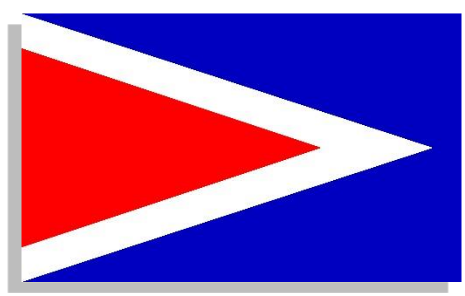
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED UNDER THE UNIFORM GUIDANCE)

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018



Hon. Roberto J. Ramírez Kurt
Mayor

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BETANCOURT & CO PSC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying Financial Statements of the Governmental Activities, of the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (The Municipality), each major fund, and the aggregate remaining fund information of The Municipality as of and for the year ended June 30, 2018, and the related Notes to the Financial Statements, which collectively comprise the Municipality's Basic Financial Statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Principles Generally Accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

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

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Auditor's Responsibility (Continued)

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

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

Summary of Options

Opinion Unit	Type of Opinion
Governmental Activities	Disclaimer
Business-Type Activities	Unmodified
General Fund	Unmodified
Debt Services	Unmodified
Commonwealth Legislative Joint Resolutions	Unmodified
Other Governmental Funds	Unmodified

Basis for Disclaimer of Opinion on Governmental Activities and Note Disclosure Regarding Pensions

The Municipality did not maintain complete, updated and accurate accounting records that supports the amounts presented as capital assets and its related accumulated depreciation, in the governmental activities. Therefore, we were no able to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for $74,187,898 net of accumulated depreciation of $51,712,941 and the amount of depreciation expense stated at $4,410,378, reported in the accompanying statement of activities for the year then ended. The depreciation expenses affect net result of operations reported in the accompanying statement of activities for the fiscal year ended June 30, 2018.

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Basis for Disclaimer of Opinion on Governmental Activities and Note Disclosure Regarding Pensions (Continued)

Disclaimer Opinion

Because of the significance of the matters described in the "Basis for Disclaimer" on Government Activities we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities. Accordingly, we do not express an opinion on the financial position of the governmental activities of the Municipality of Cabo Rojo as of June 30, 2018, or the changes in financial position thereof for the year then ended.

Unmodified Opinion

In our opinion the financial statements referred to above present fairly, in all material respect, the respective financial position of each major fund, and the aggregate remaining fund information of the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (The Municipality) as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

Emphasis- of-Matters

Contingency regarding Commonwealth of Puerto Rico's Going Concern

The Commonwealth of Puerto Rico and its component units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balance deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality is dependent on the Commonwealth for certain resources and services, while one of its component units, the Government Development Bank, provides custody of certain deposits and provides financing to the Municipality. The Commonwealth and its component units are currently under the supervision of a Federal Oversight Board and are implementing fiscal plans approved by the Board in order to remediate their situation.

Government Development Bank for Puerto Rico (GDB)

As discussed in Notes 2 and 19 to the basic financial statements, deposits with the Government Development Bank for Puerto Rico (GDB) are uninsured and unsecured. As of June 30, 2018, the GDB presented an insolvency situation that threatened the institution's ability to meet its obligations. This financial position of the GDB means a considerable risk of loss for the Municipality that has not been calculated or notified by the bank. The funds of the Municipality of Cabo Rojo that were deposited in the GDB, as of June 30, 2018, are recognized as cash in fiscal agent, in the Governmental Funds Balance Sheet, as follows: (1) $80,097 in general fund, (2) $2,653,033 in Debt Service Fund, and (3) $2,460,450 in Other Governmental Funds. If the future

*Government Development Bank for Puerto Rico (GDB)**(continued)***

risk of loss was applied, the results at the end of the fiscal year 2017 - 2018 would reflect an ending fund deficit in the Debt Service Fund and in Other Governmental Funds. Also, the statement of net position would be adversely affected. However, no losses related to defaults by GDB on deposit transactions have been recognized by the Municipality through June 30, 2018. Our opinion is not modified with respect to these matters.

The Municipality's pension plan administrator has provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2016. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). As a result, management has complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting Principles Generally Accepted in the United States of America. However, these financial statements contain net pension liability, inflows and outflows related to the pension plan and pension plan expense as of June 30, 2016, the date on which the financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico are issued. The financial information was recorded in the Statement of Net Position and the expense in the Statement of Activities by the Accounting Principles Generally Accepted by the United States of America.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information on pages 7-18 and 94-95 and the Schedule of Funding Progress Employees' Retirement System by the Commonwealth of Puerto Rico and its instrumentality be presented to Supplement the Basic Financial Statements. Such information, although not a part of the Basic Financial Statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with Auditing Standards Generally Accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to Municipality, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico's Basic Financial Statements. The accompanying supplementary information - Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the Basic Financial Statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Basic Financial Statements. The information has been subjected to the auditing procedures applied in the audit of the Basic Financial Statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Basic Financial Statements or to the Basic Financial

Other Information, (Continued)

Statements themselves, and other additional procedures in accordance with Auditing Standards Generally Accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Basic Financial Statements as whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of the Autonomous Municipality of Cabo Rojo as of the Commonwealth of Puerto Rico internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the Municipality's internal control over financial reporting and compliance.

BETANCOURT & CO PSC
Canóvanas, Puerto Rico
March 29, 2019

Stamp No. E373259 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report

Within this section of the Municipality of Cabo Rojo's financial statements, **the Municipality** provides a narrative discussion and analysis of the financial activities of **the Municipality** for the fiscal year ended June 30, 2018. **The Municipality's** financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on **the Municipality's** primary government and governmental activities.

Financial Highlights

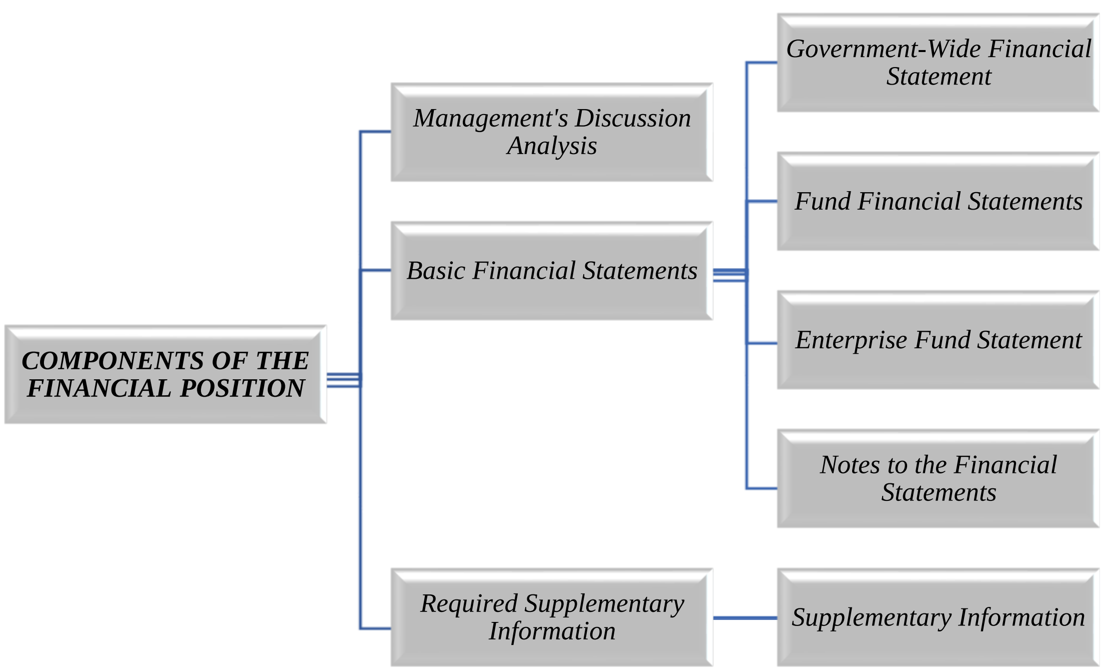
- The assets of **the Municipality** of Cabo Rojo exceeded deferred inflows and liabilities, at the close of the most recent fiscal year, by ($23,176,122) (Net position).

- The capital assets, net of depreciation decrease by $4,058,678 as compared to prior year, mainly due to an increase in accumulated depreciation of municipal properties.

- **The Municipality's** governmental funds reported total ending fund balance of $3,428,076 this year. This amount represents an increase of $807,598 during the current year as compared to the prior year ending fund balance of $2,620,478. The unassigned fund balance (deficit) of the General Fund as of June 30, 2018 amounted to ($6,772,083).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to **the Municipality's** basic financial statements. **The Municipality's** basic financial statements include: 1) government-wide financial statements, 2) fund financial statements, 3) enterprise fund statements, and (4) notes to the financial statements. This report also contains other supplementary information.



BASIC FINANCIAL STATEMENT

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the users of the financial statements with a broad overview of **the Municipality's** finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of **the Municipality's** assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator on whether the financial position of **the Municipality** is improving or deteriorating.

The Statement of Activities presents information showing how **the Municipality's** net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of 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 Statement of Activities is focused on both the gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. **The Municipality**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of **the Municipality** are classified in the category 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, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Municipality's near-term financing 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 funds 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 Municipality's** near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

GASB Statement No. 34 established that enterprise funds are a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. Accordingly, enterprise funds accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

In compliance with the aforementioned establishment, the operation of the municipal enterprise is presented as a business-type activity in this financial statement report. The financial information is included, discreetly, in an enterprise fund statement of net position, an enterprise fund statement of activities and as a separate column of **the Municipality** Government Wide Financial Statements at June 30, 2018.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General Fund.

Analysis of Government Wide Financial Statements

Net Position - The condensed statement of net position of **the Municipality** as of June 30, 2018 and 2017 is presented below:

Table 1

	2018	2017 As restated	Change	% Change
Current and other assets, net of accumulated amortization	$ 18,038,057	$ 13,407,295	$ 4,630,762	34.54%
Capital assets, net of accumulated depreciation	74,187,898	78,246,576	(4,058,678)	-5.19%
Total assets	**92,225,955**	**91,653,871**	**572,084**	**0.62%**
Deferred outflows of resources	**15,037,804**	**-**	**15,037,804**	**0.00%**
Long term liabilities	115,120,540	45,710,510	69,410,030	151.85%
Other liabilities	13,951,847	10,372,527	3,579,320	34.51%
Total liabilities	**129,072,387**	**56,083,037**	**72,989,350**	**130.15%**
Deferred inflows of resources	**1,367,494**	**-**	**1,367,494**	**0.00%**
Net position				
Invested in capital assets, net of related debt	54,141,980	49,188,364	4,953,616	10.07%
Restricted	9,407,853	16,297,394	(6,889,541)	-42.27%
Unrestricted	(86,725,955)	(29,914,924)	(56,811,031)	189.91%
Total net position	**$ (23,176,122)**	**$ 35,570,834**	**$ (58,746,956)**	**-165.15%**

As noted above, **the Municipality** total assets increased by $15,098,888 while the total liabilities increased by $74,356,844 mainly due by the decrease of accumulated depreciation of capital assets and the increase of current liabilities. As a result, the net position decreased by $58,746,956.

Net position may serve over time as a useful indicator of a government's financial position. **The Municipality's** net position is weakened by the amount of ($23,176,122) as of June 30, 2018, as compared to the net position of $35,570,834 of the previous fiscal year.

The largest portion of **the Municipality's** net position represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. **The Municipality** uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although **the Municipality's** investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The amounts restricted for debt service represent another portion of the net position, and these are resources subject to external restrictions for the purposes explained above. An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others.

Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

Activities

The condensed statement of activities of **the Municipality** for the years ended June 30, 2018 and 2017 is presented below. As noted therein, **the Municipality's** net position decreased by approximately $58,746,956.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2018 were for activities related to general government $51,144,417, urban and economic development $9,494,394, and culture, recreation and education $4,982,118.

Table 2

	2018	2017	Change	% Change
Program revenues				
Charges for services	$ 321,473	$ 575,940	$ (254,467)	-44.18%
Operating grants and contributions	7,517,536	2,388,838	5,128,698	214.69%
Capital grants and contributions	48,779	194,004	(145,225)	-74.86%
General revenues				
Property taxes	12,923,216	11,873,126	1,050,090	8.84%
Municipal license taxes	2,782,742	1,581,231	1,201,511	75.99%
Construction excise taxes	245,587	344,670	(99,083)	-28.75%
Sale tax	1,738,371	1,905,835	(167,464)	-8.79%
Grants & contributions	2,547,346	3,559,726	(1,012,380)	-28.44%
Unrestricted interest on deposit	149,101	142,909	6,192	4.33%
Miscellaneous	1,111,847	464,590	647,257	139.32%
Total revenues	**29,385,998**	**23,030,869**	**6,355,129**	**27.59%**
Expenses				
General government	51,144,417	9,930,149	41,214,268	415.04%
Urban and economic development	9,494,394	6,292,230	3,202,164	50.89%
Public safety	8,141,481	3,256,975	4,884,506	149.97%
Health and sanitation	5,976,763	2,435,769	3,540,994	145.37%
Culture, recreation and education	4,982,118	3,934,130	1,047,988	26.64%
Public housing and welfare	6,685,863	2,695,725	3,990,138	148.02%
Interest on long-term obligations	1,707,918	1,790,647	(82,729)	-4.62%
Total expenses	**88,132,954**	**30,335,625**	**57,797,329**	**190.53%**
Change in net position	(58,746,956)	(7,304,756)	(51,442,200)	704.23%
Net position at beginning of fiscal year	35,570,834	42,875,590	(7,304,756)	-17.04%
Net position at end of year	**$ (23,176,122)**	**$ 35,570,834**	**$ (58,746,956)**	**-165.15%**

The **Figure 1** and **Figure 2** below illustrate **the Municipality's** revenues distribution in fiscal year ended June 30, 2018 and a comparison between 2018 and 2017.

