Hon. Thomas Rivera Schatz
President

February 6, 2019

Mrs. Natalie Jaresko
Executive Director
Financial and Management Oversight
Board for Puerto Rico ("FOMB")

RE: ACCESS TO BANK ACCOUNTS

Dear Mrs. Jaresko:

The Senate of Puerto Rico has received several requests from the FOMB for authorization to access its bank accounts.

The Senate's position is that the aforementioned petition exceeds the powers that PROMESA conferred on the FOMB and that they are an inappropriate interference in internal administrative matters of the Legislative Branch. Nevertheless, attached to this letter you'll find the audited financial statements for Fiscal Year 2016-2017.

The Senate has cooperated with the FOMB on previous request and will continue doing so. With the attached financial statement, as well as the monthly expense reports the Senate already submitted, the FOMB should have all the necessary information.

Feel free to contact us if additional information is needed.

Sincerely,

Thomas Rivera Schatz

Recibido por
José E. Gonzalez
letra de molde

firma

2/6/19 4:40 pm
fecha

The Capitol, PO Box 9023431 San Juan, PR 00902-3431
(787) 725-2424 (787) 724-2030 | trspresidente@gmail.com

SENATE OF PUERTO RICO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
2016-2017

OFFICE OF FISCAL AND FINANCIAL AFFAIRS

SENATE OF PUERTO RICO

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Hon. Thomas Rivera Schatz
President

February 1, 2019

To the Governor of Puerto Rico
Members of the Senate and the people of Puerto Rico
San Juan, Puerto Rico

The Comprehensive Annual Financial Report (CAFR) of the Senate of the Commonwealth of Puerto Rico (hereafter referred to as the "Senate") for the fiscal year ended June 30, 2017 is submitted herewith. This report has been prepared in a manner which fully conforms to accounting principles generally accepted in the United States of America, as established by the Governmental Accounting Standards Board (GASB).

The Comprehensive Annual Financial Report is presented in three sections. The Introductory section includes this transmittal letter, general information about the Senate, an organizational chart and list of Senators and Permanent Commissions. The Financial Section includes the independent auditor's reports, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes thereto; and required supplementary information. The Statistical section contains selected unaudited financial, economic and demographic data on a multiyear basis.

The responsibility for the accuracy of data and the completeness and fairness presentation including all disclosures, rests with the Senate's administrators. To the best of our knowledge, the information presented herewith is accurate in all material respects and provides a reasonable understanding of the Senate's financial activities. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Senate's activities.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Senate's MD&A can be found immediately following the report of the independent auditors.

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PROFILE OF THE SENATE

The Senate was organized by virtue of Article 3, Sections 1 to 3 of the Constitution of the Commonwealth of Puerto Rico (hereafter referred to as the "Constitution") enacted on July 25, 1952, as approved by the people of Puerto Rico and the United States Congress. The Constitution establishes a republican form of government, and sets out three branches of government: Executive, Legislative and Judicial. The Legislative Branch enacts and approves all legislation; the Executive Branch executes the legislative mandate; and the Judicial Branch oversees the Puerto Rico Court System and construes the meaning of the constitution and laws passed by the Legislative Assembly.

The constitution establishes that the Commonwealth's Legislative Power will be exercised by a Legislature composed of two bodies: a Senate and a House of Representatives, whose members will be elected through direct vote in each general election. In this four-year term, the Senate is comprised of twenty – seven Senators. For purposes of its members' election, Puerto Rico is divided into eight senatorial districts. Each district elects two Senators. In addition, the Senate has eleven Senators at large. No elector can vote for more than one candidate to Senator at large. Each Senator is elected for a four-year term.

The Legislative assembly is deemed a continuous body for the term for which its members are elected to meet in regular sessions each year commencing the second Monday of January. According to Act No. 9 of April 9, 1954, as amended, and section 21.2 of the Resolution of the Senate No.21 of January 15, 2013, the annual regular session of the Legislature is composed of two sessions, as follows.

A. The First Session that begins on the second Monday of January and ends on June 30 of the same year; and
B. The Second Session that begins on the third Monday of August and ends on Tuesday, preceding the third Tuesday of November. This Second Session shall not be held in years when general elections are to be held.

There are also extraordinary sessions that may be held on any date of the calendar year, except during the regular sessions. The Governor or the President of the Senate, as provided by the Constitution and Rules of the Senate, may convene an extraordinary session.

2016 ELECTIONS

As a result of the November 2016 Puerto Rico general elections, the New Progressive Party won a majority of seats in the Senate. The swearing-in of the president of the Senate was on January 2017.

ECONOMIC CONDITIONS AND OUTLOOK

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

From Fiscal Year 2008 to fiscal year 2017, the manufacturing and service sectors generated the largest portion of the gross domestic product. Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product. In the last three decades, industrial development in Puerto Rico has been relatively capital intensive and dependent on skilled labor.

Puerto Rico has experienced mixed results in the service sector, which includes wholesale and retail trade, utilities, transportation and warehousing, information, finance and insurance, real estate and rental, and certain services such as professional, scientific, technical, management, administrative, support, educational, health care, social, recreational, accommodation, food and other services. Tourism also makes a significant contribution to the economic activity.

Puerto Rico continues to suffer from the effects of a recession that started on fiscal year 2006. Since that date, Puerto Rico's Gross National Product ("GNP") has decreased constantly every fiscal year, except for fiscal year 2012, when it grew by 0.5%. Except for that year, GNP for fiscal years 2009, 2010 and 2011, 2013, 2014, 2015, 2016 and 2017 decreased by 3.8%, 3.6%, 1.7%, 0.1%, 1.7%, 0.6% and 1.2%, respectively.

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

FAFFA'S Economic Activity Index (the "EAI") for June 2017 reflected a 2.1% reduction compared to June 2016. The average cumulative value for the fiscal year 2017 showed a reduction of 2.0% compared to fiscal year 2016. The EAI is a coincident indicator of ongoing economic activity but it does not measure the real GNP annual growth rates. Since the EAI is generated with only four variables (total payroll employment, cement sales, gasoline consumption, and electric power generation), it is more volatile than the real GNP figures. This means that both increments and declines reflected in the EAI amplify the corresponding movements of the real GNP.

The most recent development with regards to Puerto Rico's fiscal situation is the certification of the fiscal plan by the Fiscal Oversight Board, under PROMESA (Puerto Rico Oversight, Management and Economic Stability Act of 2016), dated October 23, 2018.

INDEPENDENT AUDITORS

Commonwealth statues require an annual audit of the Senate's financial reports by an independent certified public accountant. The firm Aquino, De Cordova, Alfaro & Co., LLP was selected by the Senate to perform the audit of the basic financial statements, for the fiscal year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America. The Goal of an independent audit is to provide reasonable assurance that the financial statements of the Senate are fairly stated in all material respects in accordance with U.S generally accepted accounting principles. The independent auditors' report on the basic financial statement is included in the financial section of this report.

INTERNAL CONTROLS

The management of the Senate is responsible for establishing and maintaining internal controls to ensure that the Senate's assets are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The internal control structure is designed to provide reasonable, rather than absolute, assurance that these objectives are met.

The Senate maintains extensive budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislative Assembly, Senate's rules and regulations and administrative orders. The general fund activities are included in the annual appropriated budget. Budgetary control for the legislative functions resides at the level of the office of each senator. However, regarding administrative offices, control is exercised at the administration level. The Senate also maintains an encumbrance accounting system as a method of upholding budgetary control.

BUDGET AND FISCAL POLICY

The fiscal year for the three branches of the Commonwealth of Puerto Rico, which includes the Legislative Assembly, begins each July and ends in June 30. Each legislative body is exempted by law from submitting a request to the Office of Management and Budget of the Commonwealth (OMB), as the Governor is supposed to recommend the same budgetary appropriations as the current fiscal year. The Senate's annual budget includes an estimate of operating expenditures for its two major functions: legislation and administration. The legislative Assembly is then responsible for increasing, decreasing, or maintaining the budgetary appropriations of each

legislative body. Finally, any unreserved balance is available for nonrecurring expenses for a three-year period, according to law No. 230 of July 23, 1974, as amended.

ADMINISTRATIVE INITIATIVES

Management established rigorous control over expenditures, which have resulted in cost reductions of 12%, and 61% for leasing of buildings and other communications, respectively. In general, operating expenses have been reduced by approximately 21% when compared with fiscal year 2016.

Improvements and updates were made to the financial accounting system to increase efficiency and to simplify accounting and reporting procedures.

ACKNOWLEDGMENTS

This report could not have been accomplished without the professionalism and dedication of the Director and personnel of the Fiscal and Financial Affairs Office of the Senate, and well as other officers of the Senate. Their dedicated efforts are sincerely appreciated. This report reflects their collective efforts and is issued in compliance with the highest standards of financial accountability.

Respectfully submitted,

Thomas Rivera Schatz
President of the Senate

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
LIST OF SENATORS – BY DISTRICT
JUNE 30, 2017

SENATOR OF MAJORITY

Name	District
Thomas Rivera Schatz	At Large
Lawrence N. Seilhamer Rodriguez	At Large
Zoé Laboy Alvarado	At Large
Margarita Nolasco Santiago	At Large
Abel Nazario Quiñones	At Large
Itzamar Peña Ramírez	At Large
Miguel A. Romero Lugo	San Juan
Henry Neumann Zayas	San Juan
Migdalia Padilla Alvelo	Bayamón
Carmelo J. Ríos Santiago	Bayamón
Ángel R. Martínez Santiago	Arecibo
José O. Pérez Rosa	Arecibo
Luis D. Muñiz Cortes	Aguadilla
Evelyn Vázquez Nieves	Aguadilla
Luis A. Berdiel Rivera	Ponce
Nelson V. Cruz Santiago	Ponce
Carlos J. Rodríguez Mateo	Guayama
Axel F. Roque Gracia	Guayama
Miguel A. Laureano Correa	Humacao
Eric Correa Rivera	Carolina
Nayda C. Venegas Brown	Carolina

SENATOR OF MINORITY

Name	
Juan Dalmau Ramirez	At Large
Eduardo Bhatia Gautier	At Large
José L. Dalmau Santiago	Humacao
Rossana Lopez León	At Large
Cirilo Tirado Rivera	At Large
José R. Nadal Power	At Large
Miguel A. Pereira Castillo	At Large
Aníbal J. Torres Torres	At Large
José Antonio Vargas Vidot	At Large

