first-in first-out method.

All inventories are reportable for financial statements purposes in the government-wide and governmental funds.

For governmental fund financial reporting, inventories balances are also recorded as a nonspendable fund balance indicating that they do not constitute “available spendable resources”.

4) **Capital Assets**

Capital assets, which include, equipment and equipment under capital lease agreements, computer equipment and software, furniture and vehicles, are reported in the government-wide financial statements. Capital assets, are defined by the House of Representatives as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life of five years or more.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the House of Representatives capitalization threshold is met. Depreciation and amortization expense are recorded only in the GWFS. No depreciation is recorded for work of art and historical treasures. The other equipment and vehicles of the primary government are depreciated using the straight-line method over an estimated useful lives of five years

Depreciation expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset.

The accounting policy for Works of Art is that they are capitalized at their historical cost or acquisition value at date of donation whether they are held as individual items or in a collection.

Impaired capital assets that will no longer be used by the House of Representatives, 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 House of Representatives 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 House of Representatives is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the House of Representatives contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) 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 House of Representatives 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.

Based on this concept, the House of Representatives 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 13 presents additional information about the composition of these items.

- Revenues earned but not available within 60 days of fiscal year end.

Notes 9 and 11 provide details on deferred outflows of resources and deferred inflows of resources.

The House of Representatives has items, which arise 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 Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

6) Long-Term Obligations

The liabilities reported in the GWFS include long-term liabilities such as vacations and sick leave, reserves for contingencies and long term portion of obligations under capital lease agreements.

7) Lease Obligations

The House of Representatives leases various assets under both operating and capital lease agreements. In the government wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the statement of net position.
8) **Compensated Absences**

The House of Representatives accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, Compensated Absences. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2017 and (2) is not contingent on a specific event (such as illness) that is outside the control of the House of Representatives and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and Medicare taxes).

The employees of the House of Representatives do not apply by the Act. No. 26 of April 29, 2017 (Act No. 26-2017), the employees of the House of Representatives are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. The employee has the right to accumulate the excess of vacation up to sixty (60) days and sick leave up to ninety (90) days, until December 31st of each year.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the Statement of Net Position.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate up to the maximum of sixty (60) days. When the reason for the separation is to qualify for the retirement for years of services or disability, a deferred pension or after having worked for at least ten (10) years of services without being a participant in a retirement system sponsored by the government you will also be entitled to pay of the lump sum of sick leave accumulated and not use up to maximum of ninety (90) days. However, if the employee worked ten years in the services within which some years, he has port of some retirement system sponsored by the government and the other were not involved, he will not be entitled to the payment of the mentioned license, except if he withdraws the contributions made to the retirement systems, which would make him a non-participant with 10 years or service.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, Compensated Absences, the House of Representatives has accrued a liability for compensated absences, which has been earned but not taken by House of Representatives’ 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.

9) **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.
10) 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 Long-term obligations 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.

11) 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 House of Representatives’ fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the House of Representatives 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.

The House of Representatives implemented both GASB Statements No. 68 and 71 for the fiscal year ending June 30, 2017 and the financial statements of the House of Representatives for the year ended June 30, 2016 were restated, with audited information available at the date of the House of Representatives’ reports. During the past years the ERS was reconstructed the employees’ information and finally on November 2, 2018 issued the required Schedules of Employer Allocations and Pension Amounts by Employers as of June 30, 2016, necessary for final implementation of GASB No. 68 and the recognition of the values of the Net Pension Liability, Deferred Outflows / Inflows of Resources and Pension Expense items corresponding to the fiscal year 2017.

The House of Representatives accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. During the current fiscal year, the House of Representatives 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 House of Representatives participate. The House of Representatives 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 Note 13).

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.

12) Other Postemployment Benefits

In addition to the pension benefits described in Note 13, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. The Commonwealth accounts for OPEB under the provisions of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding that plan.

Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. These benefits are recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

The Christmas Bonus was $200 per retiree pursuant to Act No. 3 of April 4, 2013. Bonus for medicines is also provided to retirees by the Commonwealth statutes.
13) **Net Position/Fund Balance**

**A) Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the GWFS.

The GWFS utilize a net position presentation, which are categorized as follow:

- **Net Invested 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. 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.

Net Investment in Capital Assets is comprised of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets, Net of Accumulated Depreciation</td>
<td>$1,445,240</td>
</tr>
<tr>
<td>Outstanding Balance on Related Debt (Leases)</td>
<td>(101,116)</td>
</tr>
<tr>
<td>Total Net Investment in Capital Assets</td>
<td>$1,344,124</td>
</tr>
</tbody>
</table>

- **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 consist of net position which do 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 have constraints on resources that are imposed by management, but can be removed or modified.

**Net Position Flow Assumption**

Sometimes the House of Representatives 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the House of Representatives’ 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 House of Representatives honors constraints on the specific purposes for which amounts in those funds can be spent.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- **Nonspendable** – amounts that cannot be spent because they are either (1) not spendable in form; or (2) legally or contractually required to be maintained intact.

- **Restricted** – amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (2) 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 House of Representatives’ 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 House of Representatives’ 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 House of Representatives’ 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 House of Representatives 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 House of Representatives’ 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.

**Fund Balance Policy**

The House of Representatives believes that sound financial management principles require that sufficient funds be retained by the House of Representatives to provide a stable financial base at all times. To retain this stable financial base, the House of Representatives needs to maintain a General Fund balance sufficient to fund all cash flows of the House of Representatives, 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 House of Representatives’ financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not approvable for expenditure. The House of Representatives 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 House of Representatives that fund balance amounts will be reported as “Committed Fund Balance” only after formal action and approval by Legislative Assembly. The Legislative Assembly 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.

Restrictions of Fund Balance

For example, the Legislative Assembly 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 Legislative Assembly approving this resolution before year-end.

It is the policy of the House of Representatives that the Legislative Assembly 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 streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Legislative Assembly, 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 House of Representatives that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Legislative Assembly.

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 Legislative Assembly 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 House of Representatives that the Speaker shall have the authority to assign fund balance of the House of Representatives based on the intentions of the use of funds by the Legislative Assembly. In addition, the Speaker can delegate to the Finance Director or other employee of the House of Representatives, the authority to assign the funds.
Policy on Unassigned General Fund Balance

It is the goal of the House of Representatives to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The House of Representatives 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 House of Representatives 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 Legislative Assembly 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 House of Representatives has met its GASB 54 fund balance targets at June 30, 2018.

Prioritization of Fund Balance Use

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the 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.

C. 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. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The House of Representatives has the following types of transactions among funds:

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 not intra-entity transactions.
D. Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the House of Representatives. The House of Representatives reimburses the Commonwealth for premium payments made on its behalf. The House of Representatives’ current insurance policies have not been canceled or terminated.

For workers’ compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers’ compensation insurance to the House of Representatives’ employees.

The House of Representatives 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 House of Representatives 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 House of Representatives for the year ended June 30, 2017 amounted to $561,220.

The House of Representatives 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.

E. Use of Estimates

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

F. 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.

G. Special Item

The Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds present as Special Item the amount received from Insurance Recovery for damages in the buildings caused by Hurricane María.
3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The House of Representatives’ annually receive an appropriation from the general Budget Resolution of the Commonwealth of Puerto Rico. 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.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, by means of Act No. 123 from August 17, 2001, which amended the existing appropriations and encumbrances lapsing provision of Act No. 230 from July 23, 1974.

Amounts required setting claims and judgments against the House of Representatives, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the House of Representatives uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the House of Representatives governmental funds, encumbrance is a significant aspect to budget control.

Budgetary Control

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

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 Legislative Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Pursuant to Section 202(a) of PROMESA, the Oversight Board should certify the Consolidated Budget of the Commonwealth of Puerto Rico in accordance with a schedules for a period of six months ending June 30, for the process of developing, submitting, approving, and certifying the Fiscal Year Budget as follow:

- Along with the submission of the Fiscal Plan, Government provides complete inventory listing of all agencies that will be allocated budgets included in the Fiscal Plan, and will detail any consolidation of agencies or new agencies.
- Consistent with PROMESA 202(b), Oversight Board sends Governor and Legislature a forecast of revenues. The Oversight Board sends the Governor and Legislature agency budget targets on a personnel and non-personnel basis and a detailed data request.
3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continuation

- Consistent with PROMESA 202(c)(1), the Governor submits a proposed Fiscal Year Budget based on the forecast of revenues and agency budget targets along with detailed support documentation for any variances. The Boards of Directors of Independently Forecasted Component Units submit proposed budget resolutions based on the forecast revenues and agency budget targets along with detailed support documentation for any variances.
- Pursuant to PROMESA 202(c)(1)(B), the Oversight Board sends the Governor a notice of violation, as needed.
- Pursuant to PROMESA 202(c)(2), the Oversight Board submits a revised compliant Fiscal Year Budget to the Governor and Legislature.
- Pursuant to PROMESA 202(d)(1), the Legislature submits a proposed Fiscal Year Budget to the Oversight Board.
- Pursuant to PROMESA 202(d)(1)(B), the Oversight Board sends the Legislature a notice of violation, as needed.
- Pursuant to PROMESA 202(d)(2), the Legislature submits a revised proposed Fiscal Year Budget.
- Pursuant to PROMESA 202(e), the Oversight Board expects to certify the Fiscal Year Budget.

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. The House of Representatives 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. Under the laws and regulations of the Commonwealth, public funds deposited by the House of Representatives 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 Commonwealth’s Secretary of the Treasury, but not in the House of Representatives’ name. The House of Representatives cash balances in commercial banks were approximately $12,669,980 as of 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 House of Representatives has invested only in cash equivalents of $13.6 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 House of Representatives 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 House of Representatives’ management has concluded that the concentration of credit risk related to any possible loss related to defaults by commercial banks on the House of Representatives’ 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 House of Representatives 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 House of Representatives 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 FAFAA. At June 30, 2017, the House of Representatives has balances deposited in commercial banks amounting to $13.6 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above.
4. CASH AND INVESTMENTS – continuation

*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 House of Representatives 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 House of Representatives’ cash and cash equivalent is considered low.

*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 House of Representatives, the House of Representatives 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 House of Representatives’ deposits is considered low at June 30, 2017.