Figure 1

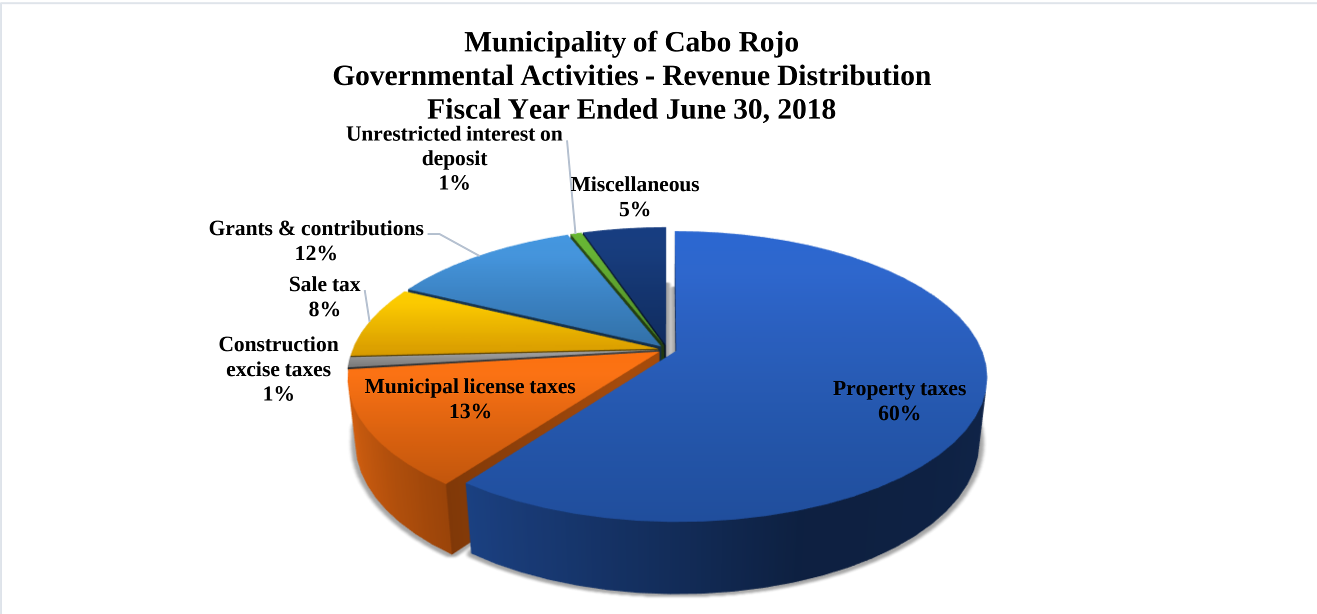
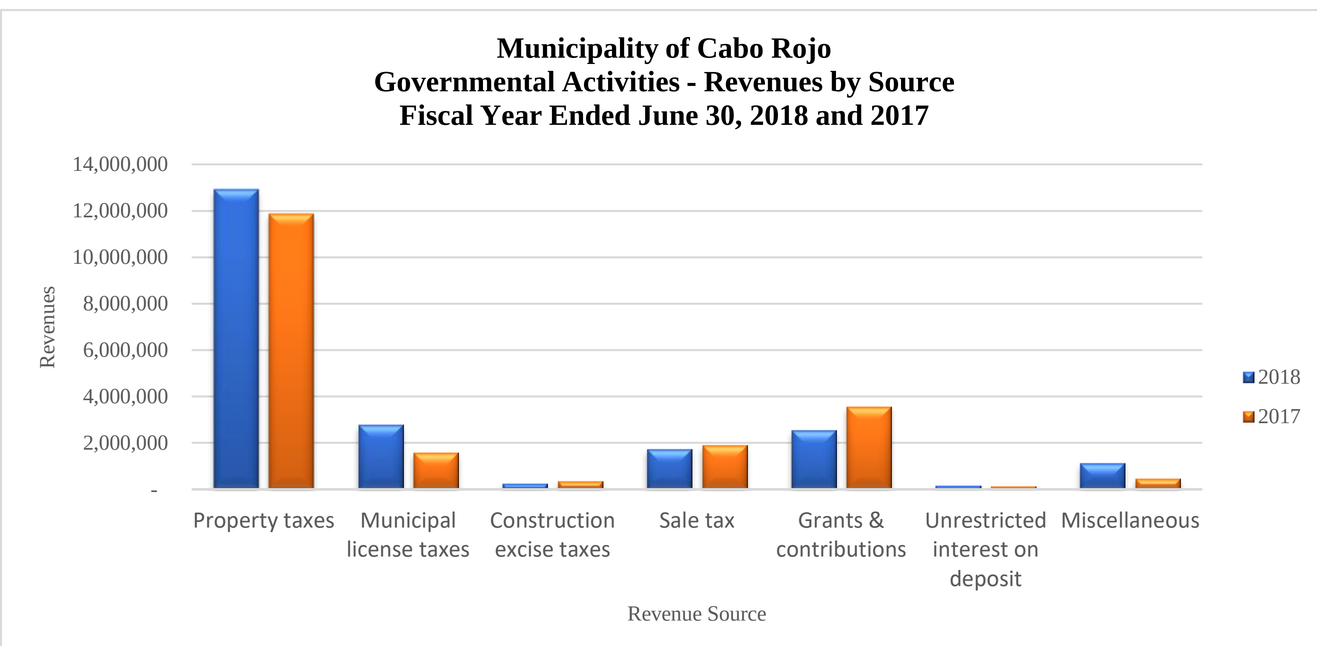


Figure 2



The following **Figure 3** and **Figure 4** illustrate **the Municipality's** expense distribution in fiscal year ended June 30, 2018 and comparison between 2018 and 2017.

Figure 3

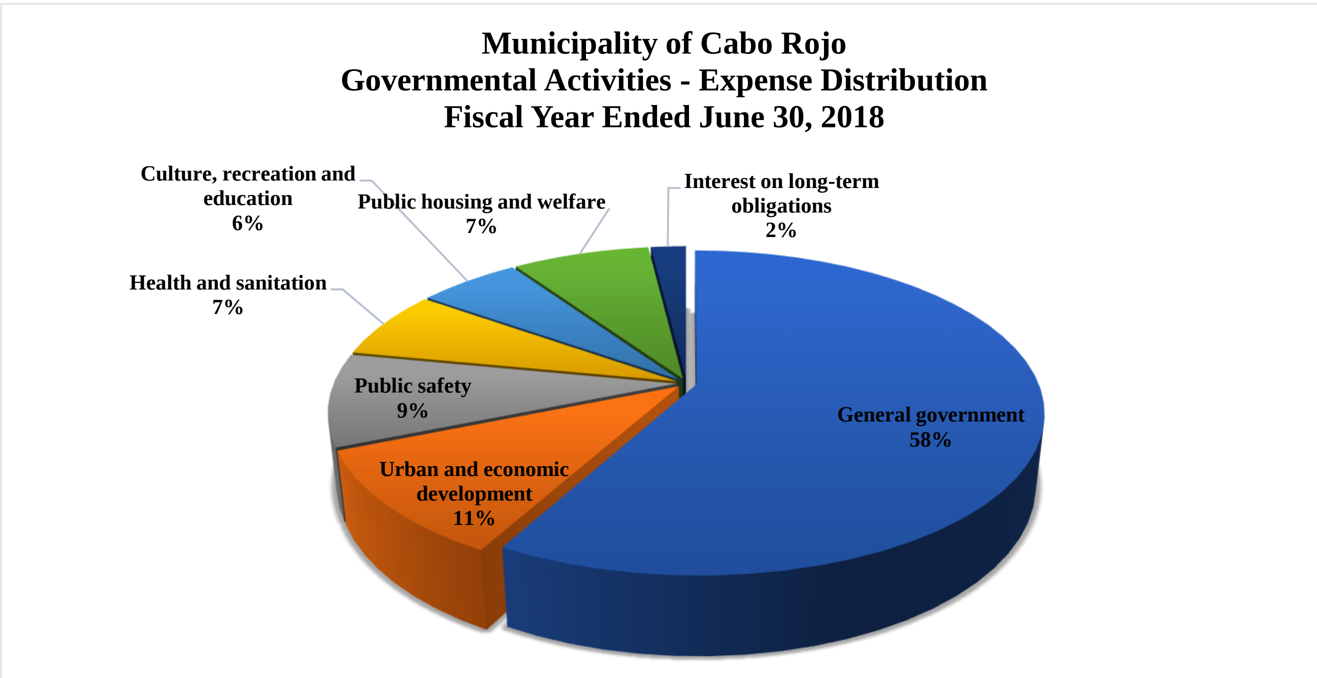
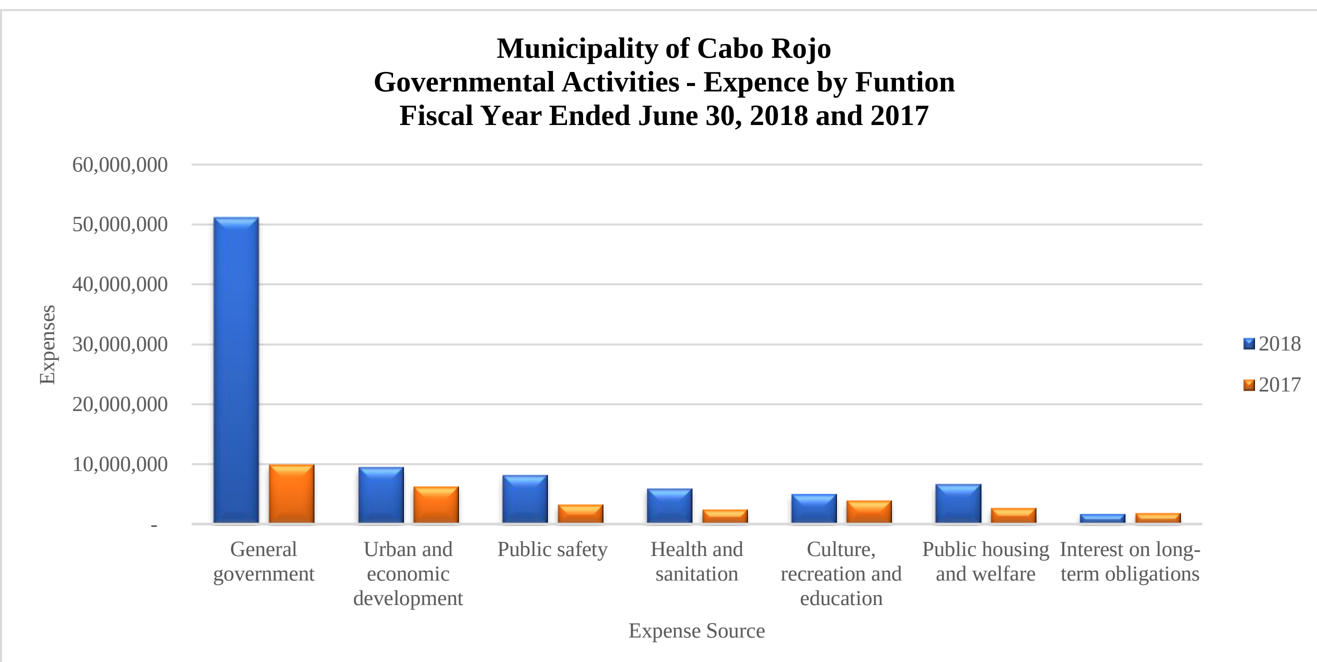


Figure 4



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

The focus of **the Municipality's** governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing **the Municipality's** financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, **the Municipality's** governmental funds reported ending fund balances of $3,428076, which represents an increase of $807,598 thousands in comparison with prior fiscal year balance of $2,620,478. For the end of fiscal year 2018 the Municipality of Cabo Rojo presents an unassigned fund balance of ($6,772,083). The remainder of the fund balance is classified as restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects $1,516,938; b) debt service $1,016,693 and c) other specified purposes $7,666,528.

Table 3

		2018		2017
Balance Sheet				
Assets				
Total assets – Major Funds	$	20,204,952	$	15,169,828
Total assets – Other Funds		4,552,144		3,978,971
Combined total assets	**$**	**24,757,096**	**$**	**19,148,799**
Liabilities				
Total liabilities – Major Funds		20,545,009		16,125,234
Total liabilities – Other Funds		784,011		403,087
Combined total liabilities		**21,329,020**		**16,528,321**
Deferred Inflows of Resources				
Total inflows – Major Funds		-		-
Total Inflows – Other Funds		-		-
Combined total deferred inflows of resources		**-**		**-**
Fund Balances				
Restricted– Major Funds		6,432,026		8,962,407
Restricted– Other Funds		3,768,133		3,575,884
Unassigned		(6,772,083)		(9,917,813)
Combined total fund balances		**3,428,076**		**2,620,478**
Total liabilities and fund balances	**$**	**24,757,096**	**$**	**19,148,799**

Table 4

Changes in Fund Balances	**2018**	**2017**
Revenues		
Total revenues – Major Funds	$ 26,843,032	$ 21,444,188
Total revenues – Other Funds	2,135,704	2,417,993
Combined total revenues	**$ 28,978,736**	**$ 23,862,181**
Expenditures		
Total expenditures – Major Funds	26,347,027	26,663,928
Total expenditures – Other Funds	1,824,111	2,580,078
Combined total expenditures	**28,171,138**	**29,244,006**
Other financing sources (uses)		
Other financing sources – Major Funds	104,344	4,971,175
Other financing uses – Other Funds	(104,344)	(141,372)
Combined other financing sources, net	**-**	**4,829,803**
Net changes in fund balance	600,349	(552,022)
Fund Balance – beginning, as restated	207,249	3,172,500
Fund Balance – ending	**$ 807,598**	**$ 2,620,478**

Capital Assets

The Municipality's investment in capital assets for its governmental activities as of June 30, 2018 amounted to approximately $54,141,980 (net of related debt). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2018 was $351,700 while depreciation charges amounted to $4,410,378 for the fiscal year. The ending balance reported on capital assets amounted to $125,900,839 by the end of year, with depreciation amounting to $51,712,941.

Table 5

Cost Basis of Capital Assets and the Accumulated Depreciation and Amortization As of June 30, 2018		
	Governmental Activities	
Description	**Cost Basis of Capital Assets**	**Accumulated Depreciation**
Non-depreciable capital assets		
Land	$ -	$ -
Construction in progress	-	-
Depreciable capital assets		
Land improvements	12,745	462,385
Buildings, structures and improvements	63,779	1,411,398
Infrastructure	230,676	1,825,029
Machinery and equipment	44,500	304,730
Licensed vehicles	-	406,836
Total	**$ 351,700**	**$ 4,410,378**

Long-Term Debts

At June 30, 2018, **the Municipality** had total of $118,873,573 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, $29,198,000 comprises debt backed by the full faith and credit of the government and $89,675,573 is other obligations.

