

**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ENVIRONMENTAL QUALITY BOARD**

**FINANCIAL STATEMENT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**(WITH THE ADDITIONAL REPORTS REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)**



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**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

*Member of:*

 **AICPA**  
Governmental Audit Quality Center  
Puerto Rico Society of Certified Public Accountants  
Enrolled in the AICPA Peer Review Program Since 1988

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**PART I**  
**FINANCIAL**

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## INDEPENDENT AUDITOR'S REPORT

To the President of the Puerto Rico Environmental Quality Board  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

### Report on the Financial Statements

We have audited the accompanying statement of cash receipts, disbursements, and net changes – governmental funds of the **Puerto Rico Environmental Quality Board of the Commonwealth of Puerto Rico (EQB)**, for the fiscal year ended June 30, 2017, and the related notes to financial statement, which collectively comprise the **EQB's** basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with cash basis of accounting described in Note 2. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **EQB's** preparation and fair presentation of the financial statement 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 **EQB's** internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

**INDEPENDENT AUDITOR'S REPORT**  
**To the President of the Puerto Rico Environmental Quality Board**  
**of the Commonwealth of Puerto Rico**  
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***Opinions***

In our opinion, the cash basis financial statement referred to above presents fairly, in all material respects, the respective cash receipts and disbursements of the **EQB** governmental funds, and the respective net changes thereof for the year ended June 30, 2017, in conformity with the basis of accounting described in Note 2.

***Basis of Accounting***

We draw attention to Note 2 of the financial statement that describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Emphasis of Matters***

*Uncertainty about Ability to Continue as a Going Concern – Primary Government*

The **EQB** is part of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statement of the **EQB** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 9 to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 9. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Considering that the **EQB** depends substantially on appropriations from the Commonwealth, the financial condition and liquidity of the **EQB** could be similarly affected. Our opinions are not modified with respect to this matter.

*Other*

As discussed in Note 1, the financial statement of the **EQB** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of **EQB**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, on pages 46 through 47, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statement as a whole.



**INDEPENDENT AUDITOR'S REPORT**  
**To the President of the Puerto Rico Environmental Quality Board**  
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**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the **EQB's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **EQB's** internal control over financial reporting and compliance.



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

Caguas, Puerto Rico  
September 26, 2018

Stamp No. E342417 of the Puerto Rico Society of  
Certified Public Accountants has been affixed to  
the original report.

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COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO ENVIRONMENTAL QUALITY BOARD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND NET CHANGES – GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Special Revenues Fund</u>	<u>Federal Grants Fund</u>	<u>Total Governmental Funds</u>
<b>CASH RECEIPTS:</b>				
Appropriations from the Commonwealth of Puerto Rico	\$13,534,856	\$ -	\$ -	\$13,534,856
Fines	-	790,709	-	790,709
Licenses	-	17,627,952	-	17,627,952
Federal Grants	-	-	11,771,561	11,771,561
<b>Total Cash Receipts</b>	<u>13,534,856</u>	<u>18,418,661</u>	<u>11,771,561</u>	<u>43,725,078</u>
<b>CASH DISBURSEMENTS:</b>				
Air Quality Improvement	16,790	-	-	16,790
Analysis of Environmental Tests	535,314	-	-	535,314
Capital Improvements for Water and Sewing Projects	240,464	-	5,573,667	5,814,131
Clean Air Act Project	-	1,459,492	1,165,731	2,625,223
Emergency Response and Superfund Project	-	910,958	679,949	1,590,907
Environmental Emergencies	-	4,591,634	-	4,591,634
General Administration and Direction	11,528,713	-	-	11,528,713
Land Pollution Control	322,335	22,276	1,012,763	1,357,374
Pneumatic and Recycling Program	-	7,403,014	-	7,403,014
Oil Control	-	4,097	-	4,097
Pollution Control	331,907	-	-	331,907
Regional Services	1,421,134	-	-	1,421,134
Studies for Requests of Tax Exemptions	50,588	-	-	50,588
Water Quality Improvement	62,844	-	3,859,677	3,922,521
<b>Total Cash Disbursements</b>	<u>14,510,089</u>	<u>14,391,471</u>	<u>12,291,787</u>	<u>41,193,347</u>
<b>NET CHANGES</b>	<u>(\$ 975,233)</u>	<u>\$ 4,027,190</u>	<u>(\$ 520,226)</u>	<u>\$ 2,531,731</u>

The accompanying Notes to Financial Statement are an integral part of this Statement.