5. RECEIVABLES

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, requires disclosure of significant receivable balances not expected to be collected within one year of the date of the financial statements. As of June 30, 2018, amounts are aggregated into account receivables line for certain funds and aggregated columns. Accounts receivable, net at June 30, 2017 includes the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due from Governmental Entity</td>
<td>$53,794</td>
</tr>
<tr>
<td>Other</td>
<td>94,650</td>
</tr>
<tr>
<td>Less Allowance for Doubtful Accounts</td>
<td>(72,610)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$75,834</strong></td>
</tr>
</tbody>
</table>

6. INVENTORIES

Inventories at June 30, 2017 include the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Materials</td>
<td>$41,948</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>47,551</td>
</tr>
<tr>
<td>Vehicle Spare Parts</td>
<td>25,352</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$114,851</strong></td>
</tr>
</tbody>
</table>

7. DUE FROM / TO OTHER FUND

During the course of operations, numerous transactions occur between the House of Representatives’ funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as “Due from Other Funds” and “Due to Other Funds” on the *Balance Sheet* and *Statement of Net Position* and will be settled within one year.
8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2017 was as follows:

<table>
<thead>
<tr>
<th>Governmental Activities:</th>
<th>Beginning Balance</th>
<th>Adjustments</th>
<th>Additions</th>
<th>Retirements</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Assets, Not Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Works of Art and Historic Treasures</td>
<td>$186,326</td>
<td>$7,500</td>
<td>$-</td>
<td>$-</td>
<td>$193,826</td>
</tr>
<tr>
<td>Capital Assets, Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Under Capital Lease Agreement</td>
<td>863,163</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>863,163</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>5,419,255</td>
<td>139,543</td>
<td>(414,951)</td>
<td>5,143,847</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>902,274</td>
<td>49,771</td>
<td>(120,241)</td>
<td>831,804</td>
<td></td>
</tr>
<tr>
<td>Intangibles</td>
<td>334,451</td>
<td>(334,451)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Capital Assets, Being Depreciated</strong></td>
<td>7,519,143</td>
<td>(334,451)</td>
<td>189,314</td>
<td>(535,192)</td>
<td>6,838,814</td>
</tr>
<tr>
<td><strong>Less: Accumulated Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Under Capital Lease Agreement</td>
<td>(705,778)</td>
<td>-</td>
<td>(62,954)</td>
<td>-</td>
<td>(768,732)</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>(4,279,985)</td>
<td>-</td>
<td>(446,793)</td>
<td>401,621</td>
<td>(4,316,157)</td>
</tr>
<tr>
<td>Vehicles</td>
<td>(559,712)</td>
<td>-</td>
<td>(63,040)</td>
<td>120,241</td>
<td>(502,511)</td>
</tr>
<tr>
<td>Intangibles</td>
<td>(267,387)</td>
<td>267,387</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Accumulated Depreciation</strong></td>
<td>(5,812,862)</td>
<td>267,387</td>
<td>(572,787)</td>
<td>530,862</td>
<td>(5,587,400)</td>
</tr>
<tr>
<td><strong>CAPITAL ASSETS, NET</strong></td>
<td>$1,892,607</td>
<td>$ (67,064)</td>
<td>$(375,973)</td>
<td>$(4,330)</td>
<td>$1,445,240</td>
</tr>
</tbody>
</table>

Depreciation expenses were charged to governmental functions/programs for the fiscal year ended June 30, 2017 as Administrative and Operating.

9. 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 House of Representatives recognized deferred outflows of resources in the government-wide statements. These items are a consumption of net position by the House of Representatives 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 House of Representatives has an item that is reportable on the Government-wide Statement of Net Position that relates to outflows from changes in the Net Pension Liability (Note 13), as follows:

**Governmental Activities:**

Deferred Outflows of Resources  
Contributions to ERS  
$2,827,085
10. LONG-TERM LIABILITIES

Long term obligations at June 30, 2017 and changes for the year then ended was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2016</th>
<th>Increase</th>
<th>Decrease</th>
<th>Balance at June 30, 2017</th>
<th>Due Within One Year</th>
<th>Long-Term Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated Absences</td>
<td>$ 5,829,019</td>
<td>$ 2,329,905</td>
<td>$(3,490,069)</td>
<td>$ 4,668,855</td>
<td>$ 933,771</td>
<td>$ 3,735,084</td>
</tr>
<tr>
<td>Claims and Judgments</td>
<td>360,000</td>
<td>-</td>
<td>(360,000)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Obligations Under Capital Lease</td>
<td>165,237</td>
<td>-</td>
<td>(64,121)</td>
<td>101,116</td>
<td>64,121</td>
<td>36,995</td>
</tr>
<tr>
<td>Agreements</td>
<td>14,693,852</td>
<td>4,048,062</td>
<td>-</td>
<td>18,741,914</td>
<td>-</td>
<td>18,741,914</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$ 21,048,108</td>
<td>$ 6,377,887</td>
<td>$(3,914,190)</td>
<td>$ 23,511,905</td>
<td>$ 997,892</td>
<td>$ 22,514,013</td>
</tr>
</tbody>
</table>

**Compensated Absences**

The GWFS, Statement of Net Position, includes approximately $4.7 million in the governmental funds for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the House of Representatives’ commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

**Obligations Under Capital Lease Agreements**

The House of Representatives is obligated under capital lease agreements with third parties that expire through 2019 for equipment. The present value of future minimum lease payments at June 30, 2017 reported in the accompanying Statement of Net Position is as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$ 69,563</td>
</tr>
<tr>
<td>2019</td>
<td>34,782</td>
</tr>
<tr>
<td>Total Future Minimum Lease Payments</td>
<td>104,345</td>
</tr>
<tr>
<td>Less: Amounts Representing Interest</td>
<td>(3,229)</td>
</tr>
<tr>
<td>Present Value of Minimum Lease Payments</td>
<td>101,116</td>
</tr>
<tr>
<td>Less: Current Portion</td>
<td>(64,121)</td>
</tr>
<tr>
<td>Obligations Under Capital Lease Agreements, Net of Current Portion</td>
<td>$ 36,995</td>
</tr>
</tbody>
</table>

Leased equipment amounting $863,163 (less accumulated depreciation of $768,732) is included as part of the capital assets, being depreciated of the Statement of Net Position in the government-wide financial statements. Depreciation charge applicable to leased equipment amounted to $62,954.

**Net Pension Liability**

The House of Representatives implemented of the GASB No. 68 that represent a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position with the recognition of a net pension liability during fiscal year 2015. During 2017, a prior period adjustment of ($14,693,852) is recognized, as per audited reports of the ERS issued on November 2, 2018, after the implementation of the GASB Statement No. 67 information. As of June 30, 2017, the amount of net pension liability amounted to $18,741,934 for the proportional share in the cost-sharing multi-employers pension plan (see Note 13).
11. 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 House of Representatives recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the House of Representatives 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 various components of Deferred Inflows of Resources reported in the basic financial statements were as follows:

**Governmental Activities:**
- Deferred Inflows of Resources
- Unamortized Investment in ERS
- $4,314,507

12. INTERGOVERNMENTAL REVENUES

The House of Representatives principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico. Appropriations are general purpose revenues of the House of Representatives.

13. PENSION PLAN

As further described in Note 2 C 12), the House of Representatives 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.

**Plan description**


The System's governance is vested in a Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. There are eleven members of the Board, as follows: the Puerto Rico Secretary of the Treasury (or his appointee), the President of the Government Development Bank for Puerto Rico (or his appointee), the Commissioner of Municipal Affairs (or his appointee) and the Director of the Office of Human Resources of the Commonwealth (or his appointee), as ex officio members; three members appointed to three-year terms by the Governor of the Commonwealth (the Governor), two of whom must be members of the System and one member of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, with at least ten years of credited service; and two members who are pensioners of each system. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors. The Board is also responsible for appointing the Administrator of the System.

The employees of the House of Representatives are eligible to participate in the pension plan. Participation is optional for employees hired before January 1, 2000 and less than 55 years of age at the date of employment. No benefits are payable if the participant receives a refund of their accumulated contributions.
13. PENSION PLAN – continuation

Act 305 of September 24, 1999, an amendment to Act 447 of May 15, 1951, which created the ERS System, was enacted with purpose of establishing a new pension program (ERS System 2000). ERS System 2000 became very effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or irrevocably transfer to the new program. Employees joining the government on or after January 1, 2000 will only be allowed to become members of the ERS System 2000.

ERS System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the ERS System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico.

The annuity will be based on a formula which assumes that each year the employees’ contribution (with a minimum of 8.275% of the employees’ salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, or (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants receive periodic account statements similar to those of defined contribution plan showing their accrued balances. Disability pensions are not being grants under System 2000. The employer’s contribution (11.275% of the employees’ salary) will be used to fund the current plan.

ERS System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Pension benefits

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

a) **Retirement annuity** – Plan members are eligible for a retirement annuity based on years of service, final average compensation and retirement age. Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member’s average compensation.

b) **Average compensation** – Is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

c) **Merit Annuity** – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

d) **Deferred retirement annuity** – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are not withdrawn until attainment of 58 years of age.

e) **Coordinated plan** – On this plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced.

f) **Non-coordinated plan** – On this plan, the participant employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

g) **Reversionary annuity** – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less the $240 yearly or greater than the payments being received by the retiree.

h) **Occupational disability annuity** – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.
13. PENSION PLAN – continuation

i) **Non-occupational disability annuity** – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

j) **Death benefits-occupational** – The surviving spouse is eligible for an annuity equal to 50% of the participating employee’s salary at the date of the death. Children are eligible for an annuity of $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee’s salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

k) **Death benefits-non-occupational** – The beneficiary if eligible to receive the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death. Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under the Title II of the Social Security Act) of retiree’s pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Other benefits granted by the Commonwealth to the System’s retirees during fiscal years 2003 and 2007 included Christmas bonus, summer bonus, medication bonus and cost of living adjustment for pension benefits (COLA).

The Act 1 of 1990 made certain amendments applicable to new participants joining the pension plan effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participant who have completed 30 years of creditable service.

**Adoption of Comprehensive Reform of Employees Retirement System**

On April 4, 2013, the Governor of Puerto Rico signed into law Act 3 of 2013 (“Act 3”), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth (ERS System).