Table 7	
Long Term Debts	**Amount**
General obligations bonds and notes	$ 29,198,000
Others	89,675,573
Total Long-Term Debts	**$ 118,873,573**

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within **the Municipality** in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about **the Municipality's** long-term liabilities is presented in the notes to the financial statements. **The Municipality** continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

Economic Factors and Next Year's Budgets and Rates

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 14 members, excises the legislative power. As previously discussed in this report, the Municipality provides a full range of services to its community in general. **The Municipality's** principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants. **The Municipality** has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 "The Puerto Rico Fiscal Agency and 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 (PROMESA); to 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; to provide that it shall be the only entity authorized to enter into 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; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan.

In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 "Puerto Rico Financial Emergency and Fiscal Responsibility Act" to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and he creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the Moratorium Act") and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government's obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law.

In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services.

If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filling was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue.

Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation (“COFINA”), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority (“HTA”) and the Government of Puerto Rico Employees Retirement System (“ERS”).

Request for Information

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of **the Municipality’s** finances and to demonstrate **the Municipality’s** accountability. If you have questions about this report or need any additional information, contact the Municipal Director of Finance, Attn: Carmen D. Feliciano, at P.O. Box 1308, Cabo Rojo, PR 00623 or call (787) 851-1025.

BASIC FINANCIAL STATEMENT

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash in commercial banks	$ -	$ 53,785	$ 53,785
Account receivable, net:			
Property taxes	2,619,553	-	2,619,553
Prepaid taxes	-	46	46
Municipal license taxes	-	-	-
Sales taxes	-	-	-
Grants and contributions	3,978,682	-	3,978,682
Restricted assets			
Cash and cash equivalents	1,989,874	-	1,989,874
Cash and cash equivalents with fiscal agent	9,449,948	-	9,449,948
Investments held in commercial bank	-	-	-
Inventory	-	2,374	2,374
Capital assets			
Non-depreciable	12,342,944	-	12,342,944
Depreciable, net accumulated depreciation of $51,712,941	61,844,954	6,383	61,851,337
Total assets	**$ 92,225,955**	**$ 62,588**	**$ 92,288,543**
DEFERRED OUTFLOW OF RESOURCES			
Government-mandated nonexchange transaction	15,037,804	-	15,037,804
Total deferred outflows of resources:	**$ 15,037,804**	**$ -**	**$ 15,037,804**
LIABILITIES			
Account payable and accrued liabilities	6,284,802	2,840	6,287,642
Due to other agencies	2,418,970	-	2,418,970
Unearned revenue	1,488,529	-	1,488,529
Accrued interest	6,513	-	6,513
Non-current liabilities			-
Due within one year	3,753,033	-	3,753,033
Due after one year	115,120,540	-	115,120,540
Municipal interfund payable	-	7,172	7,172
Total liabilities	**$ 129,072,387**	**$ 10,012**	**$ 129,082,399**
DEFERRED INFLOW OF RESOURCES			
Government-mandated nonexchange transaction	1,367,494	-	1,367,494
Total deferred inflows of resources:	**$ 1,367,494**	**$ -**	**$ 1,367,494**
NET POSITION			
Investment in capital assets, net of related debt	54,141,980	-	54,141,980
Assigned for			
Capital purposes	1,516,938	-	1,516,938
Restricted for			
Debt service	1,016,693	-	1,016,693
Other specified purposes	6,874,222	-	6,874,222
Unassigned	(86,725,955)	52,576	(86,673,379)
Total net position	**$ (23,176,122)**	**$ 52,576**	**$ (23,123,546)**

See notes to financial statements.

		Program Revenues			Net (Expense) Revenue and in Net Position	Net (Expense) Revenue and in Net Position	
Functions/Program	**Expenses**	**Charges for Services**	**Operating Grant and Contributions**	**Capital Grant and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities							
General government	$ 51,144,417	$ 104,804	$ 6,454,125	$ -	$ (44,585,488)	$ -	$ (44,585,488)
Urban and economic development	9,494,394	101,743	70,056	48,779	(9,273,816)	-	(9,273,816)
Public safety	8,141,481	950	78,836	-	(8,061,695)	-	(8,061,695)
Health and sanitation	5,976,763	101,797	-	-	(5,874,966)	-	(5,874,966)
Culture, recreation and education	4,982,118	12,179	307,356	-	(4,662,583)	-	(4,662,583)
Public housing and welfare	6,685,863	-	607,163	-	(6,078,700)	-	(6,078,700)
Interest on long-term obligations	1,707,918	-	-	-	(1,707,918)	-	(1,707,918)
Total governmental activities	**$ 88,132,954**	**$ 321,473**	**$ 7,517,536**	**$ 48,779**	**$ (80,245,166)**	**$ -**	**$ (80,245,166)**
Business-Type Activities							
Cabo Rojo Enterprise	299,437	320,579	-	-	-	21,142	21,142
Total Activities	**$ 299,437**	**$ 320,579**	**$ -**	**$ -**	**$ -**	**$ 21,142**	**$ 21,142**
General revenues							
Taxes:							
Property taxes					$ 12,923,216	$ -	$ 12,923,216
Municipal license taxes					2,782,742	-	2,782,742
Construction					245,587	-	245,587
Sales taxes					1,738,371	-	1,738,371
Grant and contributions, not restricted to specified programs					2,547,344	-	2,547,346
Unrestricted interest on deposit					149,101	-	149,101
Miscellaneous					1,111,847	-	1,111,847
Total general revenues					**$ 21,498,211**	**$ -**	**$ 21,498,210**
Net change in position					(58,746,956)	21,142	(58,725,814)
Net position, beginning of year					35,570,834	31,434	35,602,268
Net position, end of year					**$ (23,176,122)**	**$ 52,576**	**$ (23,123,546)**

See notes to financial statements.

BALANCE SHEET – GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	Major Governmental Funds					
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Huracan María	Other Governmental Funds	Total Governmental Funds
ASSETS						
Investment	$ -	$ -	$ -	$ -	$ -	$ -
Cash in commercial bank						
Account receivable, net of allowance of uncollectable accounts:						
Property tax	-	210,114	-	-	-	210,114
Municipal license taxes	-	-	-	-	-	-
Sale tax	-	-	-	-	-	-
Grant and contributions	115,000	-	-	3,445,937	417,745	3,978,682
Due from other fund	3,996,500	-	4,340,781	-	791,197	9,128,478
Other	-	-	-	-	-	-
Restricted assets:						
Cash and cash equivalents	763,148	-	297,846	157,261	771,619	1,989,874
Cash in fiscal agent	80,097	6,798,268	-	-	2,571,583	9,449,948
Total Assets:	**$ 4,954,745**	**$ 7,008,382**	**$ 4,638,627**	**$ 3,603,198**	**$ 4,552,144**	**$ 24,757,096**
LIABILITIES						
Accounts payable and accrued liabilities	1,895,045	849,901	15,600	3,163,621	360,635	6,284,802
Intergovernmental payable	2,418,970	-	-	-	-	2,418,970
Due to other funds	5,131,978	3,164,788	-	439,577	392,135	9,128,478
Unearned revenue	1,488,529	-	-	-	31,241	1,519,770
Matured bonds due and payable	-	1,977,000	-	-	-	1,977,000
Total liabilities:	**10,934,522**	**$ 5,991,689**	**$ 15,600**	**$ 3,603,198**	**$ 784,011**	**$ 21,329,020**
DEFERRED INFLOWS OF RESOURCES						
Imposed non-exchange transactions	-	-	-	-	-	-
Total deferred inflows of resources:	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
FUND BALANCE						
Unassigned	(6,772,083)	-	-	-	-	(6,772,083)
Assigned to:						
Capital projects	-	-	175,405	-	1,341,533	1,516,938
Restricted to:						
Debt service	-	1,016,693	-	-	-	1,016,693
Other purposes	792,306	-	4,447,622	-	2,426,600	7,666,528
Total fund balance:	**$(5,979,777)**	**$ 1,016,693**	**$ 4,623,027**	**$ -**	**$ 3,768,133**	**$ 3,428,076**
TOTAL LIABILITIES AND FUND BALANCES:	**$ 4,954,745**	**$ 7,008,382**	**$ 4,638,627**	**$ 3,603,198**	**$ 4,552,144**	**$ 24,757,096**

See notes to financial statements.

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	**$ 3,428,076**

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

• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	74,187,898
• Deferred (unavailable) Outflows of Resources in Governmental Activities are not recorded in the funds in the current period.	15,037,804
• Deferred (unavailable) Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.	(1,336,253)
• Intergovernmental receivables related to Property Tax that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds.	2,409,439

The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:

• Accrued employees' Christmas bonus	(158,030)
• Bonds payable	(27,221,000)
• Notes payable	(5,022,974)
• Net Pension Liability	(71,449,669)
• Solid waste landfill closure and post closure care cost	(10,142,720)
• Compensated absences	(2,908,693)
NET POSITION OF GOVERNMENTAL ACTIVITIES	**$(23,176,122)**

See notes to financial statements.

	Major Governmental Funds					
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Huracan María	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Sale tax	$1,405,116	$ 333,255	$ -	$ -	$ -	$ 1,738,371
Property tax	8,765,430	3,691,246	-	-	-	12,456,676
Municipal license tax	2,782,742	-	-	-	-	2,782,742
Construction excise tax	245,587	-	-	-	-	245,587
Charges for services	308,222	-	-	-	13,251	321,473
Grant and contributions	2,606,624	-	25,375	5,522,831	2,018,109	10,172,939
Interest on deposits	5,398	39,359	-	-	104,344	149,101
Miscellaneous	1,111,847	-	-	-	-	1,111,847
Total revenues:	**$ 17,230,966**	**$ 4,063,860**	**$ 25,375**	**$5,522,831**	**$ 2,135,704**	**$ 28,978,736**
EXPENDITURES						
Current:						
General Government	8,561,141	-	-	5,499,459	470,794	14,531,394
Urban and economic development	2,467,928	-	100,257	-	71,586	2,639,771
Public safety	2,195,035	-	-	-	86,686	2,281,721
Health and sanitation	1,443,629	-	-	-	-	1,443,629
Culture, recreation and education	1,065,440	-	-	-	321,834	1,387,274
Public housing and welfare	1,279,902	-	-	-	570,828	1,850,730
Debt service:						
Principal	-	1,977,000	-	-	-	1,977,000
Interest	-	1,707,918	-	-	-	1,707,918
Capital outlays	7,201	-	18,745	23,372	302,383	351,701
Total expenditures:	**$ 17,020,276**	**$ 3,684,918**	**$ 119,002**	**$ 5,522,831**	**$ 1,824,111**	**$ 28,171,138**
Excess (deficiency) of revenues over (under) expenditures:	**$ 210,690**	**$ 378,942**	**$ (93,627)**	**$ -**	**$ 311,593**	**$ 807,598**
Other financing sources (uses):						
Transfer-In from other fund	716,395	-	-	-	-	716,395
Transfer-Out to other fund	-	(612,051)	-	-	(104,344)	(716,395)
Proceed from issuance of bonds	-	-	-	-	-	-
Total other financial sources (uses):	**$ 716,395**	**$ (612,051)**	**$ -**	**$ -**	**$ (104,344)**	**$ -**
Net change in fund balance	**$ 927,085**	**$ (233,109)**	**$ (93,627)**	**$ -**	**$ 207,249**	**$ 807,598**
Fund balance (deficit) at beginning of fiscal year	**$ (6,906,862)**	**$ 1,249,802**	**$ 4,716,654**	**$ -**	**$ 3,560,884**	**$ 2,620,478**
Fund balance (deficit) at end of fiscal year	**$ (5,979,777)**	**$ 1,016,693**	**$ 4,623,027**	**$ -**	**$ 3,768,133**	**$ 3,428,076**

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ee notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2018

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	**$ 807,598**
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital assets outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense	(4,058,678)
Repayment of principal of long-term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets	1,984,153
The landfill closure and post closures care cost has been adjusted in accordance with amortization schedule prepared recently. This adjustment does not affect expenditures in the governmental funds	(793,075)
Some revenues recorded in the statement of activities do not provide current financial resources; therefore, they are not presented in governmental funds statements. This revenue is measurable but not available at end of fiscal year.	407,263
Increase in debt related to Retirement Plan Systems represent expenses for the statement of activities but do not require the use of current financial resources, therefore, they are not presented has expenditures in the statement of governmental funds.	(57,779,359)
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Decrease in Christmas bonus payable, compensated absences, and intergovernmental payable	685,142
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	**$ (58,746,956)**

See notes to financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
STATEMENT OF NET POSITION – ENTERPRISE FUNDS
FISCAL YEAR ENDED JUNE 30, 2018

	Teatro Excelsior	Gimnasio Néstor Nazario	Total Enterprise Funds
ASSETS			
Current Assets			
Checking Account BPPR 5060 - 9634	$ 50,772	$ 3,013	$ 53,785
Inventory	1,971	403	2,374
Prepaid Taxes	-	46	46
Total Current Assets	**52,743**	**3,462**	**56,205**
Property and Equipment			
Equipment	9,824	1,200	11,024
Introductory Video	5,065	-	5,065
Amort-Introductory Video	(5,065)	-	(5,065)
Accum. Depreciation - Equipment	(4,421)	(220)	(4,641)
Total Property and Equipment	**5,403**	**980**	**6,383**
TOTAL ASSETS	**$ 58,146**	**$ 4,442**	**$ 62,588**
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable	$ 2,840	$ -	$ 2,840
Accrued liabilities	3,851	3,321	7,172
Total Current Liabilities	**6,691**	**3,321**	**10,012**
Long-Term Liabilities			
LT Prestamo Municipio de CR	-	-	-
Total Long-Term Liabilities	**-**	**-**	**-**
TOTAL LIABILITIES	**6,691**	**3,321**	**10,012**
Net Position			
Unrestricted	51,455	1,121	52,576
Total Net Position	**51,455**	**1,121**	**52,576**
TOTAL LIABILITIES AND NET POSITION	**$ 58,146**	**$ 4,442**	**$ 62,588**

See notes to financial statements.