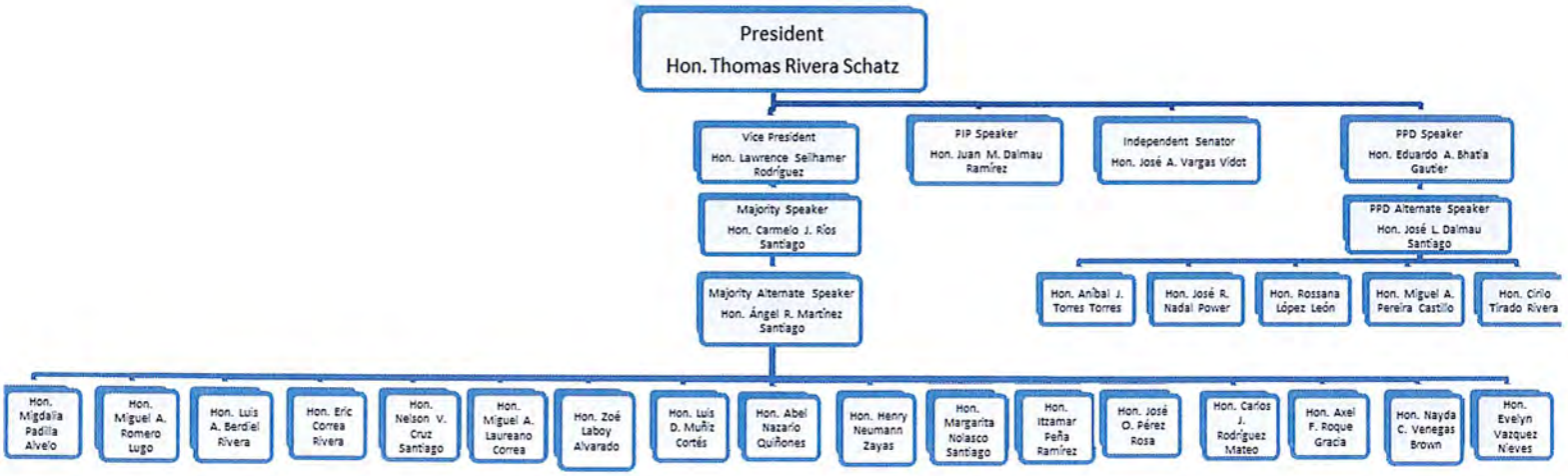
PERMANENT COMMITTEES

Agriculture
Appointments
Banking, Commerce and Cooperativism
Consumer Affairs and Essential Public Services
Development of Community Initiatives
Development of the Central South Region
Development of the West
Education and University Reform
Environmental Health and Natural Resources
Estate
Ethics
Federal, Political and Economic Relations
Government
Health
Innovation, Telecommunications, Urbanism and Infrastructure
Internal Affairs
Local Issues
Public Security
Rules and Calendars
Social and Economic Revitalization
Social Welfare and Family Affairs
Tourism and Culture
Veteran Affairs
Women's Issues
Youth, Recreation and Sports

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

SENATE ORGANIZATIONAL CHART

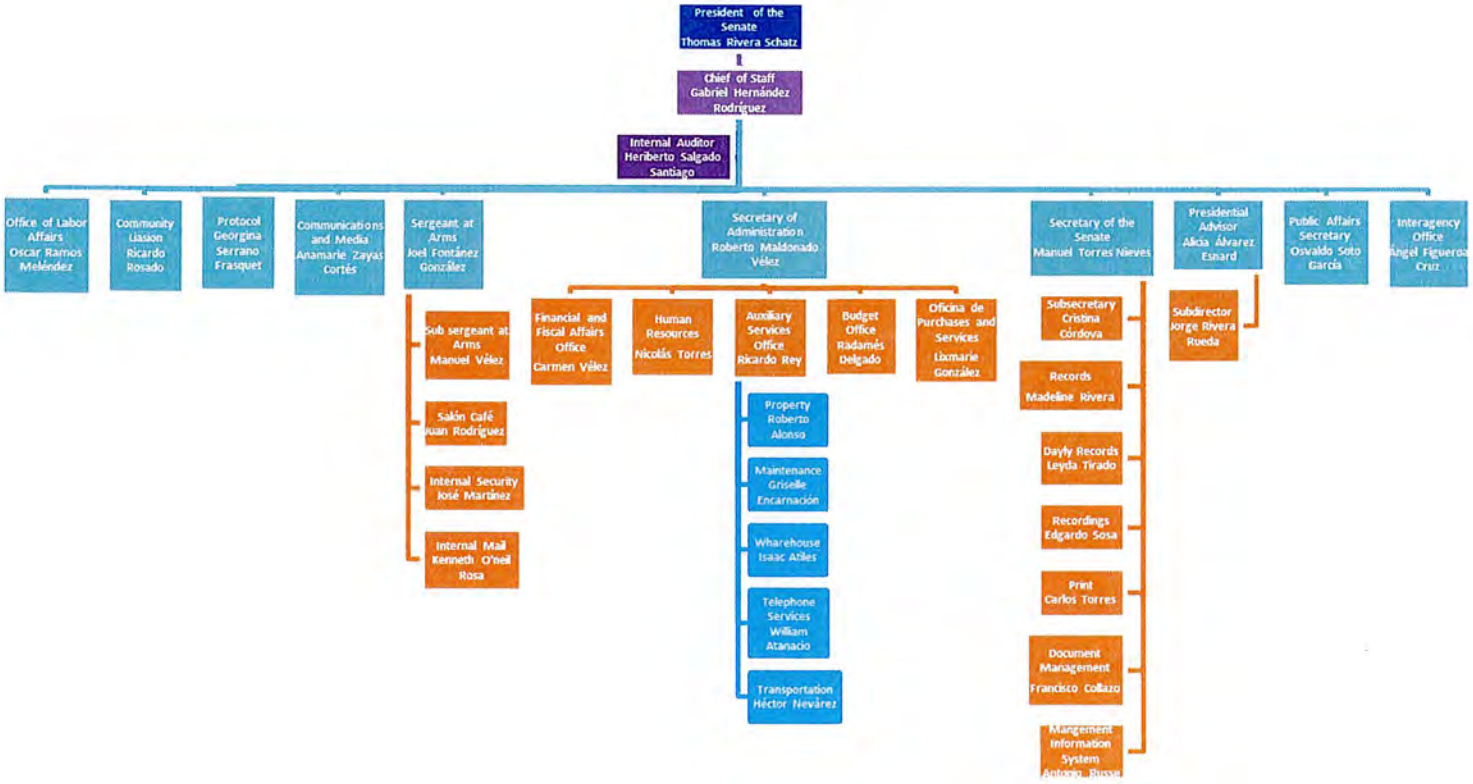
JUNE 30, 2017



SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

ADMINISTRATIVE ORGANIZATIONAL CHART

JUNE 30, 2017



Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE

INDEPENDENT AUDITOR'S REPORT

To the Members of the Senate of Puerto Rico
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Senate of Puerto Rico (the Senate), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Senate basic financial statements as listed in the table of contents.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Senate of Puerto Rico, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information Omitted

The Senate has omitted the Schedule of the Senate's Proportionate Share of the Net Pension Liability, and the Schedule of the Senate's Contributions to the Employees' Pension Plan, information that Accounting Principles Generally Accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America requires that the Management's Discussion and Analysis on pages 13 to 22 and Budgetary Comparison Information on pages 84 to 85, 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.

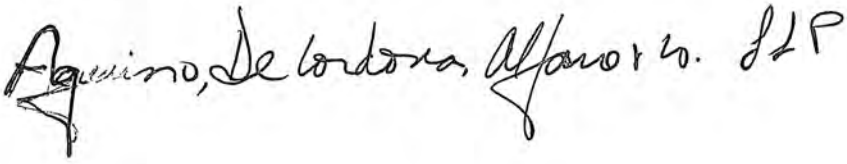
Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion of the Senate's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2019. On our consideration of the Senate's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Senate internal control over financial reporting and compliance.

Carolina, Puerto Rico
February 1, 2019



Stamp number E371072
of Puerto Rico CPA Society
has been affixed to the
original report

The Senate of the Commonwealth of Puerto Rico (the "Senate") provides this Management Discussion and Analysis to the readers of these basic financial statements. This narrative overview and analysis of the financial activities of the Senate is for the fiscal year ended June 30, 2017.

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

FINANCIAL HIGHLIGHTS

Government – Wide Financial Statements

- The Senate's net deficit amounted to ($18,715,209) at June 30, 2017. Such net deficit decreased by $6,774,293 during the fiscal year ended June 30, 2017 when compared to the June 30, 2016 net deficit, amounting to ($25,489,502). This decrease is mostly attributable to the increase of $3,050,000 in legislative appropriation and decrease in governmental activities expenses in the amount of $7,429,255 when compared to the June 30, 2016.
- The total assets of the Senate amounted $18,441,641 at June 30, 2017. This represented an increase of $3,629,294 during the fiscal year ended June 30, 2017 when compared to the June 30, 2016 total assets. It is mainly attributable to an increase in cash balances by $3,023,088 at the end of the fiscal year.
- The total liabilities of the Senate amounted to $31,224,549 including the accrual for vacations and sick leave in the amount of $3,928,060, $1,274,864 due to contractors and suppliers, payroll and other taxes for $106,314, Christmas bonus benefits to employees amounting $330,325 and the accrual required under GASB No. 68 for the proportionate share of the "collective" net pension liability in the amount of $25,584,986 at the close of the fiscal year ended June 30, 2017. The Senate has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Management's Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Senate. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains required supplementary information and additional supplementary information (Statistical Data) in addition to the basic financial statements themselves. These components are described below.

Government – Wide Financial Statements

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

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

The Statements of Activities presents information showing how the Senate's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods.

Funds Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Senate, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of the Senate belong to categories of governmental Funds.

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

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

Funds Financial Statements - continued

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

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government -wide and fund financial statements. The notes to the basic financial statements can be found immediately after the basic 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, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Accounting Method for Pensions

The Senate adopted the provisions of GASB Statement No. 68 (GASB No. 68) "Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27, GASB 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68" on July 1, 2017. These statements were effective for fiscal years beginning after June 15, 2014. The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. 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 trust or equivalent arrangement that meet certain criteria.

The adoption of GASB No. 68 requires the Senate to obtain, from the Commonwealth Employees' Retirement System Administration, technical information regarding actuarial valuation, discount rates, the Senate's proportionate share of the net pension liability, and deferred outflows and inflows of resources, among others. At the date of the basic financial statements, the Puerto Rico Government Retirements System Administration did provide the Senate with the required information.

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS

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

Net Position

The Statement of Net Position serves over time as a useful indicator of the Senate's financial position at the end of the fiscal year. The Senate's net deficit decrease by $6,774,293 when compared to 2016. The Senate's net deficit includes investment in capital assets for $2,042,529, restricted for $179,751 and unrestricted net deficit of ($20,937,489). The following are the condensed statements of net position for the fiscal years ended June 30, 2017 and 2016:

Condensed Statements of Net Position

	2017	Restated 2016	Change
Current assets	$ 16,399,112	$ 13,196,404	$ 3,202,708
Noncurrent assets	2,042,529	1,615,843	426,686
Total assets	18,441,641	14,812,247	3,629,394
Deferred outflows of resources	3,923,417	2,717,207	1,206,210
Total assets	$ 22,365,058	$ 17,529,454	$ 4,835,604
Current liabilities	$ 2,339,993	$ 6,814,410	$ (4,474,417)
Noncurrent liabilities	28,884,556	24,974,266	3,910,290
Total liabilities	31,224,549	31,788,676	(564,127)
Deferred inflows of resources	9,855,718	11,230,280	(1,374,562)
Net position			
Invested in capital assets	2,042,529	1,430,417	612,112
Restricted	179,751	172,915	6,836
Unrestricted net deficit	(20,937,489)	(27,092,834)	6,155,345
Total net deficit	(18,715,209)	(25,489,502)	6,774,293
Total liabilities and net position	$ 22,365,058	$ 17,529,454	$ 4,835,604

Capital Assets

The Senate's investment in capital assets for its governmental activities amounted to $6,137,920, net of accumulated depreciation of $4,095,391, for a net book balance of $2,042,529, at June 30, 2017. These investments in capital assets include equipment, computer equipment and software, furniture and vehicles. During the fiscal year ended June 30, 2017 the Senate acquired equipment, computer equipment, furniture and vehicle amounting to $444,226, $225,997 and $69,986, respectively. Depreciation for the year ended June 30, 2017 amounted to $523,032. Capital assets with a net book value of $26,125 were retired during the year.