Act 3, which is effective on July 1, 2013, provides the following:

a) It freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS System’s defined benefit formula (those who joined the ERS System prior to January 1st, 2000, whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service;

b) It provides that, beginning on July 1st, 2013, the retirement benefits accruing on and after the Effective Date for defined benefit employees will be calculated based on a defined contribution formula, similar to the ERS System 2000 formula currently applicable to employees who joined the ERS System on or after January 1st, 2000, with all such benefits being paid in the form of a lifetime annuity rather than a lump sum payment (upon retirement). The employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013;

c) It provides that defined contribution benefits accrued pursuant to ERS System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment;

d) It eliminates the so called “merit pension” that provided to participants who joined the ERS System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment;
13. PENSION PLAN – continuation

   e) It increases the retirement age for various groups as follows: (a) from 58 to age 61 for ACT 447 participants and: (b) from 60 to age 65 for active system 2000 participants;

   f) It increases the employee contributions to the ERS System from 8.275% to 10%;

   g) It eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonus;

   h) It increases the minimum pension from $400 to $500 per month for current retirees and;

   i) It eliminates or modifies other benefits such as disability and survivor benefits

Contributions requirements, based on gross salary, are established by law and are as follows:

House of Representatives

Fiscal year ended June 30:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>15.525%</td>
</tr>
<tr>
<td>2018</td>
<td>16.775%</td>
</tr>
<tr>
<td>2019</td>
<td>18.025%</td>
</tr>
<tr>
<td>2020</td>
<td>19.275%</td>
</tr>
<tr>
<td>2021</td>
<td>20.525%</td>
</tr>
</tbody>
</table>

Participants:

| Hired on or before March 31, 1999 | 5.775% of gross salary up to $6,600 |
| Hired on or after April 1, 1990  | 8.275% of gross salary over $6,600 |

Total employee contributions to the ERS Defined Benefit Pension Plan and the ERS Defined Contribution Pension Plan during the fiscal years ended June 30, 2017, 2016 and 2015 amounted to approximately $184,923, $232,824 and $210,791, respectively. The House of Representatives' contributions during the fiscal years ended June 30, 2017, 2016 and 2015 amounted to approximately $287,186, $332,377 and $283,661, respectively. These amounts represented 100% of the required contribution for the corresponding year.

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.
13. PENSION PLAN – continuation

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 Government 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 Government’s General Funds, since the Government is the primary sponsor and is obligated to make contributions to fund each of the ERS.

The Government 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 Government’s public-sector debt, the continued downgrading of the Government’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 Government 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 Government’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.

To improve the liquidity and solvency of the ERS, the Government enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Government’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 Government’s budget for the fiscal year 2014. However, as a result of the Government’s General Fund revenue shortfall, compared to budget, the Government 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 Government 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 Government and other participating employers have not been unable to make the AUC required in full for these fiscal years (other than $34.4 million paid by such municipalities and public corporations for fiscal year 2014 and $22.7 million paid by the Government 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 Government may 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 Government, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

continue
13. PENSION PLAN – continuation

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

(1) Net Pension Liability

The House of Representative’s 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, 2016, 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, 2016. The House of Representative’s proportion of the Net Pension Liability was based on a projection of the House of Representative’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, 2017, the House of Representative’s used the proportional share of 0.05005%.

The House of Representative’s proportionate balance of the Net Pension Liability was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Pension Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$18,741,934</td>
</tr>
<tr>
<td>2016</td>
<td>$14,693,852</td>
</tr>
<tr>
<td>2015</td>
<td>$11,604,027</td>
</tr>
</tbody>
</table>

As June 30, 2017, the House of Representative reported $18,741,934 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Pension Liability</td>
<td>$36,432,873,000</td>
</tr>
<tr>
<td>Fiduciary Net Position (Deficit)</td>
<td>(1,265,885,000)</td>
</tr>
<tr>
<td>Net Pension Liability</td>
<td>$37,698,758,000</td>
</tr>
<tr>
<td>Plan’s Fiduciary Net Position (Deficit) of Total Pension Liability</td>
<td>-3.47%</td>
</tr>
<tr>
<td>Covered Payroll</td>
<td>$3,344,382,000</td>
</tr>
<tr>
<td>Net Pension Liability as a % of Covered Payroll</td>
<td>1127.23%</td>
</tr>
</tbody>
</table>

(2) Pension Expense

For the fiscal year ended June 30, 2017, the House of Representatives recognized pension expense of $272,205. 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.

Proportion - June 30, 2015: 0.04408%
Proportion - June 30, 2016: 0.04971%
Change - Increase (Decrease): 0.00564%

continue
### 13. PENSION PLAN – continuation

#### (3) Deferred Outflows/Inflows of Resources

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension contributions subsequent to measurement date</td>
<td>$285,416</td>
<td>$-</td>
</tr>
<tr>
<td>Differences between actual and expected experience</td>
<td>15,323</td>
<td>257,297</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>2,526,346</td>
<td>-</td>
</tr>
<tr>
<td>Change in employer’s proportion and differences between employer’s contributions and the employer’s proportionate share of contributions</td>
<td>-</td>
<td>3,955,800</td>
</tr>
<tr>
<td>Net differences between projected and actual earnings on plan investments</td>
<td>-</td>
<td>101,410</td>
</tr>
<tr>
<td>Total</td>
<td>$2,827,085</td>
<td>$4,314,507</td>
</tr>
</tbody>
</table>

#### Actuarial Methods and Assumptions

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2014 census data used in the prior valuation is also used as the July 1, 2014 census data for the current valuation. The liability results as of June 30, 2015, were based on projecting the ERS obligations determined as of the census data collection date of July 1, 2014 for one year, using roll-forward methods and assuming no liability gains or losses.

Actuarial valuations of ERS involve 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, 2015 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.
The actuarial valuation used the following actuarial assumptions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>July 1, 2015 that was rolled forward to June 30, 2016</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>June 30, 2016</td>
</tr>
<tr>
<td>Actuarial Cost Method</td>
<td>Entry-Age Normal Cost Method</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>Market Value of Assets</td>
</tr>
<tr>
<td>Remaining Amortization Period</td>
<td>18 years</td>
</tr>
<tr>
<td>Actuarial Assumptions</td>
<td>Inflation Rate: 2.50%</td>
</tr>
<tr>
<td></td>
<td>Projected Salary Increase: 3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 86 and the current general economy</td>
</tr>
<tr>
<td></td>
<td>Salary Increase: N/A</td>
</tr>
</tbody>
</table>
| 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 No. 127, RP-2014 Employee Mortality Rates are assumed 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 the measurement date. 100% 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 the 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 for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The 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 the 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 for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The 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.

Most other demographic assumptions used in the July 1, 2014 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 long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the ERS’s Board during December 2013 and the actuary’s capital market assumptions as of June 30, 2016. In addition, the assumption reflects that loans to members comprise approximately 50% of the portfolio and have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% as of June 30, 2016 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per year.

The pension plan’s policy regarding allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the ERS’s financial condition for the benefits provided through the pension programs.
The following was the Board’s adopted asset allocation policy as of June 30, 2016:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term Expected Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>25%</td>
<td>6.4%</td>
</tr>
<tr>
<td>International Equity</td>
<td>10%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>64%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Cash</td>
<td>1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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, less deferred inflows of resources). On this basis, the ERS’s Fiduciary Net Position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed.

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 tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the Total Pension Liability/ the discount rate was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively.

The date of depletion projection of 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 in the event that their financial condition does not improve in the near term.
13. PENSION PLAN – continuation

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

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2015</th>
<th>June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>3.80%</td>
<td>2.85%</td>
</tr>
<tr>
<td>Long-term expected rate</td>
<td>6.55%</td>
<td>6.55%</td>
</tr>
<tr>
<td>of return net of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investment expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal bond rate</td>
<td>3.80%</td>
<td>2.85%</td>
</tr>
</tbody>
</table>

* 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.

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 House of Representative’s proportionate share of the Net Pension Liability, calculated using the discount rate, as well as what the House of Representative’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:

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease</th>
<th>Current Discount Rate</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pension Liability</td>
<td>$21,496,257</td>
<td>$18,741,934</td>
<td>$16,499,356</td>
</tr>
</tbody>
</table>

**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 Government 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 Government 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.

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

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106), which reformed the Commonwealth Retirement Systems. Act No. 106 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017.

The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 and 2019.

Furthermore, Act No. 106 modified the ERS’s governance. Under Act No. 106, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

Act No. 106 also ordered a suspension of the ERS’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the servicing of the ERS’s existing loan portfolio may be externalized. Pursuant to Act No. 106, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.
13. PENSION PLAN – continuation

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.
- 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 the impacts of specific management decisions would 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 defunded and gross assets will be exhausted.”

The Employee’s Retirement System of the Government of the Government 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 Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

The most recent actual valuation is as of June 30, 2016.

The financial statements and required supplementary information for the pension plan are available at the Administration of the Employees’ Retirement System (ERS) of the Commonwealth of Puerto Rico, PO Box 42003, Minillas Station, San Juan, PR 00940-2003.
14. LEASE COMMITMENTS

The House of Representatives leases some Representatives' District office facilities through various operating leases agreements, with the latest expiring on December 31, 2020. Rent expenses under such leases agreements for the fiscal year ended June 30, 2017 and 2016 amounted to $203,967 and $193,840, respectively. Future minimum lease payments under these agreements are $284,104, $278,381 and $278,381 for the fiscal years June 30, 2018, 2019 and 2020, respectively.

15. CONTINGENCIES

The House of Representatives is also a defendant in several other lawsuits arising out of the normal course of business. It is management's opinion, based on the advice of legal counsel, that the maximum liabilities in the event of unfavorable judgments in the outstanding cases will not have a material adverse effect on the House of Representatives financial condition or changes in it.

The House of Representatives is defendant in various lawsuits alleging political discrimination. The combined claims are approximately $113.5 million, out of which approximately $31 million also include the Senate, the Superintendence of the Capitol Building and others.

The House of Representatives plans to defend vigorously each individual case. The ultimate outcome of such legal proceedings cannot be determined at this time, based on our legal counsel advice.

16. UNCERTAINTY AND LIQUIDITY RISK

As discussed in Note 3 to the basic financial statements, the House of Representatives' principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). The funds of the House of Representatives are under the custody of the Secretary of Treasury of the Commonwealth until transferred to the House of Representatives during the year.

The Commonwealth's liquidity was severely affected during fiscal year 2016 and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external sources of financing. The Commonwealth has not been able to fulfill its obligations on a timely manner.

Considering that the House of Representatives is financially dependent from Commonwealth, the limitations of the Commonwealth to meet its obligations on a timely manner may prevent the House of Representatives' operations in the near future.

17. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2017, the House of Representatives entered into the following related party or intergovernmental transactions:

1. The Puerto Rico Electric Power Authority (PREPA) – electric power company and government-owned corporation of Puerto Rico responsible for electricity generation, power transmission, and power distribution in Puerto Rico. The House of Representatives incurred in expenditures regarding the services provided by the PREPA amounting $17,671.