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## 1. FINANCIAL REPORTING ENTITY

### A. Organization

The Commonwealth of Puerto Rico, Puerto Rico Environmental Quality Board (EQB) was established under Law Number 416 of September 22, 2004, as amended. EQB is responsible for the protection and conservation of the environment in the Commonwealth of Puerto Rico. The Commonwealth of Puerto Rico was constituted on July 25, 1952, under provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth. The Commonwealth assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

Recently, however, as a result of the current fiscal crisis that affects the Commonwealth, the U.S. Congress enacted a law establishing a Financial Oversight and Management Board (Oversight Board) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, and review and approval over certain governmental responsibilities. This law is known as the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA) (see Note 10 for more details).

As per Act Number 171 of August 2, 2018, with the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 adopted pursuant to Act No. 122-2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "Department"), faculties, functions, services and structures of the Environmental Quality Board and other agencies, in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services (see Note 12 for more details).

### B. Financial Reporting Entity

EQB is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because EQB is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. EQB accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of EQB's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement – Measurement Focus and Basis of Accounting

EQB's accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This cash basis of accounting differs from GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred of subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2016-2017. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the EQB's financial statement. No long-term debt is reported in the EQB's financial statement. No accrued compensated absences are reported in the EQB's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of the EQB are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of two funds which are described below. The accounts of the EQB are accounted for with a set of accounts which is only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The following individual programs account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- *General Fund* – The general fund is the main operating fund of EQB. It is used to account for all financial resources except those required to be accounted for separately.
- *Special Revenues Fund* – Accounts for proceeds received through fines and penalties imposed to entities in Puerto Rico to assure compliance with federal and local environmental laws; and resources received from Indirect Costs Reimbursement from the Environmental Protection Agency.
- *Federal Grants Fund* – Accounts for the financial resources related to the Federal Grant Awards administered by the EQB.

### **Notes to Financial Statement**

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

## **B. Stewardship, Compliance, and Accountability**

### **Budgetary Information**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of the EQB. The procedures followed in approving the annual budget is as follows:

1. Between November and December, EQB submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
2. At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
3. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Commonwealth has the authority to make the necessary adjustments to the budget.

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

**C. Compensated Absences**

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

**D. Reduction of Working Day**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

**E. Risk Financing**

The EQB is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the EQB are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the EQB.

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

EQB obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis. Total paid during fiscal year ended June 30, 2017 amounted to \$1,433.

**F. Accounting for Pension Costs**

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

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for EQB's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by EQB 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 charges in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68* is required to be implemented simultaneously with the provisions of GASB No. 68.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**Impact on the Financial Statement – Change in Accounting Principles**

Changes resulting from GASB No. 68 requirements apply only to the government-wide financial statements. GASB 68 does not apply to governmental funds financial statements or cash basis of accounting used by EQB; they will continue to report pension expenditures based on contributions made during the year. There is no change in cash flow, contribution rates or General Fund budgeted expenditures associated with implementation of GASB No. 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the Annual Required Contribution (ARC) concept for recognizing pension expense, resulting in the separation of accounting from funding.

EQB adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

EQB accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutorily required contributions.

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 was established to ensure the future of public employees. Accordingly, a Defined Contribution Account, 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.

**3. CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENTS (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)**

The funds of the EQB are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law”. The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the EQB in such pooled cash accounts are available to meet its current operating requirements.