Changes in Net Position

The following condensed statements of activities reflect how the Senate's net position changed during the fiscal years ended June 30, 2017 and 2016

Condensed Statements of Activities

	2017	Restated 2016	Change	%
Expenses				
Governmental activities	$ 35,462,026	$ 42,891,281	$ (7,429,255)	-21%
Revenues				
Legislative appropriations	40,704,000	40,204,000	500,000	1%
Other legislative appropriations	2,550,000	-	2,550,000	100%
Other revenue	555,577	370,973	184,604	33%
	43,809,577	40,574,973	3,234,604	7%
Net Transfer out	(1,573,258)	-	(1,573,258)	100%
Increase (decrease) in net position	6,774,293	(2,316,308)	9,090,601	134%
Net deficit, beginning of year as restated	(25,489,502)	(23,173,194)	(2,316,308)	9%
Net deficit, end of year	$ (18,715,209)	$ (25,489,502)	$ 6,774,293	-36%

The total net expenses of the Senate decreased by 21% during the fiscal year ended June 30, 2017 when compared to June 30, 2016 total expenses. This is mainly attributable to a decrease in salaries, payroll related cost and benefits and operating expenses of approximately 4% and 32%, respectively, when compared to 2016. During this fiscal year, losses on litigations reflected a decrease of $1,010,000 or approximately 3% of total expenses when compared with fiscal year 2016.

Governmental Funds Highlights

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

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

	2017	2016	Change	%
Total assets	$16,399,112	$ 13,381,830	$ 3,017,282	18%
Total liabilities	$ 1,381,175	$ 1,900,049	$ (518,874)	-38%
Fund Balance				
Restricted	179,751	172,915	6,836	4%
Assigned	14,838,186	11,308,866	3,529,320	24%
Total Fund Balance	15,017,937	11,481,781	3,536,156	24%
Total Liabilities and Fund Balance	$16,399,112	$ 13,381,830	$ 3,017,281	18%

As of the end of the fiscal year 2017, the Senate's governmental funds reported a combined ending balance of $15,017,937. The general fund is the chief operating fund of the Senate. There are restricted fund balances amounting $179,751. This is the portion of the fund balance that reflects resources subject to externally enforceable legal restrictions. An assigned fund balance of $14,838,186 was reported in the governmental funds at June 30, 2017.

The following are the condensed statements of revenues, expenditures and changes in fund balance for the fiscal years ended June 30, 2017 and 2016, respectively:

Condensed Statements of Revenues, Expenditures and Changes in Fund Balance

	2017	2016	Change	%
Revenues:				
Legislative appropriations	$ 40,704,000	$ 40,204,000	$ 500,000	1.2%
Other legislative appropriations	2,550,000	-	2,550,000	100.0%
Other revenue	364,273	43,485	320,788	88.1%
	43,618,273	40,247,485	3,370,788	7.7%
Expenditures				
Government Expenditures	38,508,859	43,830,420	(5,321,561)	-13.8%
Net transfer out	1,573,258	-	1,573,258	100.0%
Net changes in Fund Balance	3,536,156	(3,582,935)	7,119,091	201.3%
Fund Balance at Beginning of the year	11,481,781	15,064,716	(3,582,935)	-31.2%
Fund Balance at End of year	$ 15,017,937	$ 11,481,781	$ 3,536,156	23.5%

The Senate's fund balance increased by $3,536,156 or 23.5%, as a result of an excess of revenues over expenditures in the current fiscal year.

General Fund Budgetary Highlights

The General Fund budget for the fiscal year ended June 30, 2017 was $40,704,000. Actual revenues reflected an increase of $500,000. Actual expenditures were $33,574,126. The total expenditures represented 82.48% of the total budget availability for the fiscal year. The Senate's expenditure rate presents a small increase rate when compared to the prior year's performance of 86.18%.

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

Budget and Expenditures Comparison

	2017 Budget	2016 Budget	Change (Negative) Positive
Revenues	$ 40,704,000	$ 40,204,000	$ 500,000
Expenditures	33,574,126	34,647,257	(1,073,131)
Unexpended balance	$ 7,129,874	$ 5,556,743	$ 1,573,131
Expenditure rate	82.48%	86.18%	-214.63%

The Senate adopted the 2016-2017 fiscal budget on July 1, 2016. The legislative appropriations for the fiscal year ending June 30, 2017 amount to $40,704,000 an increase of $500,000, when compared with previous fiscal year.

Economic Factors

Gross National Products

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

According to the Puerto Rico Planning Board most recent report submitted to the Puerto Rico's Governor on April 2, 2018, Puerto Rico's real gross national product decreased by 1.3% on fiscal year 2016 and by 2.4% on fiscal year 2017. The Puerto Rico Planning Board projected and decrease on the gross national product between of 1.7% for the fiscal year 2017 and 1.5% for 2018. The Planning Board's forecast took into account the estimated effect of the projected growth of the United States gross domestic product, tourism activity, personal consumption expenditures, and federal transfers to individuals.

Employment

According to the Economic Report to the Governor issued by the Puerto Rico Planning Board (PRPB) on April 2018, the total of people employed during the fiscal year 2017 amounted to approximately 992,000 or an increase of 1.0% when compared to fiscal year 2016. During the first semester of the fiscal year 2017, total of people employed amounted to 989,000 or a decrease of approximately 1.0%, when compared to the previous year. The reduction in total employment began in fiscal year 2007. When employments total was 1,263,000, and has continued consistently through fiscal year 2017.

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

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the Senate's finances for all the citizens, taxpayers, costumer and creditors. Also, this report serves to demonstrate the Senate's accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests, please contact: Puerto Rico Senate, Office of Finance, Budget and Contracts, PO Box 9022228, San Juan, PR 00902-2228.

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET DEFICIT
JUNE 30, 2017

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash in commercial banks	$ 16,315,609
Accounts receivable:	
Intergovernmental	31,704
Others	51,799
TOTAL CURRENT ASSETS	16,399,112
NON CURRENT ASSETS	
Capital assets being depreciated, net	2,042,529
TOTAL ASSETS	18,441,641
DEFERRED OUTFLOWS OF RESOURCES	3,923,417
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	1,274,864
Accrued liabilities	106,314
Christmas bonus	330,325
Accrued compensated absences - due within one year	628,490
TOTAL CURRENT LIABILITIES	2,339,993
NON CURRENT LIABILITIES	
Accrued compensated absences	3,299,570
Net pension liability	25,584,986
TOTAL NON CURRENT LIABILITIES	28,884,556
TOTAL LIABILITIES	31,224,549
DEFERRED INFLOWS OF RESOURCES	9,855,718
NET DEFICIT	
Investment in capital assets, net of related debt	2,042,529
Restricted	179,751
Unrestricted	(20,937,489)
TOTAL NET DEFICIT	$ (18,715,209)

The accompanying notes to the basic financial statements are an integral part of this statement.

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities
EXPENSES	
Salaries and payroll related costs	$ 26,428,374
Meals and travels	359,941
Professional services	6,383,535
Insurance	16,410
Rent	443,625
Non-capitalizable equipment	133,966
Depreciation	523,032
Repairs and maintenance	37,319
Utilities	181,930
Supplies	243,065
Announcement and media publications	62,264
Postage	35,690
Loss on disposition of assets	26,125
Miscellaneous	586,749
TOTAL EXPENSES	35,462,026
TRANSFERS	
Transfers to the Superintendence of the Capitol Building	(8,492,793)
Other transfers, net	6,919,535
Net transfers	(1,573,258)
TOTAL EXPENSES AND NET TRANSFERS	37,035,284
REVENUES	
Legislative appropriations	40,704,000
Other legislative appropriations	2,550,000
Other income	535,635
Miscellaneous income	19,942
	43,809,577
NET CHANGE IN NET POSITION	6,774,293
NET DEFICIT AT BEGINNING OF YEAR AS RESTATED	(25,489,502)
NET DEFICIT AT END OF YEAR	$ (18,715,209)

The accompanying notes to the basic financial statements are an integral part of this statement.

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2017

	General Fund
ASSETS	
Cash in commercial banks	$ 16,315,609
Accounts receivable:	
Intergovernmental	31,704
Other	51,799
TOTAL ASSETS	$ 16,399,112
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 1,274,861
Accrued liabilities	106,314
TOTAL LIABILITIES	1,381,175
FUND BALANCE	
Restricted	179,751
Assigned	14,838,186
TOTAL FUND BALANCE	15,017,937
TOTAL LIABILITIES AND FUND BALANCE	$ 16,399,112

The accompanying notes to the basic financial statements are an integral part of this statement.

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF BALANCE SHEET-GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Total fund balance per balance sheet- governmental funds	$	15,017,937
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of $6,137,919 net of accumulated depreciation of $4,095,390 used in governmental activities are not financial resources and therefore not recognized in the balance sheet- governmental funds.		2,042,529
Deferred outflows of resources in governmental activities are paid in the next current available period and therefore reported in the funds		3,923,417
Deferred inflows of resources in governmental activities correspond to future period and therefore not reported in the funds		(9,855,718)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Net pension liability		(25,584,986)
Accrued absences		(4,258,388)
Total net deficit of governmental activities	$	(18,715,209)

The accompanying notes to the basic financial statements are an integral part of this statement

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE-GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund
REVENUES	
Legislative appropriations	$ 40,704,000
Other legislative appropriations	2,550,000
Special legislative assignments	364,273
	43,618,273
EXPENDITURES	
Salaries and payroll related costs	29,054,402
Meals and travels	359,941
Professional services	6,383,535
Insurance	16,410
Rent	443,625
Non-capitalizable equipment	133,966
Capital outlays	969,962
Repairs and maintenance	37,319
Utilities	181,930
Supplies	243,065
Announcement and media publications	62,264
Postage	35,690
Miscellaneous	586,749
	38,508,859
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	5,109,414
OTHER FINANCING SOURCES (USES)	
Transfers in	6,919,535
Transfers out	(8,492,793)
TOTAL OTHER FINANCING SOURCES (USES)	(1,573,258)
NET CHANGE IN FUND BALANCE	3,536,156
FUND BALANCE AT BEGINNING OF YEAR	11,481,781
FUND BALANCE AT END OF YEAR	$ 15,017,937

The accompanying notes to the basic financial statements are an integral part of this statement

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE STATEMEN OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO
THE STATEMENTS OF ACTIVITIES-GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balance-governmental funds	$ 3,536,156
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	446,930
Donated equipment	191,307
Some expenses reported in the statement of activites do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Change in compensated absences	1,999,642
Change in christmas bonus	138,257
Deferred outflows of resources (contributions made after measurement date)	488,126
Loss on disposition of assets	(26,125)
Change in net position of governmental activities	$ 6,774,293

The accompanying notes to the basic financial statements are an integral part of this statement

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity – The Senate is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Its financial data is included as part of the general government section in the general fund of the Commonwealth of Puerto Rico financial statements.

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

Summary of Significant Accounting Policies

The accompanying basic financial statements of the Senate have been prepared in the conformity with accounting principles generally accepted in the United States of America (USGAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying basic financial statements present the financial position and the changes in net position of the Senate and its funds as of June 30, 2017 and for the fiscal year then ended. The Senate's basic financial statements consist of government-wide financial statement of net position and the statement of activities, balance sheet governmental fund and statement of revenues and expenditures and changes in fund balance, which provide a more detailed level of financial information.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the Senate. The statement of activities demonstrates the degree to which the total expenses are offset by total revenues. Separate financial statements are provided for governmental funds.

Fund Financial Statements – focus on information about the Senate's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Senate has one major governmental fund:

> **General Fund** – is the primary operating fund. It is used to account for and report all financial resources received and used by the Senate.