2. The Puerto Rico Aqueducts and Sewers Authority (PRASA) – Water company and government-owned corporation of Puerto Rico responsible for water quality, water management, and water supply in Puerto Rico. The House of Representatives incurred in expenditures regarding the services provided by the PRASA amounting $6,513.
3. The Superintendent of Capitol (Superintendent) – The Superintendent is charged for remodeling the House of Representatives facilities and regional offices expenditures. The House of Representatives incurred in rent expenditures amounting $51,541 and remodeling of the Hearing Room amounting $71,994.

18. NET POSITION BALANCES RESTATEMENTS

For the year ended June 30, 2016, the House of Representatives adjusted net position for the following concept:

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Net Position, As Previously Reported, June 30, 2016</td>
<td>$4,642,041</td>
</tr>
<tr>
<td>Adjustments to Capital Assets</td>
<td>(67,064)</td>
</tr>
<tr>
<td>GASB 68 Related Adjustments</td>
<td>(20,242,567)</td>
</tr>
<tr>
<td>Beginning Net Position (Deficit), As Restated, July 1, 2016</td>
<td>$(15,667,590)</td>
</tr>
</tbody>
</table>

19. 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 following activities, funds, and blended component units reflect a net position deficit/fund balance deficit as of June 30, 2016 (expressed in thousands), last audited financial statements:

<table>
<thead>
<tr>
<th>Deficit Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Government:</td>
</tr>
<tr>
<td>Governmental Activities</td>
</tr>
<tr>
<td>Business-Type Activities</td>
</tr>
<tr>
<td>General Fund</td>
</tr>
<tr>
<td>Lotteries Fund</td>
</tr>
<tr>
<td>PR Health Insurance Administration Fund</td>
</tr>
<tr>
<td>PR Medical Services Administration Fund</td>
</tr>
</tbody>
</table>

The Commonwealth’s Governmental Activities and Business-Type Activities show a net position deficit of approximately $69.8 billion and $473.0 million, respectively, for a total of $70.3 billion as of June 30, 2016. 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 $1.2 billion. The fund balance deficit is attributable to operating expenses exceeding revenues.
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. A new Fiscal Plan was approved by the Oversight Board on May 9, 2019 (see Note 20 for more details).

**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 States 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 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.
- 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
19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO – continuation

- 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.

Remediation Plan

As previously mentioned, on March 13, 2017, the Oversight Board certified the initial Fiscal Plan for the Commonwealth. The Fiscal Plan has been subject to various revisions. On May 9, 2019, the Oversight Board certified its own new Fiscal Plan for the Commonwealth, which included the following categories of structural reforms and fiscal measure:

- Human Capital & Welfare Reform (Chapter 7)
- Ease of Doing Business Reform (Chapter 8)
- Energy and Power Regulatory Reform (Chapter 9)
- Infrastructure Reform and Capital Investment (Chapter 10)
- Office of the OCFO Chapter 11
- Agency Efficiencies (Chapter 12)
- Healthcare Reform (Chapter 13)
- Tax Compliance and Fees Enhancement (Chapter 14)
- Reduction in Appropriations to UPR and Municipalities (Chapter 15)
- Pension Reform (Chapter 16)
- Ensuring Successful Implementation and Fiscal Controls (Chapter 17)

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth’s ability to reduce its deficit and to achieve a balanced budget in future years depends on a number of factors and risks, some of which are not wholly within its control.

20. 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.
20. **PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

**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.

**Oversight Board:** 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.

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:
20. **PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

**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.

*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;
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

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;

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 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). Annually, the Commonwealth submitted the Fiscal Plan, but the Oversight Board certifies his own Fiscal Plan.

**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.

A New Fiscal Plan of the Oversight Board was certified on October 23, 2018.
New Fiscal Plan – 2019

On January 18, 2019, the Oversight Board requested the Governor to submit another Fiscal Plan to the Commonwealth to replace the October Fiscal Plan. The New Fiscal Plan of the Oversight Board, instead of the Commonwealth, was approved on May 9, 2019.

Following are the principal commentaries about the New Certified Fiscal Plan of 2019:

**Human Capital & Welfare Reform (Chapter 7)**

Puerto Rico could improve labor market flexibility through repealing restrictive laws like Law 80 and creating labor conditions more similar to those on the mainland, which would lead to increased labor force participation rates. If Puerto Rico’s labor force participation rate were to grow to match even to that of the lowest U.S. state, incomes would rise, poverty would decline, and the budgetary deficit would improve. Increasing labor force participation and job creation may be the single most important reform for long-term economic well-being in Puerto Rico.

In addition to the Island’s labor laws, Puerto Rico residents may also face disincentives to participate in the formal labor market due to rules attached to various welfare benefits, including the Nutritional Assistance Program (NAP), Medicaid, Section 8 public housing, TANF, WIC, and other programs.

These benefits are sometimes stereotyped with a claim that “welfare pays more than work.” While this may be true in isolated cases, the broader problem occurs when welfare beneficiaries work in the formal sector and receive earnings that trigger a reduction in their benefits. The phase-out of government transfer benefits as earned income increases acts as a tax to disincentivize formal employment, as effective hourly wage (income received by working minus the loss of benefits) can be substantially lower than the formal hourly wages received. For many residents, working in the informal sector and collecting transfer benefits can often result in higher effective income than working in the formal sector.

While transfer benefits in Puerto Rico are not more generous than on the mainland in dollar terms, they are more generous relative to generally lower earnings on the Island. When benefits are phased out as a beneficiary works, loss of benefits may be larger relative to earnings than for a mainland worker. This can serve as a greater disincentive to work than on the mainland.

To implement the human capital and welfare reform package, address labor market challenges and encourage residents to participate in the formal labor market, the 2019 Fiscal Plan requires the Government to launch an Earned Income Tax Credit (EITC) program by January 2019, raising pay for formal laborers. The Government also must institute a work requirement for the Nutrition Assistance Program (NAP) by July 1, 2019, with no transition period (e.g., full requirements regarding work will begin in July, with a three-month transition period allowed for those trying to find work, schooling, or volunteering opportunities).

**Ease of Doing Business Reform (Chapter 8)**

Ease of doing business remains an area in which Puerto Rico has much room for improvement. The 2019 Fiscal Plan re-iterates the need for urgent action, particularly in light of no progress in Puerto Rico’s ranking in the categories of Ease of Doing Business that have proven most important to stimulating growth in other jurisdictions. For example, from 2018 to 2019, Puerto Rico fell 3 slots in construction permitting, from 138 to 141, in registering property, 6 slots from 153 to 159, and in starting a business 6 slots from 153 to 159, and in starting a business 6 slots from 47 to 53.

The Oversight Board acknowledges recent initiatives announced by the Government to streamline the permitting process and expects committed actions to ensure that this results in meaningful change during the next fiscal year.
In the 2018 and 2019 Ease of Doing Business Report, Puerto Rico was ranked 64th. This represents a 9-point decline from 2017 and is 58 spots lower than the U.S., which ranks 6th overall. While the overall ranking did not change in 2019, the underlying trends on the most critical improvements needed to encourage growth in Puerto Rico were negative – such as getting electricity, construction permitting, and registering property. There are some areas of strength: Puerto Rico placed 6th for Getting Credit and 9th for Resolving Insolvencies. It has also made recent efforts to digitize government services to improve speed and accessibility, having launched the Single Business Portal (SBP) in July 2018, which currently includes online filing system for defined Acts (Acts 14, 20 and 22) but should ultimately consolidate permit requests, filing for incentives and annual reporting on these Acts.

Puerto Rico should achieve a best-in-class business environment by taking targeted steps to improve rankings in key identified Doing Business Index indicators by FY2023, with the goal of closing the gap with the mainland U.S. by at least 50% from its 2018 rankings:

- Overall: Move from 64 to at least 57
- Construction Permits: Move from 138 (141 in 2019) to at least 87
- Registering Property: Move from 153 (159 in 2019) to at least 95
- Paying Taxes: Move from 161 (162 in 2019) to at least 99
- Getting Electricity: Move from 69 (88 in 2019) to at least 59

In each of these areas, as outlined in more detail below, there are underlying measures of progress that the Government should target for improvement. For example, number of procedures, hours required, time required, and direct costs.

In addition, in line with best-in-class investment offices, by FY2023 Puerto Rico should:

- Create 54,000 new jobs (or average 9,000 new jobs per year)
- Lead 750 new capital investments (or average 150 per year)
- Achieve a $20 return in 10 years per dollar invested

In line with best-in-class Caribbean tourism offices, by FY2023 Puerto Rico should close distance with the highest ranked Latin American country and therefore:

- Improve World Bank Travel & Tourism Competitiveness Index ranking to at least 43, closing the distance to the highest ranked Latin American country in 2018
- Drive 5% annual growth in direct contribution of tourism to GDP and 5% annual growth in direct contribution to employment
- Improve tourist service infrastructure score of 5.4 (2015) by 10% by improving number and quality of lodging services
- Establish exit surveys to measure visitor satisfaction, length of stay and spend for tourists to highlight key areas of improvement and focus for DMO

Energy and Power Regulatory Reform (Chapter 9)

A strong and independent energy sector regulator is essential for injecting certainty and stability into the energy market, promoting much needed investments and enforcing compliance with the energy sector transformation’s objectives. The long-term sustainability of Puerto Rico’s energy sector depends on the lasting presence of a strong, independent, and professional regulator.

The current regulator of the power sector in Puerto Rico is the Puerto Rico Energy Bureau (PREB). PREB has the responsibility to “regulate, monitor and enforce the energy public policy of the Commonwealth of Puerto Rico”.

continue
Although administratively located within the Puerto Rico Public Service Regulatory Board (PSRB), PREB’s decision-making process should not be subject to direct or indirect review by any other government entity, except for any review under applicable administrative procedure rules. Any staff involved in substantive decision-making should be kept separate and independent from the PSRB and be fully dedicated to matters within PREB’s jurisdiction and purview. PREB may, on an annual basis, provide funds to the PSRB to cover administrative and other operational costs, however, PREB’s resources should be kept separate and shall not be controlled or placed under the direction of the PSRB.

In line with best practices for regulatory commissions (e.g. California Public Utilities Commission, Hawaii Public Utilities Commission, New York Public Services Commission), PREB is headed by 5 commissioners who serve staggered 6-year terms. The commissioners are appointed based on their technical, professional and/or academic credentials, with potential candidates being identified and appointed through a candidate list developed by a professional recruitment firm. The commissioners should be supported in their oversight role by a professional civil servant staff that has utility expertise.