***Custodial Credit Risk***

This is the risk that, in the event of the failure of a depository financial institution, the EQB will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth, as amended, adopted by the EQB may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, or banker’s acceptance. Therefore, EQB’s management has concluded that at June 30, 2017, the custodial credit risk associated with the EQB’s cash and cash equivalents is considered low.

continue

#### 4. FUND ADVANCES

The EQB receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2017, no funds were advanced to the EQB for this purpose.

#### 5. LEASE COMMITMENTS

The EQB is obligated under certain leases accounted for as operating leases. Operational leases not granted property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Rent paid during the year that ended on June 30, 2017 under these lease agreements amounted approximately to \$459,322. This amount should be approximately the same expenditures in the following five fiscal years.

#### 6. PENSION PLAN

##### *Description of the Plan*

Employees of the EQB participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

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. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

- (a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.
- (b) Public Officers in High-Risk Positions – In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

**6. PENSION PLAN – continuation**

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty-eight (58) years.

***Participant of the Program***

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

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

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

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

6. PENSION PLAN – continuation

*Annuity for Years of Service*

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars (\$500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars (\$500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars (\$500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised.

Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity for the participants shall be seventy-five percent (75%) of the average compensation.

**6. PENSION PLAN – continuation**

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

- (1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus
- (2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
  - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.
  - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
  - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

continue

**6. PENSION PLAN – continuation**

- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
  - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
  - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

***Pension Computation***

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one- and one-half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one- and one-half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

continue

**6. PENSION PLAN – continuation**

- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

***Funding Policy***

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

continue

6. PENSION PLAN – continuation

**Contributions of Participants of Defined Benefit Program**

Contribution requirements are established by law and are as follows:

Complete supplementation plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	8.275% of gross salary
Coordination plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Mayors and members of the Police Corps	8.275% of gross salary

**Contributions of Participants of Hybrid Program**

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
  - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
  - (2) Effective July 1, 2014, shall contribute eight-point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
  - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

- (c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

continue



6. PENSION PLAN – continuation

**Employer Contributions to the System (ERS and Hybrid Program)**

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

***Death, Disability or Terminal Illness Benefits***

**Death of a Participant in Active Service**

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

**Death of a Pensioner**

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

**Separation from Service for Disability or Terminal Illness**

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

***Disability Insurance***

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

6. PENSION PLAN – continuation

***Additional Benefits Program***

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;
- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars (\$2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

***Pension Expense***

For the fiscal year ended June 30, 2017, the EQB recognized pension expense of \$3,373,484. As of June 30, 2017, the EQB proportionate Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions are included as part of the Commonwealth of Puerto Rico.

These amounts represented the 100% of the required contribution for the fiscal year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

continue

**6. PENSION PLAN – continuation**

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

**7. CONTINGENCIES**

**A. Federal Awards**

In the normal course of operations, the EQB participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program regulations, the EQB may be required to reimburse the grantors for such expenditures.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with Uniform Guidance for the year ended June 30, 2017, disclosed instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses.

The EQB is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

**B. Litigation**

The EQB is defendant in lawsuits arising in the normal course of governmental operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to Act Number 104 of the Commonwealth of Puerto Rico, as amended, known as "Claims and Lawsuits against the State", provides that lawsuits initiated against an agency or instrumentality of the Commonwealth, including its employees, directors, mayors, and other government officers may be defended by EQB. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the EQB.

**8. RELATED PARTY TRANSACTIONS**

The EQB has the following transactions with governmental units:

- ◆ The EQB paid to Puerto Rico Electric Power Authority the amount of \$157,802 for services provided during the fiscal year ended June 30, 2017.
- ◆ The EQB paid to Puerto Rico General Services Administration the amount of \$71,029 for services provided during the fiscal year ended June 30, 2017.
- ◆ The EQB paid to University off Puerto Rico at Mayaguez Campus the amount of \$309,360 for services provided during the fiscal year ended June 30, 2017.
- ◆ The EQB paid to others governmental units the amount of \$74,131 for various concept of services provided during the fiscal year ended June 30, 2017.

continue

## 9. GOING CONCERN – PRIMARY GOVERNMENT

The Commonwealth of Puerto Rico (Commonwealth) is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, 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. The Commonwealth's high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt.