Financial Reporting Presentation

The Senate reports its financial position and changes in net position in the General Fund, which is considered a separate accounting entity. The operation of the General Fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. The General Fund is the general operating fund of the Senate. It is used to account for all governmental activities of the Senate.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Except for budgetary purposes, the basis of accounting used by the Senate conforms with US GAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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

> **Invested in Capital Assets** – consists of capital assets, net of accumulated depreciation, that are attributed to the acquisition, construction or improvement of those assets.
>
> **Restricted Net Position** – consists of restricted net assets with constraints placed on the use of resources which either a) externally imposed by creditors (such as through debt, covenants), grantors, contributors or laws or regulations of other governments or; b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – consist of net assets that are neither restricted nor invested in capital assets. Unrestricted net assets often have constraints that are imposed by management that can be removed or modified.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Senate considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are considered to be measurable and available only when the Senate receives cash. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, expenditures for compensated absences and claims and judgments are recognized as expenditures when the payment is due. General capital acquisitions are reported as expenditures in governmental funds.

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

Legislative Appropriations – The Senate's principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico. Appropriations are general purpose revenues of the Senate.

Capital Assets

Capital assets, which include, equipment, computer equipment and software, furniture and vehicles, are reported in the government-wide financial statements. The Senate defines capital assets as assets with an initial, individual cost of more than $500 and an estimated useful life of five years or more. Such assets are reported at historical cost or estimated historical cost if purchased or constructed.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized.

Depreciation and amortization expense is recorded only in the Government-Wide Financial Statements. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method:

	Years
Equipment	5-7
Computer equipment and software	5
Furniture	7
Vehicles	5

Compensated Absences

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

As per Act. No. 26 of April 29, 2017 (Act No. 26-2017), the employees of the Senate are granted fifteen (15) days of vacation and eighteen (18) days of sick leave annually for actual employees and twelve (12) days for new employees. Vacations time accumulated is fully vested to employees from the first day of work. The employee has the right to accumulate the excess of vacation up to sixty (60) days and sick leave up to ninety (90) days, until December 31st of each year.

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

For upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the event of resignation, an employee is reimbursed accumulated vacation days up to the maximum of sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation.

Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the statement of net position when the liability is incurred.

Fund Balances

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

Pursuant to the provisions of GASB No. 54, the accompanying Governmental Fund Financial Statements (GFFS) report fund balance amounts that are considered not spendable, such as fund balance associated with inventories.

Fund Balances - continued

Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, follows:

a. **Non spendable** – Represent resources that cannot be spent with cash or are legally of contractually required no to be spent, including but not limited to inventories, prepaid items, and long-term balances of loans and notes receivable.

b. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resources providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

c. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Senate's highest level of decision making authority (Legislative Assembly through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of the fiscal year.

d. **Assigned** – Represent resources intended to be used by the Senate for specific purposes but do not meet the criteria to be classified as restricted or committed (generally administrative orders approved by the President). Intent can be expressed by an official or body to which the Senate delegates authority.

e. **Unassigned** – Represent the residual classification for the Senate's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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

The Senate does not have a formal minimum fund balance policy.

Risk Management Insurance

The Senate carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Department of Treasury. Costs allocated to the Senate and reimbursed to the Department amounted to approximately $16,410 for the fiscal year ended June 30, 2017. The current insurance policies have not been cancelled or terminated. The State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides workmen's compensation insurance to cover all Senate employees. The Senate's workmen compensation insurance amounted to approximately $424,170 for the fiscal year ended June 30, 2017.

Deferred Outflows/Inflows of Resources

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

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

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

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

Deferred Outflows/Inflows of Resources - continued

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

The Senate has items, which arise under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*, and *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds don't report *unavailable revenues*. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

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 Government 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 Senate's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Senate to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end.

Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

Accounting for Pension Costs - continued

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

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

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

For the purpose of applying the requirements of GASB No. 68, as amended, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of the Senate participate. The Senate is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government. 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 Government, was enacted the Act No. 106 of 2017 to establish a New Define Contribution Plan and create the "pay-as-you-go" scheme for payment of pensioners of the ERS and other two retirement systems (see Note F).

Accounting for Pension Costs - continued

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 the Government 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.

New Accounting Standards

Implementation of Governmental Accounting Standards Board (GASB) Statements

The provisions of the following Governmental Accounting Standards Board (GASB) Statements *are effective for financial statements for periods beginning after June 15, 2016 (FY 2016-2017) and* have been implemented when applicable during the year ended June 30, 2017:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.* GASB Statement No. 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pensions plans that are administered through trusts that have the following characteristics: (1) Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable; (2) Pension plan assets are dedicated to providing pensions plan members in accordance with the benefit terms; and (3) Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator.

GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68

GASB Statement No. 71 amends paragraph 137 of GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provision of this statement is required to be applied simultaneously with the provisions of GASB No. 68.

New Accounting Standards – continued

Adoption of GASB Statement No. 68 and No. 71

The impact of adopting GASB Statement No. 68 and No. 71 consisted of restating the June 30, 2016 financial statements by recognizing the beginning net pension liability, deferred outflows/inflows of resources for pension contributions and related charge to the beginning balance of the Senate's net position.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

GASB No. 74 does not have any impact on the Senates' financial statements.

GASB Statement No. 77, *FTax Abatement Disclosure*. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

New Accounting Standards – continued

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

GASB No. 77 does not have any impact on the Senate's financial statements

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer

New Accounting Standards – continued

(either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The GASB No. 78 is effective for the Senate's fiscal year ending June 30, 2017 and there is no impact to the financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this

Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB No. 79 does not have any impact on the Senate's financial statements.

New Accounting Standards – continued

GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement establishes an additional presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends Statement No. 14, *The Financial Reporting Entity*, paragraph 53, and *Implementation Guide No. 2015-1*, Question 4.30.1.

A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles

of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provision is paragraphs 21-37 of Statement 14, as amended.

GASB No. 80 does not have any impact on the Senate's financial statements.

Future Adoption of Accounting Pronouncements

The Governmental Accounting Standard Board (GASB) has issued the following statements:

a) GASB Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets That are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB No. 67 and 68. The Provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

b) GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans which is effective for fiscal years beginning after June 15, 2017.

c) GASB Statement No. 81, Irrevocable Split-Interest Agreements, which is effective for reporting periods beginning after December 15, 2016.

d) GASB Statement No. 82, Pension Issues-an amendment of GASB Statement No. 67, No. 68, and No. 73, which is effective for reporting periods beginning after December 15, 2016

e) GASB Statement No. 83, Certain Asset Retirement Obligations, which is effective for reporting periods beginning after June 15, 2018.

Future Adoption of Accounting Pronouncements - continued

f) GASB Statement No. 84, Fiduciary Activities, which is effective for reporting periods beginning after December 15, 2018.

g) GASB Statement No. 85, Omnibus 2017, which is effective for reporting periods beginning after June 15, 2017.

h) GASB Statement No. after 86, Certain Debt Extinguishment issues, which is effective for reporting periods beginning June 15, 2017.

i) GASB Statement No. 87, Leases, which is effective for reporting periods beginning after December 15, 2019.

j) GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, Which is effective for reporting periods beginning after June 15, 2018.

k) GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which is effective for reporting periods beginning after December 15, 2019.

l) GASB Statement No. 90, Majority Equity Interest-an amendment of GASB Statements No. 14 and No. 61, which is effective for reporting periods beginning after December 15, 2018.

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

NOTE B – DEPOSITS

The Senate maintains its cash in bank deposit accounts at high credit qualified financial institutions. Bank balance at June 30, 2017 was approximately $16,315,609, including $179,751 in restricted cash.

The Senate follows the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosures – an Amendment to GASB Statement No. 3.* Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Senate at June 30, 2017:

a) *Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the Senate has cash and cash with fiscal agents in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000. No investments in debt or equity securities were made during the fiscal year ended June 30, 2017. Therefore, the Senate's management has concluded that the credit risk related to any possible loss related to defaults by

NOTE B – DEPOSITS - continued

commercial banks on the Senate's deposits and certificates of deposit is considered low at June 30, 2017.

b) *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 Senate manages its exposures de declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2017, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its bank deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2017, the interest rate risk associated with the Senate's cash and cash with fiscal agents is considered low since they have no investment portfolio.

c) *Custodial credit risk* – In the case of deposits this is the risk that in the event of a bank failure, the Senate's deposit may not be recovered. Public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

d) *Foreign exchange risk* – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. The Senate 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 Senate's deposits is considered low at June 30, 2017.

NOTE C – CAPITAL ASSETS

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

Governmental activities	Beginning Balance	Additions	Donated Equipment	Retirements	Ending Balance
Capital assets that are not depreciated					
Work of arts and historical treasures	$ -	$ 25,000	$ -	$ -	$ 25,000
Capital assets being depreciated					
Equipment	1,283,740	204,753	32,163	(15,064)	1,505,592
Computer equipment and software	1,879,610	444,226	2,097	(107,185)	2,218,748
Furniture	1,415,671	225,997	-	(50,161)	1,591,507
Vehilcles	847,385	69,986	157,047	(277,345)	797,073
Total capital assets being depreciated	5,426,406	944,962	191,307	(449,755)	6,112,920
	5,426,406	969,962	191,307	(449,755)	6,137,920
Less: Accumulated depreciation					
Equipment	(961,221)	(94,512)	-	10,352	(1,045,381)
Computer equipment and software	(1,330,555)	(246,780)	-	105,689	(1,471,646)
Furniture	(1,136,061)	(73,438)	-	47,092	(1,162,407)
Vehilcles	(568,152)	(108,302)	-	260,497	(415,957)
Total accumulated depreciation	(3,995,989)	(523,032)	-	423,630	(4,095,391)
Total capital assets, net	$ 1,430,417	$ 446,930	$ 191,307	$ (26,125)	$ 2,042,529

NOTE D – COMPENSATED ABSENCES

Long term liability activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning balance	Accumulated balance	Used balance	Ending balance	Due within one year	Long term portion
Accrued compensated absences	$ 5,927,702	$ 3,365,790	$ (5,365,432)	$ 3,928,060	$ 628,490	$ 3,299,570

NOTE E – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Senate recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Senate that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Senate has items that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows/inflows from changes in the Net Pension Liability (Note F).

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

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

Government-wide:	**Governmental Activities**
Deferred Outflows of Resources	
Contributions to ERS	$ 3,923,417
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 9,855,718

NOTE F – PENSION PLAN

The employees of the Senate are eligible to participate in Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS System), a contributory pension plan sponsored by the Commonwealth of Puerto Rico.

The Senate follows the provisions of GASB No. 68, Accounting for Pensions by State and Local Governmental Employers, which requires employers that participate in cost-sharing multi-employer defined-benefit pension plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

The ERS System issues publicly available financial reports that include its financial statements and required supplementary information. These reports can be obtained by written request to the administrator at the addresses detailed below.

ERS Defined Benefit Pension Plan

The ERS System is a cost-sharing multi-employer defined benefit plan sponsored by the Commonwealth of Puerto Rico under terms of Act 447 of 1951, as amended, reported as a component unit of the Commonwealth. Participation is optional for employees hired before January 1, 2000 and less than 55 years of age at the date of employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable service.

NOTE F – PENSION PLAN - continued

ERS Defined Benefit Pension Plan – continued

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

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% of the first $550 and 8.275% for the excess of $550 of their monthly gross salary. The Senate is required actually to contribute 9.275% of its participating employee's gross salaries.

Effective July 1, 2011, the ERS System Commission approved an increase in the employer annual contribution for all governmental employees. This increase consisted in the following:

1. An increase in the employer contribution from 9.275% to 10.275%, starting July 1, 2011.

2. An increase in the annual employer contribution of 1% of the regular retribution received by participants, starting July 1, 2012 and ending June 30, 2016, and

3. An annual increase of the employer contribution of 1.25% of the regular retribution received by the participants starting July 1, 2016 and ending June 30, 2021.