PREB’s substantive independence should be supported by financial independence. Under current law, PREB’s yearly budget is set at $20 million and collected through charges assessed on certified energy companies. To provide for a steady and predictable funding source, PREB’s enabling act should be amended to provide that PREB’s budget shall be funded entirely through rates, as part of the revenue requirement used to determine the transmission and distribution (T&D) System’s rates. PREB’s funds are then collected by the T&D operator through customer bills and periodically remitted to PREB. This funding mechanism is consistent with the mechanisms used to fund other mainland regulators.

Until the transformation of the energy system is complete, and as applicable, the role of the Oversight Board with respect to energy sector regulation should be as follows based on its rights, powers, and duties in PROMESA:

- **IRP:** The Oversight Board approves revenue requirements and expenditures, including a capital plan, in the New Fiscal Plan for PREPA. PREPA’s Fiscal Plan should be informed by the results of the IRP and should provide a clear framework for executing the modernization of generation resources.
- **Budget and Rate-Making:** The Oversight Board approves a yearly budget for PREPA that aligns with PREPA’s Fiscal Plan and thus should align with revenue requirements and expenditures.
- **Utility Debt:** The Oversight Board approves restructuring of existing debt through the Plan of Adjustment for PREPA.
- **Transformation:** As the representative of PREPA in Title III, the Oversight Board has the exclusive right to file a plan of adjustment, which will contain the transformation agreements.

**Contributions in-Lieu of Taxes**

PREPA also intends to reform the contributions in-lieu of taxes program (CILT) in order to strengthen the utility’s financial position and ultimately lower rates. PREB has approved a pass-through rider to fund the revised CILT program. PREPA, PREB, and the Commonwealth should collaborate with municipalities and other stakeholders to implement and enforce the revised CILT program. Efforts should be made to ensure compliance with the program, whereby municipal power consumption counted towards a contribution in-lieu of taxes (effectively power exempt from payment) is capped at an agreed level and PREPA is reimbursed for any power sales to municipalities above the established cap.
When creating a reconstruction plan, it is imperative to build a central capability with the skills and mandate to design an overall recovery portfolio and oversee efficient project delivery. As such, the Government created the Central Office for Recovery, Reconstruction and Resiliency (COR3) as a Division of the P3 Authority to lead the coordination, development, and execution of long-term recovery and reconstruction efforts. The COR3 has been created based on leading practices used in many jurisdictions, including New Jersey, Louisiana, New York and New Zealand, to ensure higher accountability, transparency and coordination of disaster recovery efforts.

The COR3 should commit itself to a decision-making framework that incorporates not only the degree of damage, but also the future level of service required from the asset and future risks to that asset, when deciding how that asset should be rebuilt. New York and New Jersey received ~$10 billion in Section 428 funding post Hurricane Sandy, which decreased their vulnerability and helped ensure that capital dollars spent then did not simply have to be re-spent cleaning up after the next storm. The COR3 should aggressively pursue next level resiliency activities with federal dollars, to ensure that Puerto Rico’s critical assets are sufficiently protected from future hazards.

Specific COR3 activities should include:

- Developing, presenting and administering recovery action plans
- Financing, executing and effecting infrastructure projects related to recovery efforts
- Monitoring contracting for compliance and effectiveness purposes
- Implementing and enforce checks and balances for procurement and approval of contracts and payments
- Coordinating and channeling all efforts and activities of the Government related to recovery efforts
- Monitoring capital project delivery, focused on major projects, to ensure on-time, on-budget delivery, highlight risks of cost overrun or delay, and create transparency for overall capital program delivery, including recovery spending led by COR3 or another Commonwealth entity with capital delivery expertise.
- Capital program monitoring should include publicly publishing the list of projects, use of funds considered, and project level information including description and justification, cost, and impact on future operating budget

These best practices improve efficiency and transparency and should be applied to all areas of infrastructure expenditure of the Commonwealth including: reconstruction, construction and maintenance of government owned assets, and procurement of infrastructure through public corporations and Public-Private Partnerships (P3s).

The Government should pursue five sub-strategies:

- Set Commonwealth infrastructure priorities to guide investment
- Accelerate the pre-construction process
- Build sustainable funding models and financing strategies
- Promote procurement and delivery best practices
- Build the infrastructure of tomorrow

Office of the Chief Financial Officer (OCFO) (Chapter 11)

While the government has taken some action to establish the OCFO, formal legislation for the office’s structure and governance has not been submitted or approved. Further action must be prioritized to make up for delays in the office’s implementation plan and the resulting impact on staffing levels, timely decision-making and achievement of savings.
By centralizing all financial management functions per the 2019 Fiscal Plan, the OCFO would 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.

Core objectives of the OCFO must be as follows:

A) 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 CU 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. The OCFO must rationalize the bank account portfolio, optimize cash pooling/daily cash sweeps and treasury operations, and implement uniform accounts payable and disbursement prioritization policies, processes and reports

B) 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 2019 Fiscal Plan and easily traceable to the 2019 Fiscal Plan and the audited financials
- Forecast and manage receipt 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 expenditure controls and procurement reform

C) Drive standardization and integration of financial IT systems

- Comply with the recently established Oversight Board budget guidelines and timeline to develop a budget that is consistent with the 2019 Fiscal Plan and easily traceable to the 2019 Fiscal Plan and the audited financials

D) Ensure compliance with procurement, contracts, pensions, and human resources management policies

- Certify all contracts, bills, invoices, payroll, 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 health insurance procurement and policy management
- 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 2019 Fiscal Plan objective to achieve budget savings and efficiencies, ensure enhanced delivery of governmental services, and negotiate all future CBAs to achieve the same ongoing results
- Implement uniform time, attendance, and overtime processes and payroll controls and reporting
- Implement the Single Employer Program to enable mobility of employees to fill critical needs
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

**E) Enhanced control mechanisms and oversight**

- Implement processes to improve responsible stewardship of Puerto Rico’s Special Revenue Funds. Additionally, ensure all dedicated revenue streams attributable to SRF have their funds first deposited in the newly established Treasury Single Account

**F) Improve timeliness of CAFR (Comprehensive Annual Financial Report) and financial reporting**

- Publish the FY2017 CAFR by December 2019 and the FY2018 CAFR by March 2020, and manage these to completion by resolving any issues that have caused the multiple delays to date
- Implement a new process for the publishing of the FY2018 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-acrual basis of accounting as required in PROMESA and leverage the new forecasting, e-settlement, and analytics capabilities to support all OCFO functions
- Enact effective 2019 Fiscal Plan measures implementation forecasting and actuals reporting
- Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments

**G) Centralize and validate management of funds, debt, and other financial transactions**

- Maintain custody of all public funds, investments, and cash, and administer cash management programs to invest surplus cash
- Facilitate long-term and short-term borrowing programs
- Maintain control and accountability over all funds, property, and other assets controlled or managed by the Government, and oversee all tax decrees and tax agreements issued
- Publish an annual Tax Expenditure Report that identifies and quantifies all tax expenditures (including all tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates and special rules)

**Agency Efficiencies (Chapter 12)**

As of FY2018, the Government had approximately ~116,500 employees across 114 Executive Branch government agencies, as well as agencies within the Legislative and Judicial branches (excluding large instrumentalities, e.g., PREPA, PRASA, HTA UPR, COSSEC, GDB). With a total FY2018 General Fund budget of over $9 billion, these agencies utilize personnel and non-personnel resources that are outsized compared to the actual service needs of the people of Puerto Rico. Compared with states serving similar populations, Puerto Rico remains an outlier in terms of sheer number of agencies: for example, as of 2018 Iowa only had 36 state agencies and Connecticut had 78. In addition, there are countless examples of subpar service delivery across the Government. For instance, despite having 5+ agencies primarily dedicated towards the financial stewardship of the Island, the Government has been unable to report consistently accurate financial statements on a timely basis. In addition, Puerto Rico’s education system has consistently delivered unsatisfactory student outcomes, including below-U.S. mainland graduation rates and standardized test scores are far below basic proficiency.

Prior to 2016, when the Oversight Board began promoting fiscal sustainability, the level of governmental spending in Puerto Rico had not seen any significant decline even though Puerto Rico’s population fell by 12% from 2007 to 2017 (prior to Hurricanes Irma and Maria). In fact, **Puerto Rico remains an outlier in terms of the number of residents employed by the state government**, with ~20% of those currently employed working for the government (e.g., in a “governmental position”), placing Puerto Rico in the top 10th percentile of U.S. states for percentage of residents employed by state government.
Moving forward, the right-sized Government of the future should wherever possible reflect mainland U.S. benchmarks in terms of both number of agencies and size of agencies themselves to deliver services in as efficient a manner as possible. As part of the new Government model, the Government should consolidate the 114 agencies into no more than 42 agency groupings and independent agencies. In some cases, the consolidations are designed to better focus the competing efforts of multiple agencies, such as the Economic Development grouping, which will consolidate ten agencies into one. In other cases, the consolidations should serve to move services closer to residents, such as the Healthcare grouping, which will consolidate access points to important services like Medicaid. In all cases, fiscal measures will be applied to improve the quality of the underlying services, especially in the case of PRDE. Across all agencies, the ultimate goal should be to drive efficiencies to improve services for the population while achieving the cost savings required to sustain a fiscal transformation.

Exhibit 40 of the Fiscal Plan shows total savings that must be achieved from personnel, non-personnel, compensation and utilities agency efficiency measures. Total savings are $371 million by FY2019 through $1,557 by FY 2024. Specific target is described for the following departments (agencies): Department of Education, Department of Health, Department of Public Safety, Department of Corrections and Rehabilitation, Treasury Department / Office of the CFO, Department of Economic Development, Legislative Assembly, General Court of Justice, Election Commission, Transfer of ownership of WIPR, and other agency

Healthcare Reform (Chapter 13)

The goal of the Puerto Rican public health insurance system is to fund high-quality health care services to all residents in need and, in doing so, cultivate a healthier population, especially as it relates to lowering outsized rates of chronic conditions. To ensure the system can continue to support the most vulnerable populations who rely on its services, Puerto Rico will need to improve the efficacy of its health insurance plan, specifically “bending the curve” on premium inflation reflective of escalating costs for health care delivery on the Island.