These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other component units of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk.

These factors have also resulted in delays in the repayment by the Commonwealth and its component units of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth and have caused GDB to fail to make a principal payment on its debt obligations. Similarly, and pursuant to a series of legislations and executive orders during fiscal year 2016 and further explained below, the Commonwealth and certain other public corporations also delayed the debt service payments on some of its debt, including the general obligation bonds of the Commonwealth.

These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D". They also lowered similarly to a default grade their ratings on the bonds of the PBA and GDB, while the ratings on the bonds of COFINA have been lowered multiple notches to a current noninvestment grade level of CC and D, depending on the particular rating agency.

- The Primary Government reflects a net position deficit/fund balance deficit of approximately \$67.7 billion as of June 30, 2015. The Commonwealth's General Fund shows a fund balance (deficit) of approximately \$2.1 billion.
- For the fiscal year ended June 30, 2016, the Legislature of Puerto Rico did not appropriate approximately \$94 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.
- On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of \$779 million in debt service on general obligation bonds due July 1, 2016 (net of \$352 million of capitalized interest fund and escrow accounts).

**9. GOING CONCERN – PRIMARY GOVERNMENT** – continuation

- On May 1, 2017, the PROMESA Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant the PROMESA section 301 (a).

Remediation Plan – Primary Government

On April 19, 2018 (recertified on May 30, 2018 and amended on June 29, 2018), the Oversight Board certified its fiscal plan for the Commonwealth including the following areas: Revenues Enhancements, Reducing Health Care Spending, Reducing Higher Education Spending, Pension Reform, Improving Capital Efficiency, Structural Reforms, and Debt Restructuring Process.

There is no certainty that the Certified Commonwealth Fiscal Plan (as revised and amended) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

**10. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)**

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

**PROMESA Overview**

*Background*

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

**PROMESA**

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

continue

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

**Automatic Stay:** Upon the enactment of the Act, a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against Puerto Rico and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay under the Act has certain very limited exceptions, but all enforcement actions against Puerto Rico and its instrumentalities, or other actions to control their property, are stayed through the temporary stay period. As provided in the Act, the stay will continue in effect until February 15, 2017 unless it is temporarily extended by the Oversight Board for 75 days or by a Federal District Court for 60 days. The Act permits Puerto Rico and its instrumentalities to voluntarily pay liabilities during the period of the temporary stay. Thus, Puerto Rico and its instrumentalities can elect to, but are not required to, make payments on debts or other obligations during the stay period. On January 28, 2017, the Oversight Board extended the stay to May 1, 2017.

**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.

**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:

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

***Principles:***

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

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

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

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

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

**CRITERIA FOR FISCAL PLANS**

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

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;

continue

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

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 instrumentality in effect prior to the enactment of PROMESA.

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

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

The Act further specifies that no budget can be submitted by the territory's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board). As noted above, the Oversight Board has authority to monitor and impose changes in operations to require compliance with a fiscal plan and a budget. By extension approved by the Oversight Board, the fiscal plan must be submitted by the Commonwealth as of February 28, 2017 and approved by the Oversight Board by March 15, 2017. The Commonwealth submitted the Fiscal Plan on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017 (see below).

**New Fiscal Plan**

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

Because of the reality, Puerto Rico has several contingencies that prevent certainty of our future, such as: the treatment the Federal government will give to Puerto Rico in health programs and funds for the hurricane, the disbursement of federal assistance funds, impact of Title III litigation and the impact that the Federal tax reform will have on jobs on the Island. Following are the content of the New Fiscal Plan.