	Teatro Excelsior	Gimnasio Néstor Nazario	Total Enterprise Funds
REVENUES			
Admissions and Concession Income	$ 207,051	$ -	$ 207,051
Concession Stand Income	44,385	-	44,385
Professional Fees	-	104,388	104,388
Interest	13	-	13
Total revenues	**251,449**	**104,388**	**355,837**
COST OF SALES			
Initial Inventory	1,695	-	1,695
Concessions-Cost	33,880	2,057	35,937
Final Inventory	(1,971)	(403)	(2,374)
Total Cost of Sales	**33,604**	**1,654**	**35,258**
Gross Profit	**217,845**	**102,734**	**320,579**
EXPENSES			
Advertising Expenses	3,300	165	3,465
Auto Expenses	1,100	-	1,100
Bank Charges	260	75	335
Commissions and Fees Expenses	1,540	1,274	2,814
Depreciation Expenses	1,965	220	2,185
Insurance Expenses	4,409	2,783	7,192
Rent Expenses	574	-	574
Professional Services - Movies	72,678	-	72,678
Legal & Professional Expenses	4,704	5,855	10,559
Licenses & Patent Expenses	2,381	163	2,544
Maintenance & Repairs Expenses	7,767	2,315	10,082
Uniforms	-	24	24
Salaries Expenses	81,435	77,576	159,011
Payroll taxes and related	9,447	9,493	18,940
Office Expenses	3,044	4,425	7,469
Utensils and others	465	-	465
Total Expenses	**195,069**	**104,368**	**299,437**
CHANGE IN NET POSITION	**22,776**	**(1,634)**	**21,142**
Net position, beginning of fiscal year	28,679	2,755	31,434
Net position, end of fiscal year	**$ 51,455**	**$ 1,121**	**$ 52,576**

See notes to financial statements.

	Teatro Excelsior Excelsior	Gimnasio Néstor Nazario	Total Cash Flow
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net position	$ 22,776	$ (1,634)	$ 21,142
Adjustments to reconcile net income to net cash provided operating activities:			
Depreciation Expense	1,965	220	2,185
Increase in Prepaid Taxes	-	(46)	(46)
Increase in Inventory	(276)	(403)	(679)
Decrease in Accounts Payable	(2,263)	-	(2,263)
Increase (Decrease) in Accrued Expenses	944	(1,076)	(132)
Total Adjustments	370	(1,305)	(935)
Net cash provided by operating activities	**23,146**	**(2,939)**	**19,272**
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Cash used in the purchase of equipment	-	(1,200)	(1,200)
Net cash in investment activities	-	(1,200)	(1,200)
Cash Flows from Financial Activities:	**-**	**(2,400)**	**(2,400)**
Decrease in Municipality of Cabo Rojo interfund	(8,365)	-	(8,365)
Net cash used in financing	**(8,365)**	**-**	**(8,365)**
NET (INCREASE) DECREASE IN CASH	**14,781**	**(4,139)**	**10,642**
CASH AT THE BEGINNING OF THE PERIOD	35,991	7,152	43,143
CASH AT THE END OF THE PERIOD	**$ 50,772**	**$ 3,013**	**$ 53,785**

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNING POLICES

(a) *Organization*

The Municipality of Cabo Rojo ("the Municipality") was constituted on 1771 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, **the Municipality's** governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of **the Municipality**. The legislative power of **the Municipality** is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over **the Municipality**.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

(b) *Reporting model*

The accompanying basic financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of **the Municipality,** as of June 30, 2018, the respective change in financial position of the governmental activities, each major fund, and the aggregate remaining fund information in conformity with accounting principles generally accepted in the United State of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB, the required basic financial statements presentation applicable to **the Municipality** is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI). RSI consists of: (1) Management's Discussion and Analysis (MD&A) and (2) budgetary comparison schedule – general fund. RSI is information presented along with, but separate from, **the Municipality's** basic financial statements.

1. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality's** financial activities for the fiscal year ended June 30, 2018, based on **the Municipality's** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality's** operations.

2. Budgetary comparison schedule – general fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

(c) *Reporting entity*

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of **the Municipality's** Director of Finance and Budget, as prescribed by Act No. 81.

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)**

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their basic financial statements from those of **the Municipality** would cause **the Municipality's** basic financial statements to be misleading or incomplete. After applying these considerations, **the Municipality's** management has concluded that there are no legally separate entities or organizations that should be reported as component units.

(d) Financial Statements presentation

The Municipality's basic financial statements consist of: (1) the management's discussion and analysis (MD&A), a narrative that introduces the basic financial statements and provides an analytical overview of **the Municipality's** financial activities, (2) the government-wide financial statements, (3) the governmental funds financial statements, (4) the notes to basic financial statements, and (5) the required supplemental budgetary comparison schedule of the general fund and the related notes to the budgetary comparison schedule.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of the statement of net position and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of **the Municipality** as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is **the Municipality's** responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on **the Municipality's** principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about **the Municipality's** financial position by presenting all of **the Municipality's** assets and liabilities, with the difference between these two items reported as "net position" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by **the Municipality** the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position is reported in the accompanying statement of net position within the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding debts that are attributable to the acquisition, construction or improvement of those assets.

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

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

The accompanying statement of activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2018, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of **the Municipality's** departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:
- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit
- Department of Public Relations
- Department of General Services

Urban and economic development:
- Department of public works
- Department of Planning and Development
- Department of Municipal Facilities

Public safety:
- Department of Municipal Police
- Department of Emergency Management
- Department of Medical Emergencies

Health and sanitation:
- Department of Sanitation

Culture, recreation and education
- Department of recreation and sports
- Department of Arts, Culture and Tourism
- Department of Faith and Community Base

Public housing and welfare:
- Department of Elderly Affaires
- Department of Citizens Affairs
- Department of Federal Programs

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: program revenues, general revenues and special items.

Program revenues are generated directly from a program itself or may come from parties outside **the Municipality's** taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at; the net cost of the function/program that must be financed from **the Municipality's** general revenues or, the net program revenue that contributes to **the Municipality's** general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to **the Municipality**. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property, municipal license and construction excise taxes are reported as general revenues. All other nontax revenues (unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by **the Municipality** are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of **the Municipality**. Even though some of these costs have been charged to certain funds in the governmental fund's financial statements as indirect cost allocations permitted under some federal programs, **the Municipality** has reported these indirect costs as direct expenses of the general government function. Accordingly, **the Municipality** generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support **the Municipality's** programs or services. These governmental activities are also generally reported in the governmental fund's financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

The Municipality has no fiduciary activities, which are those in which it would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. However, **the Municipality** do have operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Those activities are presented as enterprise fund in the government wide statements.

Governmental fund financial statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying governmental fund financial statements (“GFFS“) are composed of; the balance sheet - governmental funds, and, the statement of revenues, expenditures and changes in fund balances - governmental funds.

The focus of the GFFS is on major governmental funds, which are determined using a predefined percentage of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of either the fund category or the governmental and proprietary funds combined. Accordingly, the Municipality presents its governmental funds between major and non-major categories. Major individual governmental funds are reported individually as separate columns, while data from all non-major governmental funds are aggregated into a single column.

The Municipality reports its governmental funds within the following categories:

- **General fund –** The general fund is **the Municipality’s** main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that **the Municipality’s** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund; legal requirements, GAAP requirements or, the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

- **Debt service fund** - The debt service fund is used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for long-term obligations for which **the Municipality** is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

- Non-major governmental funds are reported within a single column and include several special revenue and capital projects funds. The special revenue and capital projects funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

Municipal enterprise fund statements

GASB Statement No. 34 established that enterprise funds are a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. The content of the pronouncements states that a given activity must be accounted for in an enterprise fund if it meets any of the following criteria: (1) There is outstanding debt that is backed solely by fees and charges, (2) laws and regulations require that fees and charges be set to recover costs, including capital costs, or (3) There is a pricing policy that fees and charges be set to recover costs, including capital costs. Accordingly, enterprise funds accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

In 2016, the Municipality created the Cabo Rojo City Enterprise for the Economic, Cultural and Recreational Development, under which the Excelsior Theater-Cinema is being administered. Later, during the 2016 – 2017 fiscal year, the Nestor Nazario Gym was added to this group. The purpose of this enterprise is to provide new services and an income source to the Municipality other than taxes imposed to the citizens and visitors of the City.

In compliance with the aforementioned establishment, the operation of this new municipal enterprise is presented as a business type activity in this financial statement report. The financial information is included, discreetly, in an enterprise fund statement of net position, an enterprise fund statement of activities and as a separate column of the Municipality Government Wide Financial Statements at June 30, 2017.

Cash and cash equivalents - For the purposes of the statement of cash flows, the enterprise fund considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(e) Measurement focus, basis of accounting and statements presentation

The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non- exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Meanwhile, and in accordance with GASB Statement 65, amount received in advance are recorded as deferred inflows of resources in the governmental funds balance sheet.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, deferred outflows of resources and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non- exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflows of resources.

According to GASB No. 34, all general capital assets and the long-term liabilities are recorded only in the accompanying statement of net position. The measurement focusses and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as result of transactions and events of the fiscal year reported.

Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues to be available if collected within 90 days after June 30, 2018, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2018.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred inflows of resources.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Deferred outflows of resources and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants). Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2018.

As previously discussed, **the Municipality** adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which **the Municipality** should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying GFFS in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.

- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1 which are recorded as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.

- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.

- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and full from current financial resources.

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.

Under the financial reporting model established by GASB No. 34, all general capital assets and unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying state of net position.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(f) Budgetary control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare each fiscal year an annual budget for **the Municipality's** general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds. The annual budget is developed using elements of performance-based program budgeting and zero- based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the project) to the Commonwealth Management and Budget Office (CMBO) and the Municipal Legislature no later than each May 10 and May 15, respectively. The CMBO preliminary verifies that the project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approve the project, the modified project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved project is sent again to the Mayor, which then would have 3 days to sign and approve it.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

If a budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits **the Municipality** to continue making payments for its operations and other purposes until the new budget is approved.

The annual budget may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budget, which is subject to the approval of the Municipal Legislature

For day to day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

(g) Budgetary accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The accompanying statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2018. Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2018, which is prepared by **the Municipality's** Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by **the Municipality** since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

(h) Unrestricted and restricted deposits

As of June 30, 2018, **the Municipality's** deposits are composed of; demand deposits in commercial banks, demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and, Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms) a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by **the Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in **the Municipality's** name.

Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to $6,798,268 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to $2,571,593 which is restricted for; the acquisition, construction or improvements of major capital assets and, the operations of federal and state funded programs.

Restricted cash in commercial banks for other governmental funds, amounting to $771,619 are restricted to finance the acquisition, construction and improvement of major capital assets.

(i) Unrestricted and restricted deposits

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2018. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables. Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of **the Municipality's** debt service, as established by law.

Intergovernmental receivables are mainly composed of: amounts owed to **the Municipality** for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the general fund, special revenue fund and capital project funds as deferred outflows of resources).

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

(j) Capital assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, **the Municipality** defines capital assets as assets with an individual cost of $500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense are recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight–line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term.

The estimated useful lives of major capital asset categories are:

Description	Years
Land improvements	20
Buildings, structures and building improvements	20-50
Infrastructure	20-50
Licensed vehicles	8
Furniture and fixtures	5-20

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

(k) *Deferred outflows / inflows of resources*

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. **The Municipality** has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Municipality reports deferred inflows or resources on its GFFS and GWFS. In the GFFS, deferred inflows of resources arise when:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30, or;

- The resources are received by the **Municipality** before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Municipality** has a legal claim to the resources, the deferred inflow of resources is removed, and revenue is recognized.

Deferred revenues at the government-wide level arise only when **the Municipality** receives resources before it has a legal claim to them. At June 30, 2018, the governmental funds present deferred inflows of resources.

(l) *Inventories*

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

(m) *Compensated absences*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). 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 government-wide statement of net position is limited to leave that; is attributable to services already rendered on or before June 30, 2018 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include 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, Medicare taxes, employer contributions to the employees' retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with **the Municipality** before reaching 10 years of services, such regular sick leave days is not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

(n) Long-term debts

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, obligations under capital leases, accrued compensated absences, estimated for landfill closure and post closure care costs, and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (June 30, 2018). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

(o) Accounting for pension costs

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

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

At the date of issuance of the basic financial statements of the Municipality, the ERS has not issued the corresponding audited financial statements as of June 30, 2017, nor the attachments required by GASB 68. However, the Municipality used the Actuarial Valuation Report issued by the actuaries for the fiscal year 2016 to calculate the values of the Net Pension Liability, Deferred Outflows / Inflows of Resources and Pension Expense items corresponding to the fiscal year 2018.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

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

- Contributions from employers and nonemployees 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, nonemployees contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

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.

(p) Risk management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (see note 4).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. 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 ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. 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. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2018. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

(q) Reservation of fund balances

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. According the provisions of GASB No. 54, the fund balances are reported in five categories:

- Restricted – Represent amounts are legally restricted by outside parties, constitutional provisions or enabling legislation for a specific purpose.
- Assigned – Represent fund balance amounts that are intended to be used by The Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – Represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In a governmental fund other than the general fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

(r) 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 Municipality has the following types of reciprocal and nonreciprocal interfund activities:

- **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.