Act 335 of September 24, 1999, an amendment to Act 447 of May 15, 1951, which created the ERS System, was enacted with the purpose of establishing a new pension program (ERS System 2000). ERS System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or irrevocably transfer to the new program. Employees joining the government on or after January 1, 2000 will only be allowed to become members of ERS System 2000.

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

NOTE F – PENSION PLAN - continued

ERS Defined Benefit Pension Plan – continued

The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which either: (1) earn a fixed rated based on the two-year Constant Maturity Treasury Notes, or (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (11.275% of the employees' salary) will be used to fund the current plan

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

Funding policy

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

Senate

Fiscal year ended June 30:

2018	16.775%
2019	18.025%
2020	19.275%
2021	20.525%

Participants:

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

NOTE F – PENSION PLAN - continued

Adoption of Comprehensive Reform of Employees Retirement System

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

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

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

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

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

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

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

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

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

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

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

NOTE F – PENSION PLAN - continued

Adoption of Comprehensive Reform of Employees Retirement System - continued

Total employee contributions to the ERS Defined Benefit Pension Plan and the ERS Defined Contribution Pension Plan during the fiscal year ended June 30, 2017 amounted to approximately $172,524. The Senate's contributions during the fiscal year ended June 30, 2017 amounted to approximately $262,261. These amounts represented 100% of the required contribution for the corresponding year.

Liquidity Risk and Uncertainties

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

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

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

NOTE F – PENSION PLAN - continued

Liquidity Risk and Uncertainties - continued

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

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

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

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

NOTE F – PENSION PLAN - continued

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

(1) Net Pension Liability

The Senate's Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program was measured as of June 30, 2016, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016. The Senate's proportion of the Net Pension Liability was based on a projection of the Senate's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. As June 30, 2017, the Senate used the proportional share of 0.06787%. The Senate's proportionate balance of the Net Pension Liability was as follows:

2017 $25,584,986 2016 $23,492,341 2015 $22,784,838

As June 30, 2017, the Senate reported $25,584,986 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS as follows:

	June 30, 2016	
	TOTAL	Proportional Share (.06787%)
Total Pension Liability	$ 36,432,873,000	$ 24,725,869
Fiduciary Net Position (Deficit)	(1,265,885,000)	(859,117)
Net Pension Liability	$ 37,698,758,000	$ 25,584,986
Plan's Fiduciary Net Position (Deficit) of Total Pension Liability	-3.47%	-3.47%
Covered Payroll	$ 3,344,382,000	$ 2,269,729
Net Pension Liability as % of Covered Payroll	1127.23%	1127.23%

NOTE F – PENSION PLAN - continued

(2) Pension Expense

For the fiscal year ended June 30, 2017, the Senate recognized pension expense of $272,261. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits

Proportion - June 30, 2016	6.7%
Proportion - June 30, 2015	4.2%
Change - Increase (Decrease)	2.5%

(3) Deferred Outflows/Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date		
Difference between expected and actual experience in measuring the total pension liability	$ -	$ 351,242
Changes in assumptions	3,902,500	-
Change in employer's contributions and the employer's proportionate share of contributions	20,917	9,366,040
Net differences between projected and actual earnings on plan investments	-	138,436
Total	$ 3,923,417	$ 9,855,718

NOTE F – PENSION PLAN - continued

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. $1,206,210 reported as deferred outflows of resources related to pensions resulting from the Senate contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017

Actuarial Methods and Assumptions

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

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

NOTE F – PENSION PLAN - continued

The actuarial valuation used the following actuarial assumptions:

Valuation Date	July 1, 2015 that was rolled forward to June 30, 2016
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Asset Valuation Method	Market Value of Assets
Remaining Amortization Period	18 years
Actuarial Assumptions:	
Inflation Rate	2.50%
Projected Salary Increase	N/A
Salary Increase	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy
Mortality	Pre-Retirement Mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scalae MP-2016 from the 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-Retirement Healthy Mortality -- Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-Retirement Disabled Mortality -- Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

NOTE F – PENSION PLAN - continued

Long-Term Expected Rate of Return

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

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity	25%	6.4%
International Equity	10%	6.7%
Fixed Income	64%	6.3%
Cash	1%	3.0%
Total	100%	

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

The asset basis for the date of depletion projection is the ERS's Fiduciary Net Position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the ERS's Fiduciary Net Position became negative in the fiscal year 2015 and accordingly no projection of date of depletion is needed.

NOTE F – PENSION PLAN - continued

The ERS's Fiduciary Net Position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the Total Pension Liability/ the discount rate was 2.85% and 3.80% as of June 30, 2016 and July 1, 2015, respectively.

The date of depletion projection of the actuarial report does not include any amounts from the AUC required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

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		

NOTE F – PENSION PLAN - continued

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

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

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

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

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

	2016		
	At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net Pension Liability	$ 29,346,300	$ 25,586,147	$ 22,524,621

NOTE F – PENSION PLAN – continued

Medical Insurance Plan for Retired Employees

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Government of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 3.10% based on the asset allocation on the Government general assets that are used to pay this benefit.

As a cost-sharing multiple employer plan, ERS is not required to report a Net OPEB Liability. In accordance with paragraph 23 of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the employers that participate in the plan should recognize annual OPEB expense equal to their contractually required contributions to the plan. The employers do not have an ARC or a Net OPEB Liability.

Fiscal Plan for Puerto Rico

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

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

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

Pay-As-You-Go Funding

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

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

NOTE F – PENSION PLAN – continued

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

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

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

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The "pay-go" funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for "pay-go" funding will be. While the ERS can set an expected "pay-go" amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a "Pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how the impacts of specific management decisions would be handled.

NOTE F – PENSION PLAN – continued

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

Pension Plan Fiduciary Net Position

As per June 30, 2016 Actuarial Valuation Report issued on November 7, 2017, the Actuaries state: "PRGERS net assets became negative in the 2014-2015 fiscal year. If the increasing Act 116-2011 employer contributions, the Supplementary Contribution under Act 3-2013, and the Additional Uniform Contribution under Act 32-2013 (as amended by Act 244-2014) are not paid in full on an annual basis, PRGERS will continue being rapidly defunded and gross assets will be exhausted."

The Employee's Retirement System of the Government of the Government of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

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

The financial statements and required supplementary information for the pension plan are available at the administration Senate of the Employees' Retirement System (ERS) of the Commonwealth of Puerto Rico, P O Box 42003, Minillas Station, San Juan, PR 00940.

NOTE G – LEASE COMMITMENTS

The Senate leases some of its facilities and equipments through various operating lease agreements, with the latest expiring on June 30, 2018. Rent expense under such lease agreements for the fiscal year ended June 30, 2017 amounted to $443,625.

Future minimum lease payments under these agreements are $434,895 for the fiscal year June 30, 2018.

NOTE H – CONTINGENCIES

The Senate is defendant in lawsuits arising in the normal course of operations. According to the laws of the Commonwealth of Puerto Rico, with the exception to those cases when an external legal representation waiver was requested, the Senate is fully represented by the Puerto Rico Department of Justice in defense of all legal cases. For instance, the Justice Department is defending a $47 million legal claim for alleged violations of civil rights. The case is in discovery stage and therefore the outcome cannot be determined.

NOTE I – UNCERTAINTY AND LIQUIDITY RISK

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

The Commonwealth's liquidity was severely affected during fiscal year 2017 and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external sources of financing. The Commonwealth has not been able to fulfill its obligations on a timely manner.

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

NOTE J – NET POSITION / FUND BALANCE RESTATEMENTS

The following reconciles the June 30, 2016 Net Position as previously reported to Beginning Net Position, as restated, July 1, 2016:

Net Position:	**Governmental Activities**
	Restated
	2016
Beginning (Deficit) Net Position, As Previously Reported, July 1,	$ 6,188,424
Prior period adjustment to Capital Assets	327,488
GASB 68 Related Adjustments	(32,005,414)
Beginning Deficit, As Restated July 1,	$ (25,489,502)

A prior period adjustment was made to correct net position at beginning of year due to incorrect entry in recording capital assets, resulting in an increase to fund balance and net position of $327,488.

NOTE K – GOING CONCERN – PRIMARY GOVERNMENT

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

The Government's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Government has financed, further increasing the amount of its debt. More recently, these matters and the Government's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Government has relied more heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Government, which reliance has constrained the liquidity of the Government in general and GDB in particular, and increased near-term refinancing risk.

NOTE K – GOING CONCERN – PRIMARY GOVERNMENT – continued

The following activities, funds, and blended component units of the Government reflect a net position deficit/fund balance deficit as of June 30, 2015 (expressed in thousands), last audited financial statements:

	Deficit Balance
Primary Government:	
Governmental Activities	$67,692,485
General Fund	2,115,324
Lotteries Fund	105,475
PR Medical Services Administration Fund	331,026
PR Health Insurance Administration Fund	207,505

The Government's Governmental Activities show a net position deficit of approximately $67.7 billion as of June 30, 2015. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, an increase in the cost of funding the Retirement Systems, and a decrease in estimated revenues, among other factors.

The Government's General Fund shows a fund balance deficit of approximately $2.1 billion. The fund balance deficit is attributable to operating expenses exceeding revenues.

Another aspect of the Government's operations contributing to the aforementioned deficits and liquidity constraints relates to the Government's education costs, representing a very high percentage of its budgetary expenditures, and the Government's challenges in controlling such costs. The budget appropriation for the Government's Department of Education has historically represented a significant portion of the total General Fund budget.

The Government's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Government's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Government.

The Government will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

PUERTO RICO FILES FOR BANKRUPTCY UNDER PROMESA TITLE III

On May 3, 2017, the Government of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United States history.

NOTE K – GOING CONCERN – PRIMARY GOVERNMENT – continued

Both the Oversight Board and the New Government Administration have expressed a strong preference for restructuring the Government' debt through the use of Title VI. However, when the it comes to the debt of the Government and those instrumentalities that rely on its taxing power for debt service, as opposed to the debt of certain of its instrumentalities, Title VI is unlikely to provide a realistic path to restructure such debt for the following reasons:

- Unlike Title III, Title VI contains no automatic stay of creditor litigation upon the commencement and during the continuation of the restructuring process. As the current stay is set to expire in May 2017, with limited options available for a further extension.
- Any attempt to restructure the Government debt through Title VI will likely be complicated when existing litigation resumes, and additional litigation is commenced.
- Although that is a critical dispute.
- In addition, creditors already have challenged the invocation of the clawback by the Government, asserted claims against the Government based on violations of statutory impairment provisions, alleged that various property interest have been taken in violation of constitutional protections, and claimed violations of PROMESA and other statutes, and
- Regardless of the validity of these claims, it is clear that they will not all be resolved in the likely time frame that a Title VI process will take, and the outcome of such litigation, as well as other litigation that surely will be commenced upon the expiration of the current stay, could alter or harden the positions of the affected parties and change their willingness to compromise their claims.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Government of Puerto Rico was expected to, and did, default on substantial payment obligations

PROMESA Overview

Background

Before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in *Puerto Rico v. Franklin Cal. Tax-Free Trust, et al.*, 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

Certain governmental entities in Puerto Rico may be organized as an instrumentality of Puerto Rico, while other entities may be organized as an instrumentality of an instrumentality. For example, certain governmental entities may not be organized as a direct instrumentality of Puerto Rico, but instead as an instrumentality of the Government Development Bank of Puerto Rico. The definition of "territorial instrumentality" in PROMESA provides that such definition includes an instrumentality "of a territory." While not addressed in the express language of PROMESA, it would appear that an instrumentality of an instrumentality, such as an entity organized by the Government Development Bank of Puerto Rico, could also constitute a "territorial instrumentality" under the Act. The definition of "territorial instrumentality" specifies that it is to be construed broadly. In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

Automatic Stay: Upon the enactment of the Act, a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against Puerto Rico and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay under the Act has certain very limited exceptions, but all enforcement actions against Puerto Rico and its instrumentalities, or other actions to control their property, are stayed

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

through the temporary stay period. As provided in the Act, the stay will continue in effect until February 15, 2017 unless it is temporarily extended by the Oversight Board for 75 days or by a Federal District Court for 60 days. The Act permits Puerto Rico and its instrumentalities to voluntarily pay liabilities during the period of the temporary stay. Thus, Puerto Rico and its instrumentalities can elect to, but are not required to, make payments on debts or other obligations during the stay period. On January 28, 2017, the Oversight Board extended the stay to May 1, 2017.