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

- This Plan will not be for 10 years but for 5 years.
- This Fiscal Plan (i) does not contain new taxes, (ii) it is focused on fiscal efficiencies and responsibility, (iii) structural reforms are implemented that will revitalize the PR economy in the long term, and (iv) it carries out a unprecedented tax reform.
- This Fiscal Plan considers the injection of about \$35 billion in the coming years in FEMA grants excluding Community Disaster Loans (CDL), federal funds under the "Supplemental" and additional funds under Medicaid.
- Municipalities Subsidy:
  - It does justice to the municipalities by postponing the elimination of the subsidy announced in the first Fiscal Plan until 2022 and, in turn, the subsidies to be received in each year are increased in comparison with the previous fiscal plan:
    - Under the previous Fiscal Plan, the municipalities would lose all the subsidy from the central government for the fiscal year 2019 (\$350 million).
    - With the New Fiscal Plan, the municipalities will receive the subsidy that will be amortized until fiscal year 2022 instead of eliminating it in fiscal year 2019.
  - Recognizes the efficiencies in the regionalization and autonomy of the municipalities to reduce costs and achieve better services.
- Impact of the Hurricanes:
  - The New Fiscal Plan recognizes the impact of hurricanes on PR projecting a significant impact on the gross national product (GNP for its acronym in English) and population decline, among others.
    - By 2018, a drastic reduction in the gross national product (GNP by its acronym in English) is projected to -11.2% and that it ends at 1.5% by 2022.
    - Regarding the population reduction, a reduction of 7% is estimated in 2018 and that it will stabilize at an average of 3% during the next 4 years. The population decrease is experienced more than a decade ago.
  - The New Plan highlights how the central government's annual structural deficit of \$1,601 million in the fiscal year 2019 is reduced to only \$27 in fiscal year 2022 by 5 years.
- Fiscal saving measures: to achieve annual savings of \$3,023 million to the central government for fiscal year 2022.
  - New government (\$1,264 million for 2022)
    - Efficiencies in the Department of Education for a total of \$303 million for fiscal year 2022 without dismissing career employees.

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

- Efficiencies in the Department of Correction for a total of \$130 million for 2022.
- Efficiencies in the Health Department for \$86 million for 2022.
- Transformations of the agencies, through consolidation and centralization of 118 agencies to about 35 agencies, for a saving of \$554 million for 2022.
- Savings freezing places and operational costs until the year 2022 for a savings of \$191 million for 2022.
- Purchase Reform in the Government (\$43 million for 2022)
  - Centralize purchasing processes for economies of scale and more efficient and transparent process.
- Reduction of Subsidies with adjustments for the benefit to the municipalities (\$506 million for 2022)
  - No additional cuts are added to the UPR subsidy (for 2022 they will receive \$410 million in subsidies). The transformation of the UPR is focused on obtaining new income, modernization of schools and educational programs so that the UPR increases its competitiveness and educational system.
  - The municipalities are reduced the loss of subsidies of \$350 for the next fiscal year 2019.
    - ✚ In 2018 they will receive \$220 million instead of \$175 as it is in this Fiscal Plan.
    - ✚ In 2019 they will receive \$165 million instead of \$0.
    - ✚ In 2020, \$110 million and in 2021, \$55 million.
    - ✚ A subsidy is eliminated in 2022 instead of the 2019 fiscal year.
  - Adjustments to tax incentives with savings of \$65 million.
- New Health Model (\$795 for 2022)
  - Savings of \$795 million for 2022 without taking patients from MiSalud with a new model that promotes competition among providers and uniform rates granting the right of choice to the patient (the patient may choose their provider).
- Efficiencies in the collection of existing taxes and fees (\$415 million for 2022)
  - Implementation of technology platforms whose efficiencies will increase the collection of taxes that evade and do not enter the government coffers.
  - Measures such as the Unified Internal Revenue System to centralize our collection system efficiently and technologically.