Reflective of reduced enrollments, post-hurricane implementation challenges (e.g., provider shortages), and the importance of delivering quality care to the ~38% of Puerto Ricans who rely on Vital for medical insurance, this 2019 Fiscal Plan reduces the total savings target across FY2020-FY2024 by $1.4 billion and adjusts the ramp-up of expenditure reduction measures to provide additional time for implementation. Total run-rate savings must reach ~$638 million by FY2024 (off the FY2024 baseline of approximately $3.3 billion). After FY2024, the savings continue to increase as baseline expenditures increase (Exhibit 65), but absent further action by future governments, the per capita cost of healthcare will grow with long-term healthcare inflation rates, creating a significant deficit. The Government will still act urgently to implement value-based reforms that deliver both improvements in health services and savings to the Commonwealth, including building the infrastructure and data systems required to execute more advanced payment reform models and quality monitoring across the Island.

The measure savings in the 2019 Fiscal Plan are designed to lower premium expenditures across the multiple public health programs on the Island (namely Medicaid and CHIP). Due to the nature of the CHIP reimbursement program, the targets recognize that the federal government will realize ~5% of premium expenditure savings at run-rate based on current statute. In FY2020, the federal government will realize an even larger share of premium savings given the continuance of BBA and ACA funding in the first half of the fiscal year. While the Government must achieve all savings to curb long-term costs, the 2019 Fiscal Plan surplus will only consider savings that accrue to the Commonwealth.

Saving should be obtained by:

- Implement a single region managed care model
- Enrollment verification
- Reduce fraud, waste, and abuse (FWA)
- Implement a uniform fee schedule for providers
20. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Improve quality relative to cost
- Reduce pharmacy spend
- Cost-sharing
- Optional benefits

**Tax Compliance and Fees Enhancement (Chapter 14)**

Recent compliance efforts in the Commonwealth have largely focused on collections outreach activities, obtaining one-time back taxes owed through a collections call center, flexible payment plans, and a large corporate taxpayer-focused team (with a longer-term goal of establishing a permanent separate unit). In the future, emphasis should shift towards initiatives that promote a culture of compliance to boost voluntary payment. The goal should be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of an increased likelihood of being caught while not paying taxes owed and more effective and enforceable penalties.

- Use new systems and processes to identify and remediate non-payment
- Reduce the complexity of the tax system and process of filing taxes
- Institute advanced analytics and broad-reach, low-touch correspondence audits.
- Collecting SUT on Internet sales

Implement by FY 2019 the right-rate other taxes and fees as follow:

- Gaming tax
- Licenses and other fees
- Tobacco taxes
- Medical marijuana tax
- Airbnb Tax

**Reduction in Appropriations to UPR and Municipalities (Chapter 15)**

In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state-to-local subsidization for US public universities nationally. At that time, UPR’s undergraduate tuition was less than one-third of the US average for public universities even after adjusting for per-capita income and consisted of 11 independent campuses with minimal shared services or administrative consolidation.

A reduction of the appropriation for UPR was determined in 2017 through a shared process with the Government to identify reasonable, sustainable measures to bring UPR closer to US mainland public university tuition and administrative cost benchmarks, while maintaining (and in many cases improving) the performance of the system, which serves as a primary economic growth engine of the Island.

The April 2018 Fiscal Plan created a means-based scholarship fund for UPR, which will generate $39 million in investment funds in FY2020, and which will be used to help build up an endowment to pay for need-based scholarships for UPR students. Specifically, the savings will fund an independent endowment for needs-based scholarships for students at UPR, which will be managed by Puerto Rico Treasury Department (OCFO).

To incentivize municipal operational changes, the Commonwealth must reduce the current level of municipal appropriations. In FY2018, the total municipal appropriation was reduced by $150 million, bringing the new baseline appropriations to ~$220 million per year. Going forward from this current baseline, there must be a reduction in each successive year, holding appropriations constant at roughly 45-50% of current levels starting in FY2022 before ultimately phasing out all subsidies in FY2024.
Consolidating services across multiple municipalities can help reduce cost by leveraging scale, especially in areas of services provided directly to residents, including public works and infrastructure, public safety, family services, education, and housing. Prior to Hurricanes Irma and Maria, Estudios Técnicos estimated that operating expenditure reduction measures, in part from municipal service sharing, could result in a potential combined fiscal impact of ~$150-$450 million.

The Commonwealth should pursue several initiatives to incentivize and streamline consolidation:

- Offer financial incentives (e.g., remaining municipal subsidy) for municipalities who hit targets
- Provide transparency into service performance by creating performance metrics and publishing the results, benchmarked against peer municipalities
- Develop and operate service provision collectives
- Streamline legal frameworks to remove any barriers to collaboration between municipalities (e.g., liability issues); for example, the Government can pass legislation like New Jersey’s 2007 Uniform Shared Services and Consolidation Act to formalize accountability for pursuing shared services by placing the onus on local leadership

Property Tax Reform

In partnership with the Municipal Revenues Collection Center (CRIM), 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). Additionally, CRIM can streamline collection activities and use proven compliance practices, such as advanced analytics to identify non- or under-payment, to raise payment rates. Based on implementation planning discussions in August 2017, CRIM estimated these initiatives could produce:

- $150 million of increased revenue from raising property tax compliance from 68% to 85%
- $150-200 million from registering properties not on the rolls
- $500 million of capturable back property taxes owed (from $1.3 billion total owed)
- Lastly there is an additional, not yet sized, opportunity from reclassifying commercial properties incorrectly listed as residential and updating property valuations

Pension Reform (Chapter 16)

Expenditures are being reduced throughout the Commonwealth’s budget and contractual debt service remains unaffordable. Retirement plan participants, like other unsecured claimholders, face a reduction in the amounts paid to them by the Commonwealth. A 10% average reduction in pensions is appropriate and necessary. The goal is a balanced approach to restore fiscal health to Puerto Rico while ensuring that cuts to retirement benefits occur in a progressive manner that protects any retirees from falling into poverty. The level of cuts to pension benefits is also in line with reductions in other government systems facing pension funding crises.

Although the average benefit reduction will be 10%, there will be no reduction for those with total retirement plan benefits (including assumed Social Security of $400 for non-police ERS members for whom the employer pays Social Security taxes) below the poverty level of $1,000 per month. This formula is equivalent to giving each beneficiary a reduction of 25% in the monthly benefits they receive in excess of $600 or $1,000. These dollar figures will be adjusted in future years consistent with increases in the federal poverty threshold.
Under this approach, about 36% of retirees would receive no reduction in their benefits and an additional 22% of retirees will experience a benefit reduction of 5% or less. Therefore, in total, approximately 80% of retirees will experience a benefit reduction of 10% or less, and over 90% of retirees will experience a benefit reduction of 15% or less. Very few retirees will have more than a 20% reduction, and none will have a reduction of 25% or more. For 2019 Fiscal Plan entities only, the effect of the reform would be 33% of retirees with no reduction, and 24% with <5% reduction (see graph below).

This formula will also apply to benefits earned by current employees who have yet to retire.

The 10% reduction shall take effect starting in FY2020 to have sufficient time to implement it following the Plan's enactment.

Covering more Government Workers in Social Security

Currently, teachers, police officers, and judges do not participate in Social Security. They do not pay into the program, nor does the Government make a Social Security contribution on their behalf. Unlike other ERS members, teachers, police officers, and judges are entirely reliant on their government pensions for income in retirement. This places them at risk when government retirement plans are poorly funded.

Covering these workers under Social Security will provide them with diversified sources of income in retirement, and Social Security's progressive benefit formula will provide a stronger safety net for lower-paid employees. Workers will typically earn greater retirement benefits under Social Security based on a 6.2% employee contribution and a 6.2% employer (government) match, than they would in a DC plan funded only with a 6.2% contribution. For example, a typical full-career government employee retiring with a salary of $35,000 will be entitled to a Social Security benefit of approximately $16,000, in addition to the benefit the employee builds in their defined contribution retirement account.

The 2019 Fiscal Plan includes the enrollment of all police in Social Security beginning in July 1, 2019; however, this requires the Government to first timely implement certain changes to police pension programs. The 2019 Fiscal Plan includes the enrollment of teachers and judges under the age of 45 in Social Security as of January 1, 2020, coincident with the plan freeze.

Ensuring Successful Implementation and Fiscal Controls (Chapter 17)
The fiscal and structural reforms described in the 2019 Fiscal Plan represent a significant and transformative effort across the Government. As such, there are strict reporting requirements needed to ensure savings and growth targets are being achieved on time, and to identify any major risks to reform in order to course correct at an early stage.

To date, however, the Government has struggled with implementing reforms and reporting on this implementation in a timely manner. For example, the April 2018 Fiscal Plan required that implementation plans be submitted for all major reforms by June 30, 2018. The Government did not submit many implementation plans until September 2018 – and took as long as April 2019 to submit some. Progress has as a result been inconsistent and incomplete, and many agencies appear unprepared to meet FY2020 savings targets. While some progress on measures has been made, many reforms are delayed or not occurring. In cases where certain reforms will not occur, the Government must find these savings through other means.

The Government shall produce monthly performance reports, which shall be submitted to the Oversight Board on the 15th of each month, demonstrating the progress made on all key reform areas. Agency efficiency savings that have been realized should be broken down by grouping and agency across payroll and non-payroll savings (as well as on an object level where needed) and display the performance of the realized agency efficiency savings for each agency against the projections as set forth herein. Reporting shall also include detail on use of funds for professional services, as well as within the “englobadas” cost concept, such that these expenses can be appropriately managed. To date, only ~50% of agency groupings have consistently provided implementation reporting. The Government must improve reporting such that it and the Oversight Board can hold agencies accountable for achieving savings.

If, after any fiscal quarter the projected agency efficiency savings for any grouping is not realized, the shortfall from that fiscal quarter will be added to the agency efficiency savings target for the corresponding grouping for the following quarter.

If, based on the quarterly performance reports and any other information the Oversight Board deems appropriate, the Oversight Board concludes there is underperformance in agency efficiency savings for any grouping, the Oversight Board will take measures to enforce reductions in the amount of unrealized savings in the following fiscal quarter for the corresponding grouping, reserving all rights under PROMESA, including but not limited to those under Section 201(e), Section 202(b), and Section 202(e), to do so.

Municipalities Fiscal and Budgetary Measures

Pursuant to Section 101 of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board designated all 78 municipalities as Covered Territorial Instrumentalities subject to the requirements of PROMESA.

In terms of the submission of Instrumentality Fiscal Plans and Instrumentality Budgets required by Section 101(d)(1)(E) of PROMESA, the Oversight Board has determined in its resolution adopted at its May 9, 2019 meeting, to apply this provision to an initial group of 10 municipalities as a pilot for assessing and enhancing municipal financial and budgetary practices, and for developing economic development strategies to address municipal fiscal challenges. The 10 municipalities were selected considering a combination of factors such as fiscal challenges, impact of the reduction of transfers from the Central Government, and their experience implementing innovative and creative initiatives and collaborating with other municipalities. The selected municipalities are: Quebradillas, Camuy, Isabela, San Sebastián, Orocovis, Barranquitas, Villalba, Aibonito, Comerío and Cidra.