FISCAL PLAN TARGETS AND GUIDELINES

At its November 18, 2016 public meeting here in Puerto Rico, the Oversight Board adopted and communicated publicly a set of five principles to evaluate the Government of Puerto Rico's proposed fiscal plan and to assess the degree to which the plan meets the 14 criteria established by PROMESA. This set of five principles adopted by the Oversight Board and the 14 criteria established by PROMESA regarding the elaboration of the fiscal plan are as follows:

Principles:

Principle 1: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

Principle 4: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

CRITERIA FOR FISCAL PLANS

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and
14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial in effect prior to the enactment of PROMESA.

Fiscal Plans and Budgets: A critical component of PROMESA is the requirement of Puerto Rico and covered instrumentalities to develop and maintain a fiscal plan. A fiscal plan for the territory, or any instrumentality designated by the Oversight Board, generally must contain numerous provisions governing the operation of the territory or instrumentality including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability. Each fiscal plan is also required to set forth methods for the territory or instrumentality to access the capital markets.

The fiscal plan must be developed by the governor, with oversight by the Oversight Board, and submitted to the Oversight Board for approval (the Oversight Board can submit its own fiscal plan if the governor's fiscal plan is not acceptable in the sole discretion of the Oversight Board). A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

The Act further specifies that no budget can be submitted by the territory's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board). The Government submitted the Fiscal Plan on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017 (see below).

New Fiscal Plan – October 23, 2018

The Commonwealth submitted the Fiscal Plan on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017. In September 2017, just months after the certification, Hurricanes Irma and María struck the Island, causing great devastation and fundamentally altering the Island" macroeconomic reality, and ultimately requiring a new Fiscal Plan.

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

After months of hard work, engagement with stakeholders, and intense negotiations with the Government, the Oversight Board determined that the Fiscal Plan complied with the requirements of PROMESA, and accordingly, certified it in April 2018. Due to further Government and Oversight Board discussions concerning the repeal of Law 80, the Oversight Board certified an updated fiscal plan in June 2018. That plan served as the basis for the FY2019 Budget. The New Fiscal Plan has been subsequently updated on October 23, 2018, to reflect actual revenue and expenditure numbers, refined healthcare projections based on actuarial estimates, new federal fund estimates, and changes in Government policy that may impact overall growth.

While many measures were largely maintained from the Certified Fiscal Plan in 2017, in other cases there were changes to approach. Below is an explanation of key differences.

Office of the Chief Financial Officer (OCFO)

By centralizing all financial management functions per the New Fiscal Plan, the OCFO would improve fiscal governance and forecasting, increase transparency, substantiate accountability, heighten internal controls, and improve stakeholder confidence in Puerto Rico's financial management. Most importantly, it will enable the Government to achieve fiscal responsibility and restore access to the capital markets, two cornerstones of PROMESA.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

A. Centralize treasury and liquidity management

- Enforce and manage a consolidated treasury single account for the Government; this involves consolidating visibility of all Government bank accounts, including CU accounts at private banks and creating a true Treasury Single Account. All other public entities should maintain zero balance sweep accounts.
- Serve as the sole authority for new bank account creation and closure, as well as ongoing and ad-hoc liquidity reporting, monitoring and analysis. The OCFO must rationalize the bank account portfolio, optimize cash pooling/daily cash sweeps and treasury operations, and implement uniform accounts payable and disbursement prioritization policies, processes and reports.

B. Enhance budget development process and improve monitoring and performance tracking

- Comply with the recently established Oversight Board budget guidelines and timeline to develop a budget that is consistent with the New Fiscal Plan and easily traceable to the New Fiscal Plan and the audited financials.
- Forecast and managing receipts seasonality.
- Oversee all tax decrees and tax agreements issues.
- Operationalize the budget in the financial system to ensure consistency between accounts and facilitate monitoring of those accounts.
- Estimate, protect, and enhance collections and revenue streams, and establish budgetary priorities and oversight, including effective expense controls and procurement reform.

C. Drive standardization and integration of financial IT systems

- Drive the comprehensive upgrade and standardization of accounting and IT systems across all agencies.

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

- Certify all contracts, bills, invoices, payrolls, and other evidences of claims, demands or charges related to the central Government and all entities reliant on the Government's
- taxing authority, including prescribing forms of receipts, vouchers, bills and claims to be used by all agencies.
- Manage centralized health insurance procurement and policy management.
- Oversee human resources as well as all governmental payroll operations and all government-related financial transactions. The Senate must have the sole responsibility within the Government for reforming personnel policies, including the renegotiation of

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

- existing collective bargaining agreements (CBAs) consistent with the New Fiscal Plan objective to achieve budget savings and efficiencies, ensure enhanced delivery of governmental services, and negotiate all future CBAs to achieve the same ongoing results.
- Implement uniform time and attendance processes, and payroll control and reporting.

E. **Reduce special revenue funds deficits through enhanced control mechanisms and oversight.** Implement an additional measure responsible stewardship of Puerto Rico's Special Revenue Funds. Additionally, ensure all dedicated revenue streams attributable to SRF have their funds first deposited in the newly established Treasury Single Account. In this process, it will ensure a balance between current SRF revenues and expenditures to aligh with the legislative mandate that SRF's cannot outspend their resources.

F. **Improve timeliness of CAFR and financial reporting**

- Establish a clear timeline to publish the FY 2016, and FY 2017 CAFRs and manage it to completion as soon as possible.
- Implement a new process for the publishing of the FY 2018 and subsequent CAFRs within the established regulatory timeframes, and drive improvements in the process and quality of the data provided. All releases should implement the modified-accrual basis of accounting as required in PROMESA and leverage the forecasting, e-settlement, and analytics capabilities to support all OCFO functions.
- Enact measures implementation impact forecasting and reporting.
- Supervise property tax assessment reforms, prepare tax maps, and provide notice of taxes and special assessments.

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

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

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

Agency Efficiencies

There are several actions that have been applied to each agency to achieve efficiency measures:

A. Changes to agency operational expenditures

- As part of the new Government model, the Government should consolidate the 114 agencies into no more than 35 agency groupings and independent agencies.
- The Government should also implement energy efficiency initiatives that reduce its utility payments in line with mainland energy efficiency.

B. Approach to agency efficiencies measures

There are several actions that have been applied to each agency to achieve these targets:

- ***First, some agencies will be closed completely*** if their function and programs are not required, resulting in a 100 percent personnel and non-personnel savings for all non-federal funded expenditures after a 2-3-year wind-down period (a minimum of 50% savings must be achieved no later than year 2).
- ***Other agencies must be merged*** when benchmarking and best practices determine that activities across agencies could be better served through a single mission and management to eliminate redundancies, and/or where economies of scale make shared services more economical without reducing quality of service.
- ***A small subset of agencies will be left independent but made more efficient*** through a series of streamlining efforts related to both personnel and operations, allowing the agency to provide existing services at a lower cost to taxpayers.

C. Ensuring enforcement of the agency efficiency expenditure reductions

- The New Fiscal Plan took an overall approach to all agency efficiency savings, breaking out reductions in personnel and non-personnel expenditures without aligning on agency-specific targets. Measures include:

	Closing	Merging	Efficiency
Back-Office	**100%**	**40-50%**	**15-20%**
Front-Line	**100%**	**Variable**	**Variable**
Non-Personnel	**100%**	**30%**	**20%**
Operations Utilities Reduction	**15%**	**15%**	**15%**

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

- If, after any fiscal quarter the projected agency efficiency savings for any grouping is not realized, the shortfall from that fiscal quarter will be added to the agency efficiency savings target for the corresponding grouping for the following quarter.
- The Government shall produce a quarterly performance report.
- If, based on the quarterly performance reports and any other information the Oversight Board deems appropriate, the Oversight Board concludes there is underperformance in agency efficiency savings for any grouping, the Oversight Board will take measures to enforce reductions in the amount of unrealize savings.
- All consolidated agency groupings should perform a thorough review of the agencies within the grouping and submit a proposal for integration.

D. Compensation-related initiatives

- Maintaining a payroll freeze.
- Standardizing healthcare provided to government employees.
- Reducing additional outsized non-salary compensation paid to employees.

The New Fiscal Plan contemplate several actions that have been applied to the following agencies to achieve efficiency measures:

- Department of Education, Department of Health, Department of Public Safety, Department of Corrections and Rehabilitation, Treasury Department / Office of the CFO, Department of Economic Development, Legislative Assembly and the General Court of Justice, and all other agencies, except Agencies that promote public integrity and transparency (Office of the Comptroller and the Office of Government Ethics.

Healthcare Reform

Healthcare savings from the March 2017 Certified Fiscal Plan are largely maintained in the New Fiscal Plan, except for FY 2018 and FY 2019, which have been adjusted to reflect the post-María reality.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) - continued

A. Future vision for healthcare reform

The future vision for the Puerto Rican healthcare system is to cultivate a healthier population overall by providing high-quality services to all citizens in need. To do so, the Government has proposed targeting the following:

- **Decrease the annual per-member cost growth rate to the median level of Medicaid growth rate** by implementing value-based healthcare reforms, such as new payment models to incentivize care integration among providers.
- **Shift care from higher-cost to lower-cost channels**; for example, reducing the number of emergency room visits and encouraging and enabling the role of primary care physicians in providing preventative care.
- **Drive better health outcomes for the population**, indicated especially by reduced rates of chronic conditions among adults.
- **Coordinate healthcare initiatives in the community** to promote efficiency of services and a community-wide focus on health.

A. Administrative tax initiatives to increase revenue collections

The March 2017 Certified Fiscal Plan included revenue-positive corporate tax reform, whereas in the New Fiscal Plan there is a new tax initiatives structural reform which is revenue neutral.

- Improve compliance rates
  - Use new systems and processes to identify and remediate non-payment.
  - Create a new culture internally and externally.
  - Reduce the complexity of the tax system and process of filing taxes.
  - Institute advanced analytics and broad-reach, low-touch correspondence.
  - Collecting SUT on Internet sales.
- Right-rate other taxes and fees
  - Garming tax.
  - Licenses and other fees.
  - Tabacco taxes.
  - Medical marijuana tax.
  - Airbng Tax

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continued

B. Implementation and enforcement of revenue measures

- Creation of a tax expenditure report and regular reporting, which will include a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law.
- Tax incentives code reform to better align the tax concessions awards to the growth strategy of Puerto Rico.
- Principle of Revenue Neutrality, that is, all tax reductions must be accompanied by specific offsetting revenue measures of a sufficient amount identified in the enabling legislation.