continue

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

- There are no new taxes because only those already legislated under the original Fiscal Plan such as the tobacco tax, traffic fines and other rights are considered.
- Economic Growth Measures:
  - New Tax Reform of the New Fiscal Plan to encourage work and achieve economic growth:
    - These measures will bring the economy close to \$800 million per year that will remain in the pockets of taxpayers from the year 2022 (for 2019 it would be \$625 million).
      - ✚ Reduction of contributions to individuals and corporations to leave about \$500 million in the taxpayer's pocket every year.
      - ✚ We will reduce the B2B from 4% to 2% in 2019 and to 0% in 2020 (from \$80 million to \$170 million for the taxpayer).
      - ✚ Reduction of the SUT to prepared food from 11.5% to 7% and maintaining the income of the municipalities (almost \$90 million annually in the taxpayer's pocket).
  - Investment of about \$400 million per year (Capital Expenditures) in maintenance and development of the Government's infrastructure after abandonment of past administrations.
  - We will be more competitive to attract investment and jobs with labor, permit, contributory and energy reforms.
  - Incentive Code, DMO, Enterprise PR.
  - Transparency reform to encourage investment.
  - Incentives to work with Tax Reform.
  - APPs, critical projects, among others.

The consideration of the New Fiscal Plan by the Oversight Board is scheduled for April 2018.

## 11. NEW ACCOUNTING STANDARDS

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

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

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

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 EQB's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

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

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**11. NEW ACCOUNTING STANDARDS** – continuation

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

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

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

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

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

GASB No. 77 does not have any impact on the EQB's financial statement.

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

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

continue

**11. NEW ACCOUNTING STANDARDS** – continuation

GASB No. 78 does not have any impact on the EQB's financial statement.

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 EQB's financial statement.

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 EQB's financial statement.

11. NEW ACCOUNTING STANDARDS – continuation

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

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2017. EQB is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

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

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

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

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

- a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

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

11. NEW ACCOUNTING STANDARDS – continuation

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

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

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

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

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

continue



**11. NEW ACCOUNTING STANDARDS** – continuation

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In the circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2017-2018). *Earlier application is encouraged.*

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

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

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

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

continue

**11. NEW ACCOUNTING STANDARDS** – continuation

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

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

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

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

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

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

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

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

**11. NEW ACCOUNTING STANDARDS** – continuation

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

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

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

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

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

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

continue

**11. NEW ACCOUNTING STANDARDS** – continuation

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

**IN-SUBSTANCE DEFEASANCE OF DEBT USING ONLY EXISTING RESOURCES**

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

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

**PREPAID INSURANCE RELATED TO EXTINGUISHED DEBT**

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

**ADDITIONAL DISCLOSURE FOR ALL IN-SUBSTANCE DEFEASANCE TRANSACTIONS**

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

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

**11. NEW ACCOUNTING STANDARDS – continuation**

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

**DEFINITION OF A LEASE**

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

**LEASE TERM**

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

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

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

- a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

continue

**11. NEW ACCOUNTING STANDARDS – continuation**

**SHORT-TERM LEASES**

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

**LESSEE ACCOUNTING**

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

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

**LESSOR ACCOUNTING**

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

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

**CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS**

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

continue

**11. NEW ACCOUNTING STANDARDS** – continuation

**LEASE MODIFICATIONS AND TERMINATIONS**

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

**SUBLEASES AND LEASEBACK TRANSACTIONS**

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

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

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

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

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

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

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

continue

## 11. NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

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

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

## 12. SUBSEQUENT EVENTS

### Employees' Retirement System

On June 25, 2017, the Puerto Rico Legislature Assembly approved the Joint Resolutions Numbers 186, 187, 188 and 189 to adopt the budget for fiscal year 2017-2018 in the amount of \$9.562 billion. This amount is compound of \$9.172 billion from General Fund revenues and \$390 million expected from the sale of Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), Judiciary Retirement System (JRS) and Teacher Retirement System (TRS)' 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.