- **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

- **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

(s) Claims and judgements

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. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

(t) Use of estimates

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

(u) Municipal solid waste landfill closure and post closure care cost

Solid waste landfill closure and post closure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for solid waste landfill closure and post closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of **the Municipality's** solid waste landfill. In the government-wide statement of net position, this liability is recognized under the accrual basis of accounting, over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

The estimates of closing and post-closing costs include; the cost of equipment and facilities that will be acquired near the time the landfill stops accepting waste or after for the purpose of post closure care and monitoring, the cost of applying the final cover and the cost of post closure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services would have been obtained during the current period). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

Any changes in the estimated total current costs that occur before the landfill stops accepting solid waste are reported in the period of the changes, and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the land fill has no effect in the factors used to calculate the accrued liability for the closure and post closure costs of the original landfill. In this case, a separate calculation of the closure and post closure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current cost for landfill closure and post closure care costs may also occur after the date that the landfill stops accepting solid waste. The changes may include changes due to inflation (or deflation), changes in technology, changes in closure and post closure care requirements, corrections of errors in estimation, and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, landfill closure and post closure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

(v) Adoption of new accounting pronouncements

Effective July 1, 2017 and / or 2018 the Municipality adopted the provisions of **GASB Statement No. 68** *"Accounting and financial Reporting for Pensions*-an amendment of **GASB No. 27***"*, **GASB Statement No. 74** *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans",* **GASB Statement No. 77** *"Tax Abatement Disclosures",* **GASB Statement No. 78** *"Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans",* **GASB Statement No. 79** *" Certain External Investment Pools and Pool Participants"* and **GASB Statement No. 80** *"Blending Requirements for Certain Component Units*-an amendment of **GASB Statement No. 14***".*

- ***GASB Statement No. 68*** *"Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27"*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pension. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27. *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

  This Statement will bring the effect of ***GASB Statement No. 67*** *"Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25"* into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems.

  Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2016).

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)**

This pronouncement requires that the presentation of its effects was part of the contents in the financial statement as of June 30, 2017. However, **the Municipality** was unable to meet these requirements due to lack of information that had to be submitted by the Employee's Retirement System of the Government of Puerto Rico.

- **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 replaces **Statement No. 43**, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, as amended, and **Statement No. 57**, *"OPEB Measurements by Agent Employers and Agent Multiple Employer Plans"*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in **Statement No. 25**, *"Financial Reporting for Defined Benefits Pension Plans and Note Disclosures for Defined Contribution Plans", as amended,*

- **Statement No. 43**, and **Statement No. 50***, "Pension Disclosures".* The Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

  The Municipality has implemented **Statement No. 74** effective July 1, 2016 but adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

- **GASB Statement No. 77** *Tax Abatement Disclosures*. The objective of this Statement is to 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. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines 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 operation, including their ability to raise resources in the future. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

  The Municipality has implemented **Statement No. 77** effective July 1, 2017 and required information has been disclosed.

- **GASB Statement No.78**, *Pension Provided Through Certain Multiple-employer Defined Benefit Plans*. This statement addresses a practice issue regarding the scope and applicability of **Statements No. 68**, "*Accounting and Financial Reporting for Pensions".* These issues are associated with pension provided through certain multiple-employer defined benefit pension plan and to state or local governmental employers whose employees are provided with such pension.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

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 pension 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 pension that have the characteristics described above.

The Municipality has implemented **Statement No. 78** effective July 1, 2016 but adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

- **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.

  The Municipality has implemented **Statement No. 79** effective July 1, 2016 but adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

- **GASB Statement No. 80**, *Blending Requirements for Certain Component Units—an Amendment of GASB **Statement No. 14** (Issued 01/16).* This Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion 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*

  The Municipality has implemented **Statement No. 80** effective July 1, 2016 but adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

(w) Future adoption of accounting pronouncements

The Government Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. However, **the Municipality** has not currently determined what, if any, impact implementation of this statement may have on the financial statements.

- **GASB Statement No. 75** *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15)*. 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. his Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)

- **GASB Statement No. 81**, *Irrevocable Split-Interest Agreements, (Issued 03/16)* - This Statement is to improve 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. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (fiscal year ended June 30, 2018). Should be applied retroactively. Earlier application is encouraged.

- **GASB Statement No. 85**, *Omnibus 2017 (issues 03/17),* 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]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of these statements on the Municipality's Basic Financial Statements has not yet been determined.

- **GASB Statement No. 87,** *LEASES, (Issues 06/17),* 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 liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of these statements on the Municipality's Basic Financial Statements has not yet been determined.

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

2. DEPOSIT

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB). Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3.* This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure.

- Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, **the Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico.* Accordingly, **the Municipality** is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, **the Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, **the Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on **the Municipality's** deposits is considered low at June 30, 2018.

- Interest rate risk **–** This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **The Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2018, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts at prevailing market rates. At June 30, 2018, interest rate risk associated with **the Municipality's** cash is considered low.

- Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, **the Municipality's** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico,* the balances deposited in commercial banks by **Municipalities** are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality's** name by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by **the Municipality** through June 30, 2018.

  The Municipality's management has concluded that at June 30, 2018, the custodial credit risk associated with **the Municipality's** cash is considered low.

  This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2018, the Municipality has balances deposited in GDB, amounting to $5,437,381 that are uninsured and uncollateralized.

2. DEPOSIT, (CONTINUED)

As per GDB Restructuring Support Agreement (RSA), which became approve on November 6, 2018, as amended, (see Note 19) the Municipality will be authorized to apply the full amount of deposits of loan held at GDB against the balance of any loan owed by the Municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk

- Deposit with Government Development Bank for Puerto Rico – Deposits with the Government Development Bank for Puerto Rico (GDB) are uninsured and unsecured. As of June 30, 2018, the GDB presented an insolvency situation that threatened in the institution's ability to meet its obligations. This financial position of the GDB means a considerable risk of liquidity loss for **the Municipality** that has not been certified by the bank.

  Regarding this matter, the United State District Court for the District of Puerto Rico approved a Qualifying Modification on November 7, 2018 to carry out the restructuring process related to the debts of the GDB. The application of this process will have a negative impact on the FFS, but this impact will be neutralized in the GWFS since it reduces the long-term debt related to bonds payable.

  We encourage readers to keep abreast of subsequent events related to this matter, which will be fully disclosed by the municipal administration as the process is being conducted. Also, see Note 19, Subsequent Events.

  The funds of **the Municipality** of Cabo Rojo that were deposited in the GDB, as of June 30, 2018, are recognized as cash in fiscal agent, in the Governmental Funds Balance Sheet. If the future adjustment were applied, the result at the end of the fiscal year 2017-2018 would reflect an ending fund balance of $(5,979,777) in the General Fund, $1,016,693 in the CAE Debt Services Fund and $8,391,160in Other Governmental Funds. However, the withdrawal of funds related to this restructuring process had not been reflected as of Jun 30, 2018, regarding the Municipality's bank account.

- Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2018.

Pursuant to the statement of investment guidelines for the government of the Commonwealth of Puerto Rico, **the Municipality** may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

3. RECEIVABLES

Property Taxes Receivables

Property taxes receivable of $210,114 in the Debt Service Fund, represents amounts collected in advance at June 30, 2018, by the Municipal Revenue Collection Center, but that had not been deposited in the accounts of the Municipality at the end of the fiscal year.

Intergovernmental Receivables

Receivables in the General Fund represent expenditures incurred not yet reimbursed by the state agencies. At end of current year, the state government receivable was related to the State Department of Labor in the amount of $115,000.

Federal Grants Receivable

Federal grants receivable in Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants' receivable:

Description	Amount
Homeless Prevention Rapid Rehousing Grant	$ 335,908
Emergency Grant Solution	12,202
Housing Prevention Grant	13,791
Other Programs	3,501,781
Total	**$ 3,863,682**

Receivables and Deferred Outflows of Resources

Pursuant to GASB Statement No. 63 and GASB Statement 65, **the Municipality** recognized deferred outflows of resources in the government wide financial statements. These items are a consumption of net position by **the Municipality** that is applicable to a future reporting period.

At the end of the current fiscal year, **the Municipality** has an item that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows from changes in the Net Pension Liability in the amount of $15,037,804.

4. INTERFUND BALANCES

On July 1, 2001, **the Municipality** adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to asses the collectibility of interfund balances. Interfund balances at June 30, 2018 consisted of the following:

	Transfers from					
	Major funds					
Transfers to:	**General fund**	**Debt service fund**	**Commonwealth Legislative resolutions**	**FEMA Huracán María**	**Other governmental funds**	**Total governmental funds**
Major funds:						
General fund	$ 612,051	$ -	$ -	$ -	$ -	$ 612,051
Debt service fund	-	-	-	-	-	-
Commonwealth legislative resolutions	-	-	-	-	-	-
FEMA Huracán María	-	-	-	-	-	-
Nonmajor funds:						
Other governmental funds	104,344	-	-	-	-	104,344
Total:	**$ 716,395**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 716,395**

	Due from					
	Major funds					
Due to:	**General fund**	**Debt service fund**	**Commonwealth legislative resolutions**	**FEMA Huracán María**	**Other governmental funds**	**Total governmental funds**
Major funds:						
General fund	$ -	$ -	$ 4,340,781	$ -	$ 791,197	$ 5,131,978
Debt service fund	3,164,788	-	-	-	-	3,164,788
Commonwealth legislative resolutions	-	-	-	-	-	-
FEMA Huracán María	439,577	-	-	-	-	439,577
Nonmajor funds:						
Other governmental funds	392,135	-	-	-	-	392,135
Total:	**$ 3,996,500**	**$ -**	**$ 4,340,781**	**$ -**	**$ 791,197**	**$ 9,128,478**

At June 30, 2018, all amounts due to among funds are considered collectible by **the Municipality's** management.

5. ACCOUNT PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2017 - 2018, and not paid by the Municipality at June 30, 2018.

Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	$ 1,883,969	$ 11,076	$ 1,895,045
Debt Service Fund	849,901	-	849,901
Commonwealth Legislative Resolutions Fund	15,600	-	15,600
FEMA Huracan Maria	3,163,621	-	3,163,621
Other Governmental Funds	360,635	-	360,635
Total	**$ 6,273,726**	**$ 11,076**	**$ 6,284,802**

6. BONDS AND NOTES PAYABLE

As described below in Note 12, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2018, the government-wide presented $2,826,901 of accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

Description	Amount
Principal	$ 29,198,000
Interests	958,201
Total	**$ 30,156,201**

7. INTERGOVERNMENTAL PAYABLES

As of June 30, 2018, balance due to other governmental units in General Fund consists of the following:

Governmental Agency	Amount
State Retirement System Administration	$ 1,031,990
State Aqueduct and Sewer Authority	201,818
State Department of Treasury	138,520
Health Insurance Administration	1,026,115
General Services Administration	5,745
Department of Labor	10,215
Center for Municipal Revenue Collection	4,567
Total	**$ 2,418,970**

7. INTERGOVENMENTAL PAYABLES, (CONTINUED)

Puerto Rico Energy and Power Authority Notification

During the process of compiling the financial statements of the Municipality, for the fiscal year 2017 -2018, a notification of debt was received from the Puerto Rico Energy and Power Authority (PREPA). This document reflected an apparent debt accumulated by the Municipality of Cabo Rojo for the total of $14,039,545.

The municipal administration does not recognize this alleged debt in its financial statements since it is directly related to a Lieu of Taxes agreement that goes back to the creation of PREPA through Act 83 of 1941, as amended. Among other things, in this exchange agreement it was established that PREPA would not pay the municipal taxes related to Property Tax, Construction Excise Tax and Municipal Licenses Tax. In exchange for this payment cancellation, the municipalities would not have to pay for energy consumption in the municipal facilities.

Never before has PREPA notified the Municipality of this alleged debt that presents accumulations from 2013 to the present, with an unprovable annual average that exceeds the amount of $2,800,000. Clearly this notification must be the product of an error in the PREPA system or an attempt by the Authority to submit inflated financial reports with accounts receivable from municipalities that are not real.

From an accounting perspective, based on the aforementioned, in the event that PREPA decides not to withdraw its notification of debt to the Municipality, the municipal administration would be forced to recognize an account receivable from PREPA for the same amount of $14,039,545. Reason for which this recognition would not have any effect on the fund's balances of the Municipality.

8. UNEARNED REVENUES AND DEFERRED INFLOWS OF RESOURCES

DEFERRED OUTFLOWS OF RESOURCES

Municipal license tax – Unearned revenues of $1,488,529 in the General Fund are related to volume of business taxes collected in fiscal year 2017 - 2018, that will be earned in fiscal year 2018 - 2019.

State and Federal grants – Unearned revenues presented in the other governmental funds represents the portion of state and Federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the state and Federal government are as follows:

Unamortized Investment in ERS - Pursuant to GASB Statement No. 63 and GASB Statement No. 65, **the Municipality** recognized deferred inflows of resources in the government-wide statements. These items are an acquisition of net position by **the Municipality** that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

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:

Description	Amount	
State Office of the Elderly	$	7,069
Administration of Children and Families		24,172
Total	**$**	**31,241**

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

COST BASIC:	Balance at June 30, 2017	Additions/ Increases	Disposals/ Decreases	Reclassification	Balance at June 30, 2018
Cost basis of capital assets, not subject to depreciation and amortization:					
Land	$ 10,381,090	$ -	$ -	$ -	$ 10,381,090
Construction in progress	1,961,854	-	-	-	1,961,854
Total cost basis of capital assets, not subject to depreciation and amortization:	**$ 12,342,944**	**$ -**	**$ -**	**$ -**	**$ 12,342,944**
Cost basis of capital assets, not subject to depreciation and amortization:					
Land improvement	8,928,672	12,745	-	-	8,941,417
Building, structure and improvements	51,720,415	63,779	-	-	51,784,194
Infrastructure	38,406,942	230,676	-	-	38,637,618
Equipment Under Lease	-	-	-	-	-
Machinery and Equipment	4,043,254	44,500	-	-	4,087,754
Licensed Vehicles	10,106,912	-	-	-	10,106,912
Total cost basis of capital assets subject to depreciation and amortization:	**$ 113,206,195**	**$ 351,700**	**$ -**	**$ -**	**$ 113,557,895**
Total cost basis of capital assets:	**$ 125,549,139**	**$ 351,700**	**$ -**	**$ -**	**$ 125,900,839**

ACCUMULATED DEPRECIATION AND AMORTIZATION:	Balance at June 30, 2017	Depreciation and Amortization Expense	Disposals/ Decreases	Reclassification	Balance at June 30, 2018
Land improvement	3,595,850	462,385	-	-	4,058,235
Building, structure and improvements	15,535,064	1,411,398	-	-	16,946,462
Infrastructure	17,465,936	1,825,029	-	-	19,290,965
Equipment Under Lease	-	-	-	-	-
Machinery and Equipment	8,088,049	304,730	-	-	8,392,779
Licensed Vehicles	2,617,664	406,836	-	-	3,024,500
Total accumulates depreciation and amortization	**$ 47,302,563**	**$ 4,410,378**	**$ -**	**$ -**	**$ 51,712,941**
CAPITAL ASSETS, NET	**$ 78,246,576**	**$ (4,058,678)**	**$ -**	**$ -**	**$ 74,187,898**

Depreciation and amortization expense were charger to functions programs as follows:

Governmental activities:	
General government	2,655,489
Urban and economic development	482,396
Public safety	416,965
Health and sanitation	263,811
Culture, recreation, and education	253,513
Public housing and welfare	338,205
Total:	**$ 4,410,378**

10. EMPLOYEES' RETIREMENT SYSTEMAS

The Municipality implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, for the fiscal year 2017-2018, and a new Required Supplementary Information schedules are included herein.