Reduction in Appropriations to UPR and Municipalities

- The March 2017 Certified Fiscal Plan and New Fiscal Plan maintain the same reduction to UPR appropriations; however, the New Fiscal Plan accounts for reductions which have already taken place in FY 2018 (e.g., they are accounted for within the baseline expenditures of the New Fiscal Plan).

    - Targeted measures to increase revenues (tuition, applying for patents and other intellectual property, and continuing to provide trainings to the Puerto Rico Department of Education and the Government more broadly) and reduce expenditures (consolidating campuses, optimizing human resources through reducing temporary and trust positions, improving procurement, reducing the cost of medical insurance, and reducing tuition exemptions and special scholarships) will allow UPR to operate sustainably under a reduced Commonwealth subsidy.

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

A. Key initiatives to reduce appropriations

- Reduce UPR appropriations to levels in line with funding of other U.S, public universities.
- Establish independent scholarship fund for UPR that will be supported by reductions to the budgets of the Oversight Board, Legislative Assembly, and AAFAF.
- Reduce municipal appropriations & support through service consolidation and property registry / tax reform.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continued

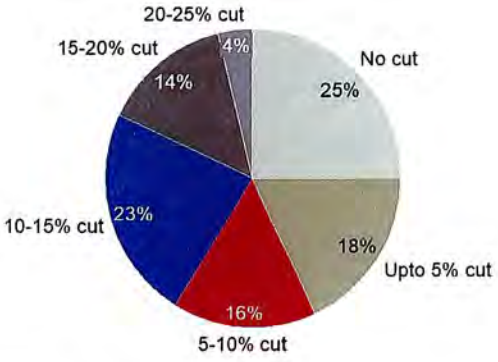
Pension Reform

Pension reform will help restore both fiscal balance and promise for current and future retirees from government.

A. Proposed pension reform initiatives

- Freeze Defined Benefits accumulation for JRS/TRS and enroll employees in a Defined Contributions plan with segregated accounts.

- 10% pension benefit reduction.
  - Although the average benefit reduction will be 10%, there will be no reduction for those with total retirement plan benefits (including assumed Social Security of $400 for non-police ERS members for whom the employer pays Social Security taxes) below the poverty level of $1,000 per month.



- This formula of reduction will also apply to benefits earned by current employees who have yet to retire.
- Covering more government workers in Social Security.
- Currently, teachers, police officers, and judges do not participate in Social Security.
- Teachers, police officers, and judges under the age of 40 shall be enrolled in Social Security. This can be accomplished without either an employee referendum or new Federal legislation.

- Teachers, police officers, and judges over the age of 40 should be provided the option to enroll in Social Security at a later date.

NOTE L – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continued

Ensuring successful implementation and fiscal control

To mitigate implementation risk and improve fiscal management, the Oversight Board expects there to be a robust and well-resourced Program Management Office structure, clear implementation plans with milestones and key progress indicators, and regular fiscal controls and reporting. These functions will largely be the responsibility of the OCFO.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

NOTE M – SUBSEQUENT EVENTS

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

On August 23, 2017, The Governor of the Commonwealth of Puerto Rico signed the law 106 known as the "Law to guarantee the payment to our pensioners and establish a new plan of defined contributions for public servants".

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) created by Congress authorized the Government Development Bank for Puerto Rico (GDB) to pursue the restructuring of its debts under Title Vi of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA) under the relevant provisions of Title VI.

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

NOTE M – SUBSEQUENT EVENTS – CONTINUED

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

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

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

The RSA Summary are as follow:

- RSA is consistent with the previously certified GDB Fiscal Plan, as it contemplates the conclusion of the orderly wind-down of GDB and a Title VI Qualifying Modification for the restructuring of GDB's Participating Bond Claims.
- RSA contemplates dividing GDB's assets into (i) the Recovery Authority for the benefit of bondholders, municipal depositors, and non-government entity depositors, and (ii) the Public Entity Trust (PET) for the benefit of other Government Entity Depositors.
- GDB will continue to exist as a legal entity for the purpose of resolving (i) outstanding legal matters and claims that exist or may be asserted by or against GDB and (ii) certain public entity loans that will remain at GDB and for which GDB shall have a contractual duty to the Recovery Authority to use commercially reasonable best efforts to maximize proceeds and transfer such proceeds, if any, to the Recovery Authority.
- GDB and the PET will be pre-funded at the time of closing of the Restructuring (as defined in the RSA) and will not require further financial assistance from the Recovery Authority, the PET or the Government.
- Prior to the closing of the Restructuring, the Amended RSA will simplify the GDB restructuring transaction while simultaneously providing additional relief to municipalities as they recover from the severe damage and devastation caused to Puerto Rico and its municipalities in the wake of Hurricanes Irma and María. The amendment to the RSA provides that, upon consummation of the transaction, each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB.

M – SUBSEQUENT EVENTS - CONTINUED

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

Management and Trust Structure Summary

- On or prior to the closing of the transaction, pursuant to the terms of the RSA and the GDB Restructuring Act, each as amended, available cash will be distributed as follows: Approximately (i) $21 million for payment to certain municipalities of the Excess CAE Settlement; (ii) $27.2 million for estimated operating cash and contingency requirements of GDB; (iii) transaction cost (including legal and professional fees and contemplated settlements); $1.5 million for estimated operating cash requirements of the PET; and (v) distributable cash to the Recovery Authority (~$324 million). All amount subject to change.
- Upon closing of the Restructuring, GDB will transfer the servicing of the Recovery Authority assets (or the New Bond Collateral) to a third-party servicer approved by GDB.

Also, the Oversight Board requires a New Fiscal Plan that was approved on April 20, 2018.

- The Plan is based on the projected performance of GDB's existing loan asset portfolio, based on recent historical results.
- Based on the assessment of GDB's loan portfolio and the information available post-Hurricanes Irma and María, the Plan assumes currently performing municipal loans (after the corresponding application of municipal deposits against municipal loans), certain public-sector loans, and the sale of real estate owned assets are the only sources of revenue going forward.
- To the extent a loan asset is "non-performing", the Plan assumes such loan remains "non-performing" and therefore would not be a source of future inflows, although GDB, or any successor entity, reserves the right to pursue collection efforts, subject to the limitations imposed by the GDB Restructuring Act.
- The Plan assumes the continued orderly sale or other legally available disposition of real estate owned assets, until such assets are transferred to the Recovery Authority per terms of the RSA.
- GDB has segregated approximately $22 million in cash, corresponding to GDB's obligations to former GDB employees that retired pursuant to various pre-retirement and voluntary separation programs. Promptly after the certification of the Plan, GDB shall transfer such funds to a new trust to be constituted by GDB for the benefit of said retired employees, releasing GDB from such obligations.

M – SUBSEQUENT EVENTS - CONTINUED

Employees' Retirement System

On June 25, 2017, the Puerto Rico Legislature Assembly approved the Joint Resolutions Numbers 186, 187, 188 and 189 to adopt the budget for fiscal year 2017-2018 in the amount of $9.562 billion. This amount is compound of $9.172 billion from General Fund revenues and $390 million expected from the sale of Employees' Retirement System of the Government of the Government of Puerto Rico (ERS), Judiciary Retirement System (JRS) and Teacher Retirement System (TRS)s' assets, except for the headquarters building of the TRS known as the Capital Center Building, North Tower, located in Hato Rey, Puerto Rico. To make retirement systems payments effective July 1, 2017, the budget separates $2.038 billion under Office of Management and Budget supervision.

On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. As a result of this financial emergency, it is estimated that by August 2017 the ERS will not have liquid funds to meet its obligations. Likewise, it is estimated that the TRS will be without liquid funds in September 2017 and that the JRS will not have sufficient liquid funds by February 2018.

On May 21, 2017, the Oversight Board, on behalf of the Government of Puerto Rico, filed a petition for the ERS to avail itself of Title III protections of PROMESA. With the submission of the petition under Title III of PROMESA, a process of restructuring of the obligations of said system under the supervision of the United States District Court for the District of Puerto Rico was initiated. Faced with this situation, the Puerto Rico Legislature Assembly approved the Act No. 106 on August 23, 2017, to ensure that retirees continue to receive their pensions, protect the individual contributions of public employees and protect the future of them. In addition, as a corrective measure, the contributions of public employees must be segregated and protected, and a New Defined Contribution Plan (DCP) was established to ensure the future of public employees. Accordingly, a Defined Contribution Account (DCA), a trust account, separated from the general assets and accounts of the Government, was created as of July 1, 2017 in the name of each Participant, as established in Chapter 3 of this Act.

The New Defined Contribution Plan created, consists of the establishment of a trust fund, which will not be subject to the provisions of Act No. 219-2012, as amended, known as the "Trusts Act". Which will contain an individual account for each Participant of the Retirement Systems that becomes part of said program, as provided in Chapter 3. Individual contributions will be credited to the New Defined Contribution Plan of each Participant and the return on investment in accordance with Article 3.6 of this Act.

The benefit related to these contributions will be provided to each Participant after their separation from Service, whether by withdrawal or otherwise, will depend on the totality of the contributions to the New Defined Contribution Plan accumulated in its account from the moment this Act comes into force, or the date on which the Participant entered the DCP and the profitability of these.

M – SUBSEQUENT EVENTS - CONTINUED

By this Act is hereby declared as public policy of the Government of Puerto Rico the protection of pensions of all public service retirees who were Participants in the three Retirement Systems mentioned above. Therefore, as of July 1, 2017, pursuant to the Joint Resolution of the House of Representative No. 188 of 2017, as certified by the Oversight Board on July 13, 2017, the Government of Puerto Rico became the direct payer of the pensions of the retirees. Given the weight that this implies on the General Fund, which is estimated at billions of dollars a year, the employer's contributions that had been made to the three Retirement Systems, as well as the Additional Uniform Contribution, as per provisions of Joint Resolutions Nos. 186, 187 and 188 of 2017, the Retirement Systems shall provide their available funds and the net proceeds of the liquidation of their assets to the General Fund to assist in the payment of Accumulated Pensions.

Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "*pay as you go*" scheme, as established in Chapter 2 of this Act. This trust account will be centralized and segregated from the general assets and accounts of the Government, in charge of the Department of the Treasury and will be devoted solely and exclusively to the purposes set forth in this Act, and subject to the terms and conditions established therein. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the

Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

As of July 1, 2017, as per Act No. 106 of 2017, the Participant shall not make individual contributions or payments to the Account for the Payment of Accumulated Pensions, nor additional contributions to their respective Retirement Systems. As of the effective date of this Act, any Participant in the Retirement Systems shall obligatorily contribute a minimum of eight-point five percent (8.5%) of his/her monthly remuneration to his DCA, up to the limit established by the Code. In addition, may voluntarily provide additional amounts, as permitted by the Code. Upon entry into force of this Act, Participants in the DCP shall have the right to adjust their current contribution to Retirement Systems to the minimum authorized by this article. Participants in the DCP may vary the percentage they wish to contribute to said Plan from time to time but may never be less than the minimum percent required by this Act.

As per Act No. 106 of 2017, effective July 1, 2017 the Additional Uniform Contribution imposed by Act No. 32 of 2011 and the employer contribution imposed by Act No. 3 of 2013, was eliminated and imposes the "Pay-Go" Charge that the Financial Advisory Authority and Fiscal Agency of Puerto Rico

M – SUBSEQUENT EVENTS - CONTINUED

(FAAFA) created by Act No. 2-2017, determines and imposes on the Government, the Municipalities, the Legislative Branch, the Administration of Courts, the Public Corporations and other covered entities. This charge will be equivalent to the amount in effect paid to Pensioners and Beneficiaries from each covered entity. The Secretary of the Treasury or the person or entity designated by him shall be authorized to collect the "Pay-Go" Charge. In the case of the Municipalities, the administrative charges of the "*pay as you go*" scheme will not be included in the computation of the "Pay-Go" Charge. Regardless of the payment of the "Pay-Go" Charge by the employer, the disbursement of the benefits of all Pensioners and Beneficiaries are guaranteed by the General Fund through the "*pay as you go*" scheme, with the responsibility of the entities to remit the payment of said Charge in compliance with its obligations under this Act.