**12. SUBSEQUENT EVENT** – continuation

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.

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.

continue

**12. SUBSEQUENT EVENT** – continuation

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

As per Act No. 106 of 2017, effective July 1, 2017 the Additional Uniform Contribution imposed by Act No. 32 of 2011 and the employer contribution imposed by Act No. 3 of 2013, was eliminated and imposes the "Pay-Go" Charge that the Financial Advisory Authority and Fiscal Agency of Puerto Rico (FAAFA) created by Act No. 2-2017, determines and imposes on the Government, the Municipalities, the Legislative Branch, the Administration of Courts, the Public Corporations and other covered entities. This charge will be equivalent to the amount in effect paid to Pensioners and Beneficiaries from each covered entity. The Secretary of the Treasury or the person or entity designated by him shall be authorized to collect the "Pay-Go" Charge. In the case of the Municipalities, the administrative charges of the "pay as you go" scheme will not be included in the computation of the "Pay-Go" Charge. Regardless of the payment of the "Pay-Go" Charge by the employer, the disbursement of the benefits of all Pensioners and Beneficiaries are guaranteed by the General Fund through the "pay as you go" scheme, with the responsibility of the entities to remit the payment of said Charge in compliance with its obligations under this Act.

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.

**12. SUBSEQUENT EVENT** – continuation

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

Following the hurricanes, the initial job losses in Puerto Rico totaled about 4%, though employment is beginning to improve somewhat. This loss is considerably steeper than what has typically been experienced after most major natural disasters that have hit the United States. That being said, domestic air passenger data suggest that from September through November more than 150,000 people left Puerto Rico, net of arrivals. Looking ahead, recovery will be affected by a variety of factors, most notably the degree of out-migration, the level of external aid the economy receives, and the effectiveness of fiscal and other reforms in Puerto Rico.

**PROMESA**

In accordance with the provisions described on Note 10 of the basic financial statements, the Oversight Board scheduling the consideration for approval of the amendment to the Fiscal Plan for Puerto Rico during April 2018. The scope of the Fiscal Plan is described in that Note.

**Reorganization Plan of the Department of Natural and Environmental Resources – Act Number 171 of August 2, 2018**

This Law has the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "Plan") adopted pursuant to Law 122-2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "Department"), faculties, functions, services and structures of the Environmental Quality Board (hereinafter "JCA"), the Solid Waste Authority (hereinafter "ADS") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "National Parks Program"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department of Natural and Environmental Resources (hereinafter "Department") shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law 122-2017.

EQB has evaluated subsequent events through September 26, 2018, the date which the financial statement were available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

**END OF NOTES**

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**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE**

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**COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ENVIRONMENTAL QUALITY BOARD**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. Department of Defense Program:				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		\$ -	\$ 656,463
<i>Total U.S. Department of Defense Program</i>			-	656,463
U.S. Department of Transportation Program:				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		-	3,900
<i>Total U.S. Department of Transportation Program</i>			-	3,900
U.S. Environmental Protection Agency (EPA):				
Air Pollution Control Program Support Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.001		-	720,596
State Clean Diesel Grant Program	66.034		-	430,710
Multipurpose Grants to State and Tribes	66.040		-	111,816
Water Quality Management Planning	66.204		-	14,425
Capitalization Grants for Clean Water State Revolving Funds	66.454		-	506,205
Beach Monitoring and Notification Program Implementation Grants	66.458		4,371,426	5,573,667
Performance Partnership Grants	66.472		-	302,591
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.605		-	2,423,493
Hazardous Waste Management State Program Dupport	66.707		-	242,267
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.801		-	658,680
Underground Storage Tank Prevention, Detection and Compliance Program	66.802		-	17,327
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.804		-	344,384
State and Tribal Response Program Grants	66.805		-	283,004
	66.817		-	2,259
<i>Total U.S. Environmental Protection Agency (EPA) Programs</i>			4,371,426	11,631,424
<b>Total Expenditures of Federal Awards</b>			<b>\$ 4,371,426</b>	<b>\$ 12,291,787</b>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activities of the Puerto Rico Environmental Quality Board of the Commonwealth of Puerto Rico (EQB) under programs of the Federal government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the EQB, it is not intended to and does not present the financial position, changes in net position, or cash flows of the EQB.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget Circular A-87, State and Local Governments, or the cost principles contained in Subpart E of Title 2 U.S. Code of Federal Regulation Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available and applicable.