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer contributory, hybrid defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447).

The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 206 participating employers (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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

- Members of Act No. 447 are generally those members hired before April 1, 1990.

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

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

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

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

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

Participant of the Program

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include Police of Puerto Rico, Firefighters of Puerto Rico, Elective officers of the People of Puerto Rico and the employees of the Legislature, Officers and employees of the Government of Puerto Rico, Officers and employees of public enterprises, Officers and employees, including mayors, of the municipalities, and Irregular personnel fulfilling the requirements of regular employee.

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

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

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

Creditable Service

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

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

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

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

Creditable Service also includes purchased service, if any (Article 1-106).

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

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

Service Retirements

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

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

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

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

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

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

Service Retirement Annuity Benefits

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

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

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation, if the member was under age 55 as of June 30, 2013 or 60% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

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

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.
For all other Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Compulsory Retirement

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

Termination Benefits

- Lump Sum Withdrawal

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

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

- Deferred Retirement

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

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

Death Benefits

- Pre-Retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

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

- High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.
Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

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

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

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

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

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

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

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

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.
For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

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

Disability Benefits

- Disability

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

- High-Risk Death Benefit under Act No. 127

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

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

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

- Disability Insurance

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

Special Benefits

- Minimum Benefits

Past Ad hoc Increases

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

Coordination Plan Minimum Benefit

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

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

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

Special "Bonus" Benefits

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

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

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Contributions

- Member Contributions

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

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

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

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

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

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

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

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

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

Payment Year	Amount	Comment
FY 2016-17	$596,000,000	Collective FY 2016-17 AUC
	$180,000,000	Due and payable immediately by selected employers
	$776,000,000	Total due in FY 2016-17
FY 2018-18	$685,000,000	Total due in FY 2017-18
FY 2018-2019 to FY 2032-33	$685,000,000	Estimated amount payable annually, subject to significant change due to annual re-measurement.

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Service Purchase

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

Early Retirement Programs

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

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

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Changes in Plan Provisions since Prior Valuation

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

Other Postemployment Benefits (OPEB) – Healthcare Benefits

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

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

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

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

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

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.

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contributions as provided by Act No. 32 of June 25, 2013 (Act No. 32), for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable. To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as $120.0 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS's actuaries as necessary for the ERS's gross assets to remain above $1.0 billion. An appropriation for such AUC of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Remediation Plan

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

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

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

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

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

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

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

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

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

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

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

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

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

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

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10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Other measures taken to improve the liquidity of the ERS include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds).
The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

Net Pension Liability

The Municipality Net Pension Liability 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. The Municipality's proportionate share of the Net Pension Liability used was 0.19106 %.

Pension Expense

For the fiscal year ended June 30, 2018, the Municipality recognized in the government wide statement a pension expense of $57,779,359. Pension expense represents the amount of 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.

Deferred Outflows/Inflow of Resources

As of June 30, 2018, the Municipality reported, in the government wide statements a deferred outflow of resources for the amount of $15,037,804 and a deferred inflow of resources for the amount of $1,367,494, both related to the retirement system calculation.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. Amount reported as deferred outflows of resources related to pensions resulting from Municipality contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

As June 30, 2018, the Municipality has registered these amounts as follow:

Concept	Debit	Credit
General Government Expense	34,136,081	-
Urban and Economic Development Expense	6,499,222	-
Public Safety Expense	5,617,688	-
Health and Sanitation Expense	3,554,272	-
Culture, Recreation and Education Expense	3,415,524	-
Public Housing and Welfare Expense	4,556,571	-
Deferred Outflows of Resources	15,037,804	-
Net Pension Liability	-	71,449,669
Deferred Inflows of Resources	-	1,367,494

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

Actuarial Methods and Assumptions

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

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

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

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

The actuarial valuation used the following actuarial assumptions:

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

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

Long-Term Expected Rate of Return

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

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

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

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

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

Illiquid Assets

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

10. EMPLOYEES' RETIREMENT SYSTEMAS (CONTINUED)

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

Discount Rate

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

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

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

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

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

11. POSTEMPLOYMENT BENEFIT

In addition to the pension benefits described Note 18, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2014, Act 3 of 2014 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from $600 to $200 (current retirees),
- Elimination of summer bonus of $100 (current retirees),
- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

12. LONG-TERM DEBTS

The Municipal Legislature is legally authorized to approve the contracting of debts of **the Municipality**. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of **the Municipality** (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of **the Municipality**; and

- Direct obligations are not to be issued by **the Municipality** if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by **the Municipality** in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by **the Municipality**, exceed 10 percent of the total assessed value of the property located within **the Municipality** plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2018, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2018 was as follows.

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2018:

Descriptions	Balance at June 30, 2017	Borrowings or additions	Payments or deductions	Balance at June 30, 2018	Balance due within one year
General and special obligation bonds	$ 31,033,000	$ -	$ 1,835,000	$29,198,000	$ 1,977,000
Note payable to CRIM - delinquent accounts	199,991	-	13,333	186,658	13,333
Landfill closure and post closure costs	9,349,654	793,075	-	10,142,729	-
Compensation absences	3,598,136	-	689,442	2,908,694	1,162,700
Note payable to Landfill Technologies	859,807	-	151,728	708,079	151,728
Note payable to Consolidated Waste Services	4,569,996	-	448,272	4,121,724	448,272
Net pension liabilities	-	71,449,669	-	71,449,669	-
Total:	**$ 49,610,584**	**$72,242,744**	**$ 3,137,775**	**$118,715,553**	**$ 3,753,033**

12. LONG-TERM DEBTS, (CONTINUED)

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2018 is composed of the following debts:

Description	Outstanding Amount
1999 general obligation bonds of $830,000 due in annual installments ranging from $10,000 to $70,000 through July 1, 2023; bearing interest at rates ranging from 6.41% to 6.56%.	$ 350,000
2002 general obligation bonds of $4,425,000 due in annual installments ranging from $75,000 to $345,000 through July 1, 2026; bearing interest at rates ranging from 5.01% to 5.60%.	2,420,000
2004 general obligation bonds of $505,000 due in annual installments ranging from $10,000 to $40,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	300,000
2004 general obligation bonds of $545,000 due in annual installments ranging from $10,000 to $35,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	320,000
2004 general obligation bonds of $1,000,000 due in annual installments ranging from $20,000 to $75,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	615,000
2006 general obligation bonds of $355,000 due in annual installments ranging from $5,000 to $25,000 through July 1, 2030; bearing interest at rates ranging from 4.66% to 5.02%.	255,000
2008 general obligation bonds of $1,850,000 due in annual installments ranging from $45,000 to $175,000 through July 1, 2028; bearing interest at rates ranging from 3.00% to 6.50%.	1,330,000
2010 general obligation bonds of $9,405,000 due in annual installments ranging from $135,000 to $785,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50%.	7,960,000
2011 general obligation bonds of $4,530,000 due in annual installments ranging from $100,000 to $415,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50%.	3,620,000
2012 general obligation bonds of $3,255,000 due in annual installments ranging from $45,000 to $270,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	2,910,000
2012 general obligation bonds of $1,040,000 due in annual installments ranging from $15,000 to $90,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	930,000
2012 general obligation bonds of $2,556,000 due in annual installments ranging from $100,000 to $271,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50%.	1,846,000
2012 general obligation bonds of $1,580,000 due in annual installments ranging from $175,000 to $275,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 6.50%.	275,000
2012 general obligation bonds of $2,370,000 due in annual installments ranging from $270,000 to $420,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 6.50%.	420,000
2014 general obligation bonds of $5,985,000 due in annual installments ranting from $90,000 to $505,000 through January 1, 2038; bearing interest at rates ranging from 6.00% to 7.50%.	5,590,000
2014 general obligation bonds of $247,000 due in annual installments ranting from $40,000 to $57,000 through January 1, 2018; bearing interest at rates is 6.00%.	57,000
Total	**$ 29,198,000**

12. LONG-TERM DEBTS, (CONTINUED)

The general obligation bonds and the public improvements bonds are payable from the ad valorem property tax of 1.25% which is used primarily for debt service and requires the accumulation off a reserve to cover the payment of principal and interest over a period of twelve (12) months from the end of each fiscal year. This amount is restricted and retained by GDB for such purposes.

The laws and regulations of the Commonwealth provide that public debt of **the Municipality** will constitute a first claim on the available revenue of **the Municipality**. Public debt includes bonds and notes payable. The good faith, credit and taxing power of **the Municipality** are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

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The Municipality levies the aforementioned annual additional special tax of 1.25% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. Collections of this special tax are recorded in the debt service fund, however law No. 83 of 1991 and law No. 64 of 1996 states that any excess accumulated above the amounts required to meet the obligations of principal and interest, over the next twelve (12) months from the end of each fiscal year is made available to the municipality to pay debts with governmental entities and other general fund expenditures.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption.

Annual debt service requirements of maturity for bonds payable are as follows:

Year ending June 30, 2018	Principal	Interest	Total
2019	$ 1,977,000	$ 1,799,494	$ 3,776,494
2020	1,305,000	1,650,654	2,955,654
2021	1,400,000	1,570,241	2,970,241
2022	1,500,000	1,483,620	2,983,620
2023	1,600,000	1,494,844	3,094,844
2024-2028	8,991,000	6,353,545	15,344,545
2029-2033	7,085,000	3,254,600	10,339,600
2034-2038	4,835,000	853,875	5,688,875
2039-2040	505,000	74,250	579,250
Total:	**$ 29,198,000**	**$ 18,535,123**	**$ 47,733,123**

12. LONG-TERM DEBTS, (CONTINUED)

Notes payable to CRIM – Delinquent Accounts

Law 146 – On 2001, a resolution was enacted to authorize **the Municipality** to obtain up to $333,358, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal balance of the note payable to CRIM amounted to $186,658, at June 30, 2018. The principal and interest maturities are as follows:

Year ending June 30, 2018	Principal	Interest	Total
2019	$ 13,333	$ 6,079	$ 19,412
2020	13,333	5,645	18,978
2021	13,333	5,210	18,543
2022	13,333	4,776	18,109
2023	13,333	4,342	17,675
2024-2028	66,664	15,197	81,861
2029-2032	53,329	4,342	57,671
Total:	**$ 186,658**	**$ 45,591**	**$ 232,249**

Landfill Technologies Long Term Debt – **The Municipality** and Landfill Technologies were part of a Sentence for Stipulation and Transaction Agreement on January 2018. Through this agreement, **the Municipality** recognized a debt of $910,383 for the administration of the municipal landfill. To satisfy this debt, Landfill Technologies accepted a long-term payment plan.

After this agreement, and the due approval of the Municipal Legislature, the municipal administration converted a short-term payable account into a long-term debt due in 2023. The debt will be settled with 71 monthly payments of $12,644 and a last payment of $12,659 accumulating interest of 0.50% per year. The principal and interest maturities are as follows:

Year ending June 30, 2018	Principal	Interest	Total
2019	$ 151,728	$ 759	$ 152,487
2020	151,728	759	152,487
2021	151,728	759	152,487
2022	151,728	759	152,487
2023	101,167	504	101,671
Total:	**$ 708,079**	**$ 3,540**	**$ 711,619**

12. LONG-TERM DEBTS, (CONTINUED)

Consolidated Waste Services Long Term Debt – On April 2017, the Municipality and Consolidated Waste Services were part of a Sentence for Stipulation and Transactional Agreement. Through this agreement, **the Municipality** recognized a debt of $4,569,996 for the collection of solid waste. To satisfy this debt, Consolidated Waste Services accepted a long-term payment plan.

After this agreement, and the due approval of the Municipal Legislature, the municipal administration converted a short-term payable account into a long-term debt due in 2027. The debt will be due in annual installments ranging from $37,356 to $50,000 with no accumulation of interest. This long-term debt payments are distributed as follows:

Year ending June 30, 2018	Principal	Interest	Total
2019	$ 448,272	$ -	$ 448,272
2020	448,272	-	448,272
2021	448,272	-	448,272
2022	448,272	-	448,272
2023	448,257	-	448,257
2024-2027	1,880,379	-	1,880,379
Total:	**$ 4,121,724**	**$ -**	**$ 4,121,724**

Compensated absences: At June 30, 2018, the liability for compensated absences amounted to $2,908,693. This is the combination of balances related to accrued sick leave benefits, accrued vacation benefits, and compensatory leave benefits. The total amount of compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Accrued vacations	$ 590,854	$ 439,767	$ 1,030,621
Accrued sick leave	415,576	1,306,226	1,721,802
Accrued compensatory time	156,270	-	156,270
Total compensated absences	**$ 1,162,700**	**$ 1,745,993**	**$ 2,908,693**

13. LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs"*, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991.

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net positions date. The $10,142,720 reported as landfill closure and post closure care liability at June 30, 2018, represents an estimate of the cumulative amount reported to date based on the percentage used (53%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of $15,285,000, as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2018. The estimated life of the landfill according to the engineers of the Municipality is approximately nine (9). Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of **the Municipality**. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2018, the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of $3 million or more must include audited financial statements with the tax return filed. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax due.

Municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to $2,782,742 at June 30, 2018.

15. PROPERTY TAXES

The Municipality is authorized by law No.83 of August 30, 1991 as amended to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 7.03% (of which taxpayers pay 6.83% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2016. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 10.28% (of which 10.08% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2018.