The Governor must provide to the Oversight Board for each of these municipalities with an Instrumentality Fiscal Plan (“Municipal Fiscal Plan”), which should be developed in accordance with the outline provided, and an Instrumentality Budget (“Municipal Budget”) for certification. To facilitate the process of developing such fiscal plans and budgets, and in recognition of the autonomy of the municipalities, the Board intends to work directly with the municipalities during such process.
21. NEW ACCOUNTING STANDARDS

A. Implementation of Governmental Accounting Standards Board (GASB) Statements

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.


GASB No. 74 does not have any impact on the House of Representatives' 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.
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.

GASB No. 77 does not have any impact on the House of Representatives’ financial statements.

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.

The GASB No. 78 is effective for the fiscal year ending June 30, 2017 and there is no impact to the House of Representatives’ 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 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 House of Representatives’ 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 House of Representatives’ financial statements.

**B. Future Adoption of Governmental Accounting Standards Board (GASB) Statements**

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2017. The House of Representatives is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.
21. NEW ACCOUNTING STANDARDS – continuation

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.

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.

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.
21. NEW ACCOUNTING STANDARDS – 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.

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.

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
21. NEW ACCOUNTING STANDARDS – continuation

- 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.

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.
21. NEW ACCOUNTING STANDARDS – continuation

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.

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.

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.
21. NEW ACCOUNTING STANDARDS – continuation

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.

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.
21. NEW ACCOUNTING STANDARDS – continuation

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.

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 June 15, 2018 (FY 2018-2019). Earlier application is encouraged.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the end of a Construction. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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

GASB Statement No. 90, Majority Equity Interest—An Amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.
For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows or resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (FY 2019-2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The House of Representatives has not yet determined the effect these statements will have on the basic financial statements.

22. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 1, 2019, which is the same date the financial statements were available to be issued. During September 2017, Puerto Rico suffered 2 hurricanes, one of them hurricane María. This hurricane affected almost all networks of supplies, electricity, water, gasoline/diesel, among others. Hurricane María has adversely affected almost all businesses in Puerto Rico.

On August 23, 2017, the Governor of the Commonwealth of Puerto Rico signed the Act Number 106 known as the “Law to Guarantee the Payment to our Pensioners and establish a New Defined Contributions Plan for Public Servants”.

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).
22. SUBSEQUENT EVENTS – continuation

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 is 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.

- 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 applied 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.

continue
22. SUBSEQUENT EVENTS – continuation

- 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 requires 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.

- 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 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 San Juan, 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.

continue
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". It 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.

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.

continue
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.

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 Hurricane 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.

PROMESA

In accordance with the provisions described on Note 30 of the basic financial statements, the Oversight Board approved on October 23, 2018 the New Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. Then, approved the 6th Fiscal Plan on May 9, 2019. The scope of the Fiscal Plan is described in that Note.
This page intentionally left blank.
Required Supplementary Information
This page intentionally left blank.
### Schedule of Revenues and Expenditures – Budget and Actual – General Fund

For the Fiscal Years Ended June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>Budget Amounts</th>
<th>Actual Amounts (Budgetary Basis)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$47,696,000</td>
<td>$47,696,000</td>
<td>$47,696,000</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>2,665,667</td>
<td>2,665,667</td>
<td>2,665,667</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>50,361,667</td>
<td>50,361,667</td>
<td>50,361,667</td>
</tr>
<tr>
<td><strong>EXPENDITURES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government - Administrative and Operating Activities</td>
<td>50,199,703</td>
<td>50,199,703</td>
<td>47,247,466</td>
</tr>
<tr>
<td>Intership Programs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Outlays</td>
<td>161,964</td>
<td>161,964</td>
<td>161,964</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>50,361,667</td>
<td>50,361,667</td>
<td>47,409,430</td>
</tr>
<tr>
<td><strong>Excess (Deficiency) of Revenues Over (Under) Expenditures</strong></td>
<td>$-</td>
<td>$-</td>
<td>$2,952,237</td>
</tr>
</tbody>
</table>

See accompanying Notes to the Statement of Revenues and Expenditures Budget to Actual – General Fund.
NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The House of Representatives budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations recommended by the Speaker and approved by the Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Legislature. Transfers of certain appropriations within the budget do not require the approval of the Legislature in accordance with Administrative Order 07-10 of July 2007. The House of Representatives prepares its annual budget including the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2017 was $47,696,000. In addition, the amount of $2,665,667 were appropriated for Special Assignments.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The Commonwealth of Puerto Rico Accounting Law establishes that unreserved funds (excess of revenues over expenditures) at the end of the fiscal year from the Legislative Branch will be carried forward and made available for spending for the next three fiscal years. The Senate’s Administrative Order 2010-35 of January 2010 stipulates that such unreserved funds must be spent for non-recurrent expenditures. The remaining unexpended amounts after the three years have lapsed should be reverted to the Secretary of Treasury of Puerto Rico pursuant to Act 230.

Budget GAAP/Reconciliation

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

**Sources/Inflows of Resources:**

<table>
<thead>
<tr>
<th>Description</th>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Amounts (Budgetary Basis) &quot;Available for Appropriation&quot; from the</td>
<td>$ 50,361,667</td>
</tr>
<tr>
<td>Budgetary Comparison Schedule (See Page 130)</td>
<td></td>
</tr>
<tr>
<td>Difference – Budget to GAAP:</td>
<td></td>
</tr>
<tr>
<td>Non Budgetary Items</td>
<td></td>
</tr>
<tr>
<td>Total Revenues as Reported on the Statement of Revenues, Expenditures</td>
<td>$ 50,361,667</td>
</tr>
<tr>
<td>and Changes in Fund Balance - Governmental Funds (See Page 60)</td>
<td></td>
</tr>
</tbody>
</table>

**Uses/Outflows of Resources:**

<table>
<thead>
<tr>
<th>Description</th>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Amounts (Budgetary Basis) &quot;Total Charges to Appropriation&quot; from the</td>
<td>$ 47,409,430</td>
</tr>
<tr>
<td>Budgetary Comparison Schedule (See Page 130)</td>
<td></td>
</tr>
<tr>
<td>Difference – Budget to GAAP:</td>
<td></td>
</tr>
<tr>
<td>Non Budgetary Items – Expenditures of Prior Year Budget</td>
<td>1,277,379</td>
</tr>
<tr>
<td>Total Expenditures as Reported on the Statement of Revenues, Expenditures</td>
<td>$ 48,686,809</td>
</tr>
<tr>
<td>and Changes in Fund Balance - Governmental Funds (See Page 60)</td>
<td></td>
</tr>
</tbody>
</table>

END OF NOTES
### Schedule of Proportionate Share of the Net Pension Liability

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of the Net Pension Liability *</td>
<td>0.03850%</td>
<td>0.04408%</td>
<td>0.04971%</td>
</tr>
<tr>
<td>Proportionate Share of the Net Pension Liability</td>
<td>$11,604,027</td>
<td>$14,693,852</td>
<td>$18,741,934</td>
</tr>
<tr>
<td>Covered - Employee Payroll</td>
<td>$1,343,368</td>
<td>$1,463,011</td>
<td>$1,662,659</td>
</tr>
<tr>
<td>Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll</td>
<td>863.80%</td>
<td>1004.36%</td>
<td>1127.23%</td>
</tr>
<tr>
<td>Plan's Fiduciary Net Position</td>
<td>$31,058</td>
<td>$(294,549)</td>
<td>$(629,335)</td>
</tr>
<tr>
<td>Plan Fiduciary Net Position as a Percentage of the Net Pension Liability</td>
<td>0.27%</td>
<td>-2.00%</td>
<td>-3.36%</td>
</tr>
</tbody>
</table>

**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.

**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 three years are shown.

The amounts presented have a measurement date of June 30, 2014.

### REQUIRED SUPPLEMENTARY INFORMATION

#### SCHEDULE OF CONTRIBUTIONS

For the Fiscal Years Ended June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractually Required Contribution (Actuarially Determined)</td>
<td>$402,345</td>
<td>$621,474</td>
<td>$326,309</td>
</tr>
<tr>
<td>Contributions in Relation to the Actuarially Required Contributions</td>
<td>234,497</td>
<td>280,601</td>
<td>143,217</td>
</tr>
<tr>
<td>Contribution Deficiency (Excess)</td>
<td>$167,848</td>
<td>$340,873</td>
<td>$183,092</td>
</tr>
<tr>
<td>Covered - Employee Payroll</td>
<td>$1,343,368</td>
<td>$1,463,011</td>
<td>$1,662,659</td>
</tr>
<tr>
<td>Contributions as a Percentage of Covered-Employee Payroll</td>
<td>17.46%</td>
<td>19.18%</td>
<td>8.61%</td>
</tr>
</tbody>
</table>

#### 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-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the 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 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational 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 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

2. This information is intended to help users assess the House of Representatives’ 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 House of Representatives and not Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

END OF NOTES
This page intentionally left blank.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives of the Commonwealth of Puerto Rico (House of Representatives), as of and for the fiscal year ended June 30, 2017, and the related notes to basic financial statements, which collectively comprise the House of Representatives’ basic financial statements, and have issued our report thereon dated June 28, 2019.

Going Concern

The House of Representatives is part of the Commonwealth of Puerto Rico (Commonwealth). Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note S to the basic financial statements, that raised substantial doubt about the Commonwealth of Puerto Rico’s ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the House of Representatives’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House of Representatives’ internal control. Accordingly, we do not express an opinion on the effectiveness of the House of Representatives’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the House of Representatives’ financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
Page 2

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the House of Representatives’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

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

Caguas, Puerto Rico 00726
June 28, 2019

Stamp No. E383644 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.
Statistical Section
INTRODUCTION

This part of the 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 House of Representatives’ overall financial health. Unless otherwise noted, the information in the following schedules is derived from the comprehensive annual financial reports for the relevant year. The House of Representatives implemented Statement 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974 as amended.