The FAAFA is authorized, after making a determination that the fiscal situation of the Government has stabilized and that the condition of the fiscal permits, to recommend to the Governor, in coordination with the Retirement Board, that a quantity be included in the budget to match the contributions of the Participants to the Defined Contribution Account. This determination must be made in accordance with the Certified Fiscal Plan and the provisions of PROMESA.

Hurricanes Irma and María

On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the daily lives of 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations. The response to the catastrophe by the U.S, and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history.

The eye of Hurricane Irma, a powerful Category 5 storm, skirts north of San Juan, Puerto Rico experiences a deluge and 100-mile-per-hour gusts but is avoids the worst of the storm's effects. Irma kills four people. It cuts off power to about two-thirds of the island's electricity customers, and about 34 percent of its population loses access to water.

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

Following the hurricanes, the initial job losses in Puerto Rico totaled about 4%, though employment is beginning to improve somewhat. This loss is considerably steeper than what has typically been experienced after most major natural disasters that have hit the United States. That being said,

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET TO ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual Amounts in Budgetary Basis	Variance Favorable (Unfavorable)
REVENUES				
Legislative appropriations	$ 40,704,000	$ 40,704,000	$ 40,704,000	$ -
	40,704,000	40,704,000	40,704,000	-
EXPENDITURES				
Salaries and payroll related costs	33,247,294	28,321,540	25,501,513	2,820,027
Meals and travel	1,097,000	966,457	261,259	705,198
Professional services	3,535,996	7,754,790	6,086,810	1,667,980
Insurance	-	25,705	16,410	9,295
Rent	455,510	478,588	102,136	376,452
Equipment	700,000	927,443	560,944	366,499
Repairs and maintenance	110,000	92,578	28,773	63,805
Utilities	461,250	499,128	181,818	317,310
Materials and supplies	625,450	608,743	172,648	436,095
Announcement and medial publications	150,000	154,493	62,264	92,229
Postage	67,500	75,255	36,670	38,585
Contributions to private entities	-	47,645	47,645	-
Miscellaneous	254,000	751,635	515,236	236,399
Total expenditures	40,704,000	40,704,000	33,574,126	7,129,874
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 7,129,874	$ 7,129,874

See accompanying notes to the Statement of Revenues and Expenditures Budget to Actual – General Fund.

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
NOTES TO STATEMENT OF REVENUES AND EXPENDITURE-
BUDGET TO ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Senate's budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations recommended by the President and approved by the Senate prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Senate in accordance with Administrative Order 10-35 of January 2010. The Senate prepares its annual budget including the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2017 was $40,704,000

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

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

Budget GAAP/Reconciliation

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

Expenditures according to the Statement of Revenues and Expenditures - Budget and Actual - General Fund	$ 33,574,126
Plus prior year encumbrances recorded as current year expenditures under GAAP basis	5,005,063
Less current year encumbrances not recorded as expenditures under the modified accrual basis 2016-17	(70,330)
Expenditures according to the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	$ 38,508,859

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jorge Aquino Barreto, CPA, CVA
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Eduardo González-Green, CPA, CFF, CFE

INDEPENDENT AUDITORS'REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Senate
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities and the general fund information of the Senate of Puerto Rico (the Senate) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Senate's basic financial statements, and have issued our report thereon dated February 1, 2019.

Internal Control over Financial Reporting

In Planning and performing our audit of the basic financial statements, we considered the Senate'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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Senate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Senate'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, misstatement 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 basic financial statements will not be prevented, or detected and corrected on a timely basis.

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

INDEPENDENT AUDITORS'REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

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. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weakness. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Senate's basic financial statements are free from material misstatement, we performed test 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 basic financial statements 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Carolina, Puerto Rico
February 1, 2019

Aquino, De Córdova, Alfaro & Co., LLP

Stamp Number E371073
of the Puerto Rico CPA Society
has been affixed to the
original report

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

NET POSITION GOVERNMENT WIDE

FOR THE LAST SEVEN FISCAL YEARS

	2017	As Restated 2016	As Restated 2015	As Restated 2014	2013	2012	2011
Net position							
Invested in capital assets	$ 2,042,529	$ 1,102,929	$ 1,112,707	$ 1,070,432	$ 864,311	$ 910,590	$ 844,002
Restricted	179,751	172,915	310,712	362,720	112,709	752,629	-
Unrestricted	(20,937,489)	(26,765,346)	(24,596,613)	(21,588,611)	8,051,160	5,346,894	1,237,379
	$ (18,715,209)	$ (25,489,502)	$ (23,173,194)	$ (20,155,459)	$ 9,028,180	$ 7,010,113	$ 2,081,381

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

CHANGES IN NET POSITION – GOVERNMENT WIDE

FOR THE LAST SEVEN FISCAL YEARS

	2017	As Restated 2016	As Restated 2015	As Restated 2014	2013	2012	2011
Expenses							
Government activities	$ 35,462,026	$ 42,891,281	$ 43,542,410	$ 39,055,434	$ 43,766,452	$ 44,401,031	$ 36,776,390
Revenues							
Legislative appropriations	40,704,000	40,204,000	40,492,880	44,122,600	44,122,600	38,372,600	38,372,600
Other legislative apprpriations	2,550,000	-	-	-	-	-	-
Joint commission	-	-	-	-	210,805	176,000	276,000
Other revenues	535,635	370,973	31,795	10,872	1,450,000	10,750,000	1,747,758
Miscellaneous income	19,942	-	-	-	1,114	31,163	-
	43,809,577	40,574,973	40,524,675	44,133,472	45,784,519	49,329,763	40,396,358
Increase (decrease) in net position before transfers	8,347,551	(2,316,308)	(3,017,735)	5,078,038	2,018,067	4,928,732	3,619,968
Transfers net	(1,573,258)	-	-	-	-	-	-
Net change in net position	6,774,293	(2,316,308)	(3,017,735)	5,078,038	2,018,067	4,928,732	3,619,968
Net position at beginning of year	(25,489,502)	(23,173,194)	(20,155,459)	9,028,180	7,010,113	2,081,381	(1,538,587)
GASB 68 Adjustments	-	-	-	(34,261,677)	-	-	-
Net position at beginning of year, as restated	(25,489,502)	(23,173,194)	(20,155,459)	(25,233,497)	7,010,113	2,081,381	(1,538,587)
Net Position at end of yearf	$ (18,715,209)	$ (25,489,502)	$ (23,173,194)	$ (20,155,459)	$ 9,028,180	$ 7,010,113	$ 2,081,381

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

FUND BALANCE – GOVERNMENTAL FUND

FOR THE LAST SEVEN FISCAL YEARS

General Fund	2017	2016	2015	2014	2013	2012	2011
Fund balance							
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ 233,719
Restricted	179,751	172,915	310,712	362,720	112,709	752,629	718,123
Assigned	14,838,186	11,308,866	14,754,004	17,781,953	12,402,821	10,226,139	4,619,274
	$ 15,017,937	$ 11,481,781	$ 15,064,716	$ 18,144,673	$ 12,515,530	$ 10,978,768	$ 5,571,116

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

FOR THE LAST SEVEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011
Revenues							
Legislative appropriations	$ 40,704,000	$40,204,000	$ 40,492,880	$ 44,122,600	$ 44,122,600	$ 38,372,600	$ 38,372,600
Other legislative apprpriations	2,550,000						
Joint commission	-	-	-	-	210,805	176,000	276,000
Other revenues	364,273	43,485	31,795	10,872	1,450,000	10,750,000	1,747,758
Miscellaneous income	-	-	-	-	1,114	16,533	-
	43,618,273	40,247,485	40,524,675	44,133,472	45,784,519	49,315,133	40,396,358
Expenses							
Government activities	38,508,859	43,830,420	43,604,632	38,504,329	44,247,757	43,907,481	39,223,788
Excess (deficiency) of revenues over expenditures	5,109,414	(3,582,935)	(3,079,957)	5,629,143	1,536,762	5,407,652	1,172,570
Transfers net	(1,573,258)	-	-	-	-	-	-
Net change in fund balance	3,536,156	(3,582,935)	(3,079,957)	5,629,143	1,536,762	5,407,652	1,172,570
Fund balance at beginning of year	11,481,781	15,064,716	18,144,673	12,515,530	10,978,768	5,571,116	4,398,546
Fund balance at end of year	$ 15,017,937	$11,481,781	$ 15,064,716	$ 18,144,673	$ 12,515,530	$ 10,978,768	$ 5,571,116

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

CAPITAL ASSETS – GOVERNMENT WIDE

FOR THE LAST SEVEN FISCAL YEARS

Governmental activities	2017	2016	2015	2014	2013	2012	2011
Capital assets that are not depreciated							
Work of arts and historical treasures	$ 25,000	$ -	$ -	$ -	$ -	$ -	$ -
Capital assets beign depreciated							
Equipment	$ 1,505,592	$ 1,283,740	$ 1,408,460	$ 1,537,380	$ 1,605,364	$ 1,573,279	$ 1,568,024
Computer equipment and software	2,218,748	1,879,610	1,649,883	1,653,499	1,776,616	1,787,210	1,708,824
Furniture	1,591,507	1,415,671	1,460,436	1,686,563	1,582,708	1,647,157	1,590,341
Vehicles	797,073	847,385	805,052	925,093	750,510	776,805	679,353
Total capital assets being depreciated	6,112,920	5,426,406	5,323,831	5,802,535	5,715,198	5,784,451	5,546,542
Less: Accumulated depreciation							
Equipment	(1,045,381)	(961,221)	(1,209,700)	(1,378,696)	(1,448,508)	(1,444,075)	(1,425,310)
Computer equipment and software	(1,471,646)	(1,330,555)	(1,234,588)	(1,274,379)	(1,326,070)	(1,319,278)	(1,273,702)
Furniture	(1,162,407)	(1,136,061)	(1,187,889)	(1,397,425)	(1,390,146)	(1,417,540)	(1,340,244)
Vehicles	(415,957)	(568,152)	(578,947)	(681,603)	(686,163)	(692,968)	(663,284)
Total accumulated depreciation	(4,095,391)	(3,995,989)	(4,211,124)	(4,732,103)	(4,850,887)	(4,873,861)	(4,702,540)
Total capital assets, net	$ 2,042,529	$ 1,430,417	$ 1,112,707	$ 1,070,432	$ 864,311	$ 910,590	$ 844,002

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

REVENUES

FOR THE LAST SEVEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011
Revenues							
Legislative appropriations	$ 40,704,000	$ 40,204,000	$ 44,492,880	$ 44,122,600	$ 44,122,600	$ 38,372,600	$ 38,372,600

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
DEMOGRAPHIC AND ECONOMIC INDICATORS
FOR THE PRECEDING TEN FISCAL YEARS

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

p - Preliminary figures

SENATE (A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
0OPERATING INDICATORS
FOR THE LAST SEVEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011
Number of employees:							
Legislative	324	272	301	322	267	336	305
Administrative	239	304	302	296	291	332	325
Total employees	563	576	603	618	558	668	630
Legislative sessions:							
Number of days	53	67	73	77	120	90	60
Number of commissions hearings	668	659	713	782	948	1,218	779
Number of legislative bills	583	274	693	1,601	1,643	2,001	1,597