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to **the Municipality**, except for property assessed of less than $3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of **the Municipality**. Prior to the beginning of each fiscal year, CRIM informs **the Municipality** of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to **the Municipality** based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than December 31. If CRIM remits to **the Municipality** property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.25% of the total personal and real property taxes collected by CRIM is separated for **the Municipality's** debt service requirements and is deposited in a Trust retained by GDB for such purposes (see note 18, subsequent events). The aforementioned Act No.83 state that the proceeds of this 1.25% shall remain in the debt service fund, except for the portion that constitute excess in redemption fund. Excess in redemption fund is established by Act No. 64 of July 3, 1996 as amended, as any amount that exceeds the portion equivalent to the payment of twelve (12) months of principal and interest of debt service and the payment of any other public debt that the municipality has uncovered.

At June 30, 2018 the debt service fund, related to property taxes, had assets of $7,008,382 of which $1,016,693 constitute the reserve restricted by law for the payment of principal and interest during a period of twelve (12) subsequent months. According to GASB Statement No. 54 debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and that debt service funds should be used to report resources if legally mandated.

15. PROPERTY TAXES, (CONTINUED)

Based on this GASB Statement and by the distinctions in law, existing excess of assets in the debt service fund is not presented as a restricted fund balance for debt service, instead a due to general fund is recognized since the Municipality has determined to use these resources to pay other obligations, as it is permitted by applicable regulations.

The Additional Lottery System of the Commonwealth ("Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico.

The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of $26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

- An additional amount not exceeding $16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of an allowance for uncollectible accounts of $43,920,103, amounted to $2,613,176 at June 30, 2018. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2018 is as follows:

Property Tax Receivable
As of June 30, 2018

	General fund	Debt service fund	Total
Gross property taxes receivable	$ 29,858,862	$ 16,674,417	$ 46,533,279
Less: Allowance for uncollectible accounts	28,183,586	15,736,517	43,920,103
Net property tax receivable	**$ 1,675,276**	**$ 937,900**	**$ 2,613,176**

16. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Cabo Rojo approved the Ordinance no. 10, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sale and use tax of 1.5%, over the sales of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in the Municipality to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Act No. 80 which amends Act No. 117 and establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected by **the Municipality** would be used for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs.

The resources collected by the PRTD, related to the 0.5% of Municipal Sale Tax, are deposited in the following special funds:

a. .2% in the Municipal Development Fund to be distributed among all the municipalities through an inverse formula created by the Act,

b. .2% in a Municipal Redemption Fund to finance future loans to municipalities, and

c. .1% in a Municipal Improvement Fund to finance capital improvement projects subject to a distribution by the Commonwealth Legislature.

From February 1, 2014, onwards the Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1.0% and increased the Commonwealth Sales and Use Tax from 5.5% to 6.0%. In addition, the Commonwealth approved Act No. 18 and Act No. 19, on January 24, 2014 to provide for the restructuring and creation of financing structures from sales and use tax sources in order to guarantee and pay municipal long-term debts. As a result, the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The Act No. 18 creates a special fund called Municipal Administration Fund under custody of the Governmental Development Bank of Puerto Rico (GDB). This fund permits participants municipalities to guarantee and pay long term debt and provide funds for its general operations. The Act also improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA). The necessary resources to create the Municipal Administration Fund will come from the amounts collected by 0.5% of the 6.0%, related to the Commonwealth Sales and Use Tax, and will be distributed among the special funds that had been created by the Act No. 80 of July 29, 2007.

The Act No. 19 creates a public corporation, as a component unit of the GDB, under the name of Municipal Finance Corporation (COFIM). The new COFIM may issue, pay or refinance the municipalities long term debt related to the Municipal Sales and Use Tax Redemption Fund. Under this corporation, the new issuance of municipal long-term debts will be guaranteed with the municipal sales and use tax of 1.0%.

For this purpose, the Municipal Sales and Use Tax of 1.0% will be deposited in the COFIM. From the monthly amount collected, the COFIM will deposit 0.3% of the 1.0% on the COFIM sinking fund. The excess of the required deposit (0.7%) will be transferred to the municipalities.

16. MUNICIPAL SALES AND USE TAX, (CONTINUED)

Act No. 18 and Act No. 19 also include provisions for municipalities that do not want to participate in the new procedures established in the COFINA and the COFIM structures. The non-participating municipalities will receive the full collection of the 1.0% of Municipal Sales and Use Tax, but must relinquish their participation on the Municipal Development Fund created by Act No. 18. The Municipality of Cabo Rojo decided to not be a participating entity of these processes.

As of June 30, 2018, **the Municipality** recorded Sales and Use Tax revenues of $1,405,116 in the General Fund and $333,255 in the Debt Service Fund corresponding to the Municipal Redemption Fund.

17. COMMITMENTS AND CONTINGENCIES

A. Claims and Judgments

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1995, as amended, persons are authorized to sue **the Municipality** only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of actions. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, **the Municipality** may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is so limitation on the payment of such judgment.

At the close of fiscal year 2017-2018, **the Municipality** faced around 8 lawsuits against it that amounted to $8,567,699. However, the lawyers in charge of these legal cases confirmed that there is little or no concern that any of these cases will fail against **the Municipality** and entail a disbursement of municipal funds.

Taking into account the claims already mentioned, and based on the advice of legal counsel, **the Municipality** believes that the potential of additional claims not covered by insurance will not materially affect the financial demands, results of operations and cash flow condition of the entity as of June 30, 2018.

B. Federal Grands

The Municipality receives financial assistance from the Federal and State governments in form of grants or entitlements. Projects financed by Federal and State Grants are subject to financial and compliance audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. These audits could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. It is **the Municipality's** opinion that such disallowance, if any, will not have a material adverse effect on the financial position of **the Municipality**.

18. FUND BALANCE

As of June 30, 2018, the fund balance (deficit) classifications are as follows:

Fund balances (deficit)	General Fund	Debt Services Fund	Commonwealth Legislature Resolution	Other Governmental Fund	Total
Assigned to:					
Capital Project	$ 1,664	$ -	$ 3,409,945	$ 1,563,398	$ 4,975,007
Restricted for:					
General Government	329,758	-	-	-	329,758
Urban and economic development	131,444	-	1,213,082	925,453	2,269,979
Public safety	107,357	-	-	71,218	178,575
Health sanitation	86,758	-	-	-	86,758
Culture, recreation and education	72,179	-	-	284,871	357,050
Public housing and welfare	63,147	-	-	923,193	986,339
Debt service	-	1,016,693	-	-	1,016,693
Unassigned:	(6,772,083)	-	-	-	(6,772,083)
Total fund balance (deficit)	**$ (5,979,777)**	**$ 1,016,693**	**$ 4,623,027**	**$ 3,768,133**	**$ 3,428,076**

19. SUBSEQUENT EVENTS

Municipal Deposits on Government Development Bank (GDB)

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).

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

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

Due to the effects of the hurricanes, loss of communication, impairment to municipal revenues and liquidity, and the impact to GDB real estate owned assets, FAFAA, GDB and the RSA Requisite Bondholders agreed on revising certain milestones. They agreed on certain amendments to the RSA structure (Amended RSA) resulting in:

19. SUBSEQUENT EVENTS, (CONTINUED)

- Simplified structure (one security offered to Participating Bond Claims instead of original three).
- All municipal deposits will be applied against corresponding municipal loans to mitigate near-term impact of hurricanes.

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

On August 9, 2018 GDB and AAFAF used the Solicitation Statement to commence the solicitation of votes seeking creditor approval of the Qualifying Modification under Title VI of PROMESA. In September 2018, the Solicitation was concluded with Eligible Voters holding over 50% of the outstanding principal amount of outstanding Participation Bonds in each Pool voting to approve the Qualifying Modification; and Eligible Voters over 66% of the outstanding principal amount of outstanding Participating Bonds in each Pool that voted in the Solicitation voting to approve the Qualifying Modification.

On November 6, 2018, the United States District Court for the District of Puerto Rico held the hearing to consider the Approval Application and, after considering arguments, filings and evidence regarding approval, approved the Qualifying Modification on the record, and entered the order approving the Qualifying Modification on November 7, 2018.

The amount of surplus balances of funds from loans presented by the Municipality as of June 30, 2018 totals $2,460,449 which are recognized as part of the cash with fiscal agent in the other governmental funds section.

Hurricanes Irma and María

On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the daily lives of 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations. The response to the catastrophe by the U.S, and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history. The eye of Hurricane Irma, a powerful Category 5 storm, skirts north of San Juan, Puerto Rico experiences a deluge and 100-mile-per-hour gusts but is avoids the worst of the storm's effects. Irma kills four people. It cuts off power to about two-thirds of the island's electricity customers, and about 34 percent of its population loses access to water.

María was the most devastating hurricane to hit Puerto Rico in nearly a century. Many lives were lost, homes and businesses suffered enormous damage, most crops and other agricultural assets were wiped out, and a significant part of the island's infrastructure was severely damaged: knocked out electric power across the entire island and triggered heavy flooding after estimated 30 inches of rain, severe destruction of the housing infrastructure, commercial and public buildings damaged and devastated agriculture and tourism. After María, only 5% of cell service, 44% of potable water since there are no electric power, and gas stations are destroyed in 60%. Puerto Rico authorities have estimated in $94 billion to cover damages from insurances and assignments required from the Congress, part of which was approved by them.

19. SUBSEQUENT EVENTS, (CONTINUED)

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.

In response to these events and seeking a quick recovery, immediately after the emergency, the municipalities of Puerto Rico were declared disaster zones and began receiving financial assistance from FEMA. In order to qualify to receive these funds, the municipalities must present evidence of expenses since they are provided under a system of reimbursement of expenses incurred. The expenses that qualify for the initial phase of recovery are those that are related to the categories established by FEMA.

These expenses are broken down into categories A, B, C, D, E, F and G. The recovery processes are concentrated within Category A (Debris removal) and Category B (Emergency Protective Measures). Between these two categories, as of June 30, 2018, the Municipality had managed to document expenses amounting to $ 5,522,831; of which $ 2,076,894 had been received and were pending receipt of $ 3,445,937.

Regarding the categories from C to G (Permanent Works), these projects are projected to begin at the end of fiscal year 2018-2019. Based on the projects that have been submitted to FEMA, the municipal administration estimates that $42,500,000 will be received to complete them within a period of five years.

Community Disaster Loan (CDL) Program

The Community Disaster Loan (CDL) Program provides operational funding to help local governments that have incurred a significant loss in revenue, due to a major disaster, that has or will adversely affect their ability to provide essential municipal services. The Stafford Act, Section 417, subparts 206.360 through 206.367, authorizes FEMA to provide direct loans to local governments who have suffered a substantial loss of tax and other revenues, as a result of a major disaster, and which can demonstrate a need for Federal assistance in order to perform their governmental functions. Local governments must show a loss of greater than 5% of tax and other revenues for the current or succeeding year. Loan amounts may not exceed 25% of the operating budget of the local government for the fiscal year in which the disaster occurred, or the cumulative estimated revenue loss for the fiscal year of the disaster and the subsequent three fiscal years, but shall not exceed $5 million.

In the month of May 2018, the Municipality began the process to submit an application that would allow it to receive assistance from the CDL program. All the required information was submitted to demonstrate the need for assistance through this important program. The Municipality received the notification of approval of these resources in the amount of $5,000,000. It is expected that the funds will be released in favor of the Municipality during the month of July 2018 and they will be used to match the budget revenue losses that occur during the next three years.

Implementation of the "PayGo" system for the payment of pension plan's benefits and employer contributions

The Commonwealth of Puerto Rico's Employees Retirement System (ERS) is a "covered entity" under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). It was expected that the liquid assets of the ERS would be exhausted within the first months of the fiscal year 2017 -2018. To ensure the payment of the pension plan benefits to its retirees, beginning July 1, 2017, a "PayGo" system was adopted by the Commonwealth. Under this new system, the Commonwealth will be responsible for covering the deficiencies that will emerge in the pension plans when the benefits are paid to the pensioners.

19. SUBSEQUENT EVENTS, (CONTINUED)

The Puerto Rico Department of Treasury (PRDT) will bill the Public Corporations and Municipalities a monthly fee to cover the benefits of their retirees. The ERS will be responsible for determining and administrating the amount to be paid by pensioner that each Public Corporation and Municipality must reimburse. This amount will be known as the "PayGo Charge." The objective of this system is to protect the payment of the benefits of the Commonwealth's retirees.

Each Public Corporation and Municipality is responsible for the payment, in its entirety, of this monthly "PayGo Charge" to the PRDT. With the implementation of the "PayGo System," beginning July 1, 2017, the employer's pension contribution (16.775% for the fiscal year 2017 - 2018), the Special Laws contribution and the Additional Uniform Contribution (AUC) will be eliminated and substituted by the "PayGo Charge."

In addition to the implementation of this new system, the government will work on a reform of the retirement systems in which the participants will deposit their individual contributions in a new defined contribution plan to be administered by a private entity. In order to preserve the contributions of the current participants in a segregate manner, their contributions will be deposited in a separate bank account different from the ones to be used for the "PayGo Charge"; for the payroll withholdings corresponding to personal loans, mortgages and cultural trips payments; and for the disability insurance premium payment. The effect of this change in the 2017 - 2018 budget of the Municipality cannot be determined at this time.

20. TAX ABATEMENTS

As of June 30, 2017, **the Municipality** implemented disclosure required by Statement No. 77 of the Governmental Accounting Standard Board (GASB).

Governments may use tax abatements to reduce the imposition of taxes to private entities in exchange for a given set of objectives, including economic development, urban renewal, promoting industries, and others. A tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Agreements entered into by the Municipality

Under the Autonomous Municipalities of the Commonwealth of Puerto Rico Act of 1991, municipal governments have the authority to impose certain municipal taxes on their territorial jurisdiction. In this way, the main source of revenue in the municipality's rests in Municipal Property Tax of Private Property, Municipal Property Tax of Real Property, Municipal License Tax, Construction Excise Tax, and Municipal Sales and Use Tax.

In relation to Statement No. 77 the Municipalities can be authorized by Municipal Legislatures to enter into property tax, municipal license tax, construction excise tax, and sale tax abatement agreements for the purposes previously disclosed.

During the fiscal year 2017-2018 **the Municipality** of Cabo Rojo did not abated taxes which were material for financial reporting purposes.

Agreements entered into by the Commonwealth of P.R.