The following are the categories of the various schedules that are included in this section:

<table>
<thead>
<tr>
<th>Financial Trends Information</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>These schedules contain trend information to help the reader understand how the House of Representatives’ financial performance and well-being have change over time.</td>
<td>139-143</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt Capacity</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>These schedules present information to help the reader understand the House of Representatives' levels of debt.</td>
<td>144-145</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue Capacity Information</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>This schedule contains information to help the reader assess the House of Representatives most significant revenue source, legislative appropriations.</td>
<td>146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demographic and Economic Information</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>This schedule offers demographic and economic indicators to help the reader understand the environment within the House of Representatives financial activities take place.</td>
<td>147</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Information</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>This schedule contains service data to help the reader understand how the information in the financial reports relates to the services the House of Representatives provides and the activities it performs.</td>
<td>148</td>
</tr>
</tbody>
</table>
### Restated Net Position Trends by Component for the Last Ten Fiscal Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in Capital Assets</td>
<td>$1,344,124</td>
<td>$1,660,306</td>
<td>$1,733,805</td>
<td>$1,845,125</td>
<td>$1,464,142</td>
<td>$1,499,657</td>
<td>$1,205,262</td>
<td>$1,426,202</td>
<td>$1,779,456</td>
<td>$837,177</td>
</tr>
<tr>
<td>Restricted</td>
<td>2,203,040</td>
<td>2,269,623</td>
<td>2,213,323</td>
<td>2,418,023</td>
<td>2,286,159</td>
<td>3,491,286</td>
<td>935,602</td>
<td>939,675</td>
<td>30,000</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(16,261,517)</td>
<td>(19,597,519)</td>
<td>2,461,656</td>
<td>2,622,416</td>
<td>1,313,193</td>
<td>(909,130)</td>
<td>(3,379,560)</td>
<td>(4,288,469)</td>
<td>(752,795)</td>
<td>602,552</td>
</tr>
<tr>
<td>Total Net Position (Deficit)</td>
<td>$(12,714,353)</td>
<td>$(15,867,590)</td>
<td>$6,408,784</td>
<td>$6,885,564</td>
<td>$5,063,494</td>
<td>$4,081,813</td>
<td>$(1,238,696)</td>
<td>$(1,922,612)</td>
<td>$1,056,661</td>
<td>$1,439,729</td>
</tr>
</tbody>
</table>

Note: The House of Representatives implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
### HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

### NET POSITION CHANGES FOR THE LAST TEN FISCAL YEARS
PRIMARY GOVERNMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative Appropriations</td>
<td>$ 50,211,867</td>
<td>$ 47,545,795</td>
<td>$ 47,535,120</td>
<td>$ 51,744,800</td>
<td>$ 51,744,800</td>
<td>$ 52,744,270</td>
<td>$ 46,959,895</td>
<td>$ 46,959,905</td>
<td>$ 46,994,828</td>
<td>$ 48,384,380</td>
</tr>
<tr>
<td>Special Legislative Assignments</td>
<td>150,000</td>
<td>161,786</td>
<td>669,652</td>
<td>706,000</td>
<td>1,885,192</td>
<td>5,030,530</td>
<td>3,326,560</td>
<td>1,604,556</td>
<td>30,000</td>
<td>-</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>34,850</td>
<td>-</td>
<td>-</td>
<td>4,782</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>50,396,517</td>
<td>47,707,581</td>
<td>48,204,772</td>
<td>52,455,582</td>
<td>53,629,962</td>
<td>57,778,800</td>
<td>50,286,456</td>
<td>48,384,380</td>
<td>47,024,828</td>
<td>48,384,380</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Items</td>
<td>61,186</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Change in Net Position</strong></td>
<td>$ 2,953,237</td>
<td>$(1,766,743)</td>
<td>$(476,780)</td>
<td>$ 1,822,070</td>
<td>$ 981,281</td>
<td>$ 5,320,509</td>
<td>$ 683,916</td>
<td>$ (3,585,338)</td>
<td>$(1,856,613)</td>
<td>$(2,728,540)</td>
</tr>
</tbody>
</table>

**Note:** The House of Representative implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
Note: The House of Representatives implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
Note: The House of Representative implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
Note: The House of Representative implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
### Long-Term Liabilities for the Last Ten Fiscal Years

**Primary Government**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compensated Absences</strong></td>
<td>$4,668,855</td>
<td>$5,829,019</td>
<td>$5,267,559</td>
<td>$4,860,538</td>
<td>$4,665,750</td>
<td>$5,099,136</td>
<td>$4,668,683</td>
<td>$4,510,901</td>
<td>$4,504,287</td>
<td>$6,589,325</td>
</tr>
<tr>
<td><strong>Claims and Judgments</strong></td>
<td>-</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
<td>360,000</td>
<td>377,784</td>
<td>340,000</td>
<td>340,000</td>
<td>340,000</td>
</tr>
<tr>
<td><strong>Obligations Under Capital Lease Agreements</strong></td>
<td>101,116</td>
<td>165,237</td>
<td>226,848</td>
<td>429,677</td>
<td>2,708,880</td>
<td>2,348,660</td>
<td>2,438,694</td>
<td>2,999,433</td>
<td>1,851,733</td>
<td>1,794,505</td>
</tr>
<tr>
<td><strong>Net Pension Liability</strong></td>
<td>18,741,934</td>
<td>14,693,852</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Long-Term Liabilities</strong></td>
<td><strong>$23,511,905</strong></td>
<td><strong>$21,048,108</strong></td>
<td><strong>$5,854,407</strong></td>
<td><strong>$5,650,215</strong></td>
<td><strong>$7,754,630</strong></td>
<td><strong>$7,807,816</strong></td>
<td><strong>$7,485,161</strong></td>
<td><strong>$7,850,334</strong></td>
<td><strong>$6,696,020</strong></td>
<td><strong>$8,723,830</strong></td>
</tr>
</tbody>
</table>

* As restated

**Note:** The House of Representatives implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
### Debt Capacity for the Last Ten Fiscal Years

**Primary Government**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Lease Obligations</td>
<td>$101,116</td>
<td>$165,237</td>
<td>$226,848</td>
<td>$429,677</td>
<td>$382,797</td>
<td>$630,319</td>
<td>$868,152</td>
<td>$1,096,675</td>
<td>$317,562</td>
<td>$-</td>
</tr>
<tr>
<td>Debt Service as Percentage of</td>
<td>0.18%</td>
<td>0.26%</td>
<td>0.30%</td>
<td>0.66%</td>
<td>0.60%</td>
<td>1.01%</td>
<td>1.41%</td>
<td>1.82%</td>
<td>0.54%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Personal Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of Debt Per Capital</td>
<td>$5.28</td>
<td>$8.94</td>
<td>$12.47</td>
<td>$24.26</td>
<td>$21.56</td>
<td>$37.04</td>
<td>$52.50</td>
<td>$68.21</td>
<td>$20.18</td>
<td>$-</td>
</tr>
</tbody>
</table>

*See Page 147 for Personal Income and Population
^ Based on 2013 information available
* As restated

**Note:** The House of Representative implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
Note: The House of Representative implemented GASB Statement No. 34 in 2008, when it became fiscally autonomous, pursuant to the provisions of Act 230 of July 23, 1974, as amended.
### Demographic and Economic Indicators of the Commonwealth of Puerto Rico

*For the last ten fiscal years*

#### Primary Government

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Population (In Thousands)</th>
<th>Personal Income (In Thousands)</th>
<th>Per Capita</th>
<th>Inflation Rate</th>
<th>Employment (In Thousands)</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017p</td>
<td>3,372</td>
<td>$57,420</td>
<td>$19,140</td>
<td>0.60%</td>
<td>989</td>
<td>11.7%</td>
</tr>
<tr>
<td>2016</td>
<td>3,440</td>
<td>55,455</td>
<td>18,485</td>
<td>-0.20%</td>
<td>992</td>
<td>11.8%</td>
</tr>
<tr>
<td>2015</td>
<td>3,504</td>
<td>56,405</td>
<td>18,195</td>
<td>-0.30%</td>
<td>979</td>
<td>12.90%</td>
</tr>
<tr>
<td>2014</td>
<td>3,564</td>
<td>54,899</td>
<td>17,709</td>
<td>0.90%</td>
<td>988</td>
<td>14.40%</td>
</tr>
<tr>
<td>2013</td>
<td>3,614</td>
<td>55,035</td>
<td>17,753</td>
<td>0.90%</td>
<td>1,012</td>
<td>14.00%</td>
</tr>
<tr>
<td>2012</td>
<td>3,657</td>
<td>52,749</td>
<td>17,016</td>
<td>2.60%</td>
<td>1,024</td>
<td>15.20%</td>
</tr>
<tr>
<td>2011</td>
<td>3,700</td>
<td>51,258</td>
<td>16,535</td>
<td>1.80%</td>
<td>1,043</td>
<td>16.20%</td>
</tr>
<tr>
<td>2010</td>
<td>3,731</td>
<td>51,446</td>
<td>16,077</td>
<td>2.00%</td>
<td>1,075</td>
<td>16.30%</td>
</tr>
<tr>
<td>2009</td>
<td>3,751</td>
<td>50,360</td>
<td>15,737</td>
<td>2.80%</td>
<td>1,144</td>
<td>13.70%</td>
</tr>
<tr>
<td>2008</td>
<td>3,772</td>
<td>48,494</td>
<td>15,154</td>
<td>4.50%</td>
<td>1,203</td>
<td>11.20%</td>
</tr>
</tbody>
</table>

**Note:** Fiscal year of “2017p” means that the numbers detailed are preliminary.
### Legislative Sessions:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative Bills</td>
<td>1,646</td>
<td>740</td>
<td>851</td>
<td>1,231</td>
<td>2,659</td>
<td>522</td>
<td>1,290</td>
<td>1,460</td>
<td>4,950</td>
<td>623</td>
</tr>
<tr>
<td>Enacted Laws</td>
<td>38</td>
<td>110</td>
<td>154</td>
<td>110</td>
<td>114</td>
<td>164</td>
<td>151</td>
<td>157</td>
<td>120</td>
<td>170</td>
</tr>
</tbody>
</table>

### Number of Employees by Function:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>324</td>
<td>533</td>
<td>498</td>
<td>446</td>
<td>466</td>
<td>530</td>
<td>541</td>
<td>555</td>
<td>551</td>
<td>551</td>
</tr>
<tr>
<td>Administrative</td>
<td>239</td>
<td>283</td>
<td>273</td>
<td>262</td>
<td>280</td>
<td>294</td>
<td>277</td>
<td>270</td>
<td>275</td>
<td>275</td>
</tr>
<tr>
<td>Total Employees</td>
<td>563</td>
<td>816</td>
<td>771</td>
<td>708</td>
<td>746</td>
<td>824</td>
<td>818</td>
<td>825</td>
<td>826</td>
<td>826</td>
</tr>
</tbody>
</table>

END OF SECTION
This page intentionally left blank.