In accordance with GASB Statement No. 77, the notes to the financial statements should also disclose the abatement agreements imposed by the State Government of P.R. that have a direct effect of reducing the municipal tax revenues.

As of June 30, 2018, **the Municipality** of Cabo Rojo abated the following taxes based on the imposition of state laws governing the agreements by the Commonwealth of Puerto Rico:

20. TAX ABATEMENTS, (CONTINUED)

A. Property Tax Abatements

- **Real State Property**

  - **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) "…shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities."

    - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to Municipality of Cabo Rojo.

    Action in exchange: Under the aforementioned Act. No. 83 - 1941 it was also established what was known as "CELI" or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

    Note: Under Act No. 51-2014 "CELI's" agreement was amended to allow PREPA to charge municipalities for energy consumption on income generating properties. But, PREPA's exemption of paying taxes on property and sales, remains.

    Estimated amount not collected due to tax abated during FY 2017-2018: $4,305,328

  - **Act. No. 83 -1991 – Section 2.02 –** Under this Act, "the owners of property for residential purposes are hereby exonerated from the payment of the special surtax and the basic tax levied … in an amount equal to the tax levied on said properties up to fifteen thousand (15,000) dollars of the appraised value of the property…"

    Action in exchange: "The Secretary of the Treasury shall compensate the corresponding municipalities for uncollected property taxes resulting from the tax exemption provided by Section 2.02. The Secretary of the Treasury shall continue to remit annually to the Government Development Bank for Puerto Rico for the benefit of each municipality, the sum equal to the uncollected amount of said basic tax levied by the municipalities as of August 30, 1991, up to a maximum of two (2) percent, as well as the tax levied for the payment of municipal loans, from the tax exemptions requested up to the 1st of January, 1992, as indicated above."

    Estimated amount not collected due to tax abated during FY 2017-2018: $13,830,572.

- **Personal Property Taxes**

  - **Act. No. 83 -1991 – Section 5.35** – Under this Act "retailers with net sales under $150,000 are exempt from the personal property tax for an amount equal to the tax levied on said property up to a valuation of fifty thousand dollars ($50,000)".

20. TAX ABATEMENTS, (CONTINUED)

Action in exchange: None

Estimated amount not collected due to tax abated during FY 2017-2018: $705,499

B. Municipal License Tax Abatements

- **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) "…shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities".

  - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to the Municipality of Cabo Rojo.

  - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to the Municipality of Cabo Rojo.

Action in exchange: Under the aforementioned Act. No. 83 -1941 it was also established what was known as "CELI" or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

Estimated amount not collected to tax abated during FY 2017-2018: $268,555.00

- **All business that qualify under the following laws:**

  - **Act No. 113 – 1974 – Section No. 9 –** The services, sales, financial business or any industry or business subject to the patent imposed by authorization of this law when its turnover does not exceed five thousand dollars ($5,000). Craft workshops, and plastic arts workshops when their annual gross income does not exceed fifty thousand dollars ($50,000), when they are operated directly by the artisan or artist in the exercise of his trade, even if they had the assistance of more than one craftsman or artist, the wholesale or retail sale is made. Corporations and any communal fund, fund or foundation, created and administered exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals, no part of whose net profits will benefit from a particular shareholder or individual.

20. TAX ABATEMENTS, (CONTINUED)

- **Act No. 135 – 2014 – Section No. 8 –** According to Article 8 of Tax Benefits for New Businesses created by Young Entrepreneurs, the temporary exemption of municipal patents, new businesses that operate under an agreement will be exempt from the payment of municipal patents during the three (3) economic years starting from the signature of the agreement. The agreement will specify the economic years to which the exemption will apply. To obtain such an exemption, the new business will include a copy of the agreement with the patent form for the years in which the exemption applies.

- **Act No. 225 – 1995 – Section No. 3 –** For the purposes of this law, the following words and phrases shall have the meaning and scope expressed below: Farmer "bona fide". - Means any natural or legal person who during the taxable year for which he claims deductions, exemptions or benefits provided by this law has a current certification issued by the Secretary of Agriculture, in consultation with the Secretary of the Treasury, which certifies that during this year was dedicated to the exploitation of an activity that qualifies as an agricultural business, according to that term is defined in subsection of this section, and derives fifty percent (50%) or more of its gross income from an agricultural business as an operator, owner or lessee, as recorded on your income tax return.

- **Act No. 249 – 2015 – Section No. 1 –** This Act is approved to create a program under which the entire association of residents or councils of holders of condominiums constituted under the laws of Puerto Rico, may regularize their condition of tax exemption before the Department of the Treasury.

- **Act No. 74 – 2010 – Section No. 3 –** Tourism development revenues, as well as dividends or benefits distributed by the exempt business to its shareholders, partners or members and distributions of said income made in liquidation, will be exempt from the payment of taxes on income, in accordance with the following terms and conditions:

  - For any tourist activity not established in Vieques or Culebra, the percentage of Exemption of said income will be up to ninety percent (90%).
  - For all tourist activity established in Vieques or Culebra, the percentage of Exemption of said income will be up to one hundred percent (100%).
  - The exemption will be in force for a period of ten (10) years.

21. TAX ABATEMENTS, (CONTINUED)

C. Sale Tax Abatements

- **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) "…shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities."

  Action in exchange: Under the aforementioned Act. No. 83 - 1941 it was also established what was known as "CELI" or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

  Estimated amount not collected due tax abated during FY 2017-2018: $537,110.00

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget
	Original	Final		
Revenues				
Taxes:				
Property	$ 9,549,482	$ 9,549,482	$ 9,319,054	$ (230,428)
Municipal license	2,350,347	2,350,347	2,228,999	(121,348)
Sales	2,281,698	2,281,698	1,465,000	(816,698)
Construction excise	568,042	568,042	245,587	(322,455)
Charges for services	443,936	443,936	308,222	(135,714)
Intergovernmental	2,128,500	2,128,500	16,502	(2,111,998)
Interest on deposits	15,000	15,000	8	(14,992)
Miscellaneous	1,047,000	1,047,000	1,111,847	64,847
Total revenues	**$ 18,384,005**	**$ 18,384,005**	**$ 14,695,219**	**$ (3,688,786)**
Expenditures				
Current:				
General government	10,082,116	10,082,116	6,350,437	(3,731,679)
Public safety	1,596,107	1,596,107	1,587,645	(8,462)
Urban and economic development	3,882,168	3,882,168	1,777,435	(2,104,733)
Health and sanitation	1,089,772	1,089,772	1,077,275	(12,497)
Culture, recreation and education	770,273	770,273	768,351	(1,922)
Public housing and welfare	963,569	963,569	921,387	(42,182)
Total expenditures:	**$ 18,384,005**	**$ 18,384,005**	**$ 12,482,530**	**$ (5,901,475)**
Excess of revenues (expenditures) over expenditures (revenues)	**$ -**	**$ -**	**$ 2,212,689**	**$ 2,212,689**
Other financing sources (uses)				
Transfers in, available for spending			716,395	716,395
Transfers out to other funds			-	-
Other sources			-	-
Total other financing sources (uses)	**$ -**	**$ -**	**$ 716,395**	**$ 716,395**
Excess of revenues and other financing sources over expenditures and other financing uses	**$ -**	**$ -**	**$ 2,929,084**	**$ 2,929,084**

Explanation of differences	
Sources / inflows of resources	
Actual amounts (budgetary basis) from budgetary comparison schedule	$ 15,411,614
Differences - budget basis to GAAP:	
Net increase (decrease) in receivables	(499,881)
Resources considered revenues for financial reporting but not for budgetary purposes	3,360,057
Resources considered revenues for budgetary but not for financial reporting purposes	(324,429)
Total revenues reported on statement of revenues, expenditures and changes in fund balance	**$ 17,947,361**
Uses / outflows of financial resources	
Actual amounts (budgetary basis) from budgetary comparison schedule	$ 12,482,530
Net increase (decrease) in payables	457,181
Encumbrances recorded as current expenditures for GAAP basis	4,981,188
Resources considered expenditures for budgetary but not expenses for GAAP	(900,623)
Total expenditures reported on statement of revenues, expenditures and changes in fund balance	**$ 17,020,276**

Notes to the Budgetary Comparison Schedule – General Fund

The Municipality's annual budget is prepared under the budgetary basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenues are generally recognized when is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

Under the budgetary basis of accounting **the Municipality** uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior the actual expenditure. In the governmental funds, encumbrances accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of fiscal year. Amounts required to settle claims and judgments against **the Municipality**, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lap at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule – general fund, provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2017.

Except for the general fund and the debt service fund, **the Municipality** legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information include statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for its major program.

BETANCOURT & CO PSC

Certified Public Accountants

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*

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, 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 Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico, ("the Municipality") as of and for the year ended June 30, 2018, and the related Notes to the Financial Statements, which collectively comprise the Municipality's Basic Financial Statements, and have issued our report thereon dated May 29, 2019.

We did not express an opinion on the governmental activities because we were unable to obtain sufficient and competent evidential matter related to capital assets. Also, our report included an emphasis of matter paragraph related the uncertainly of the cash deposits that the Municipality maintains in the Government Bank for Puerto Rico. Our opinion is not modified with respect to matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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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*
(Continued)

Internal Control Over Financial Reporting, (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

Compliance and Other Matters

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

Purpose of this Report

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

Betancourt & Co PSC

BETANCOURT & CO PSC
Canóvanas, Puerto Rico
March 29, 2019

Stamp No. E373260 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report

BETANCOURT & CO PSC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2018. The Municipality's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of Laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with Auditing Standards Generally Accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance. The audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Auditor's Responsibility (Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs. Our opinion on each major federal program is not modified with respect to these matters.

The Municipality's Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs of prior year. The Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Municipality's Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Report on Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Betancourt & Co PSC

BETANCOURT & CO PSC
Canóvanas, Puerto Rico
March 29, 2019

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PSC-312
Puerto Rico
Certified Public Accountants

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Entity Identifying Number	Total Federal Expenditures
U.S. Department of Housing and Urban Development (HUD)			
Section 8 Housing Choice Vouchers Program	14.871	-	$ 568,972
Community Development Block Grants/ Entitlement Grants	14.218	-	662,742
Passed-through of Commonwealth of Puerto Rico Department of Family:			
Emergency Solution Grant Program	14.231	N/AV	46,288
U.S. Department of Health and Human Services			
Passed-through of Commonwealth of Puerto Rico Department of Family:			
Child Care and Development Grant	93.575	660433481	146,290
Passed-through the Office of the Elderly:			
Special Program for Aging Title III Part B	93.045	140182R2	84,315
U.S. Department of Agriculture			
Passed-through of Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Programs	10.558	N/AV	26,738
Department of Homeland Security (DHS)			
Disaster Grants – Huracán Maria	97.036	-	5,522,831
Total Expenditures of Federal Awards			$ 7,058,176

See accompanying notes to the Schedule of Expenditures of Federal Awards.

1. SIGNIFICANT ACCOUNTING POLICIES

a) The accompanying Schedule of Expenditures of Federal Awards (SEFA) is a summary of the activity of **the Municipality's** federal awards programs presented on a modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

b) The accompanying SEFA is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.

c) Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

d) The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Numbers is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

3. PASSS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. The Uniform Guidance requires the SEFA to include the name of pass-through entity identification number assigned by the pass-through entity for federal awards received as a sub-recipient. Number identified as N/AV are not available.

4. MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

5. INDIRECT COSTS

The Municipality elected not to use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 201.

6. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES – GUBERNMENTAL FUNDS

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and changes in Fund Balances – Governmental Fund as follows: Other Governmental Funds $1,535,345 and Disaster Grant $5,522,831.

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Opinion Unit

Governmental Activities	Disclaimer
Business-Type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Commonwealth Legislative Resolutions	Unmodified
Other Governmental Funds	Unmodified

Internal control over financial reporting:

• Material weakness (es) identified?	Yes **X**	No
• Significant deficiencies identified?	Yes	No **X**

Noncompliance material to financial statements noted?	Yes **X**	No

Federal Awards

Internal control over major programs:

• Material weakness (es) identified?	Yes	No **X**
• Significant deficiencies identified?	Yes	No **X**

Type of auditors' report issued on compliance for major programs: Unmodified

Any other findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes	No **X**

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants – Entitle Grants
97.036	Disaster Grants - Huracan Maria
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between Type A and B programs: $750,000

Auditee qualified as low-risk auditee?	Yes **X**	No

Part II - FINANCIAL STATEMENTS FINDINGS

FINDING #2018-001

Category / Requirement

Financial Reporting and Accounting Records Accounting Records – Capital Assets and Subsidiary Ledger

Condition

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. Except for the disclaimer in relate about the Municipality did not maintain complete, updated and accurate accounting records for the capital assets and its related accumulated depreciation, in the governmental activities, as explained in the finding of prior year, there were no additional findings noted during the fiscal year ended June 30, 2018.

Criteria

Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also, the GASB Statements No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* require that all capital assets, including infrastructure, must be presented in the Statements of Net Position and that these assets must be depreciated during its useful life.
Also, provisions of GASB Statement *No. 42, Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries,* requires the Municipality to evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment of capital asset has occurred. Furthermore, provisions of GASB Statement No. *51, Accounting and Financial Reporting for Intangible Assets,* require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets.

Cause

The Municipality did not maintain an adequate control of the accountability and subsidiary ledger of the capital assets presented in the statement of net position.

Effect

The Municipality is not in compliance with Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of
August 30, 1991 and the Municipality's Governmental Wide Financial Statements do not present fairly, the financial position of the governmental activities, and changes in financial position of the Municipality.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended June 30, 2018.

ESTADO LIBRE ASOCIADO DE PUERTO RICO
Municipio Autónomo de Cabo Rojo
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Program: Financial Reporting and Accounting Records Accounting Records – Capital Assets and Subsidiary Ledger
Period: 07/01/2017 – 06/30/2018
Finding ID#: 2018-001
Questioned Costs: 0

General Finding:

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.

Comments and Corrective Actions:

The Municipality has adopted a new system to maintain a subsidiary ledger of capital assets with required accounting and related records. A special work was performed for Capital Assets, including infrastructure assets so that assets on the Accounting records are updated.

Implementation Date: June 30, 2021

Responsible Person: Mrs. Carmen D. Feliciano, Finance Department Director