For the fiscal year ended June 30, 2017 the Environmental Quality Board expended a total of \$12,291,787 of federal funds as stated on the Schedule of Expenditures of Federal Awards. Of the total of those expenditures incurred during the year ended June 30, 2017 a total of \$1,199,227 have not been claimed for reimbursement to the Federal Government.

**3. INDIRECT COST RATE**

The EQB has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. At this time, the EQB has a negotiated indirect cost rate with US EPA. The approved rate for the year ended June 30, 2017 was 30.10%.

**4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING**

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies.

**5. FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**6. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES – GOVERNMENTAL FUNDS**

Expenditures of federal awards are reported in the EQB's Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Federal Grants Fund column.

**7. ADMINISTRATIVE EXPENSES**

As provided by Federal laws and regulations, reasonable costs of administering the Capitalization Grants for Clean Water State Revolving Fund are reimbursable up to a maximum of 4% of the capitalization grant awarded each year. Total reimbursement of administrative expenses received by the EQB from the Capitalization Grant for Clean Water State Revolving Fund during the fiscal year ended June 30, 2017, amounted to \$1,202,106.

**8. EXTENSION OF SINGLE AUDIT SUBMISSION**

In accordance with the Federal Office of Management and Budget Memorandum of October 26, 2017, subject Administrative Relief for Grantees Impacted by Hurricanes Harvey, Maria and Irma, EPA Region 2 hereby grants Puerto Rico Environmental Quality Board (PREQB) an extension until September 30, 2018, as the due date for the Single Audit Report Package submission.

**END OF NOTES**

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

**To the President of the Puerto Rico Environmental Quality Board of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the **Puerto Rico Environmental Quality Board of the Commonwealth of Puerto Rico (EQB)**, as of and for the fiscal year ended June 30, 2017, and the related notes to financial statement, which collectively comprise the **EQB's** basic financial statements, and have issued our report thereon dated September 26, 2018.

***Going Concern***

Our report on the financial statement includes an emphasis-of-matter paragraph describing conditions, discussed in Note 9 to the financial statement, that raised substantial doubt about the Commonwealth of Puerto Rico and **EQB's** ability to continue as a going concern.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiency in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **EQB's** basic financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 through 2017-003 to be material weaknesses.

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

**To the President of the Puerto Rico Environmental Quality Board  
of the Commonwealth of Puerto Rico**

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **EQB's** financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 through 2017-003.

**EQB's Response to Findings**

**EQB's** response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. **EQB's** response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on its.

**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 **EQB's** internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Caguas, Puerto Rico  
September 26, 2018

Stamp No. E342418 was affixed to  
the original report.



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

To the President of the Puerto Rico Environmental Quality Board  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

### Report on Compliance for Each Major Federal Program

We have audited **Puerto Rico Environmental Quality Board of the Commonwealth of Puerto Rico (EQB)**'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **EQB**'s major federal programs for the fiscal year ended June 30, 2017. The **EQB**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

### **Going Concern**

Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 9 to the financial statement, that raised substantial doubt about the Commonwealth of Puerto Rico and **EQB**'s ability to continue as a going concern.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

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

**To the President of the Puerto Rico Environmental Quality Board  
of the Commonwealth of Puerto Rico**

Page 2

***Basis for Qualified Opinion (See the following Table)***

As described in the accompanying Schedule of Findings and Questioned Costs, **EQB** did not comply with requirement regarding the following:

<b>Finding Number</b>	<b>CFDA Number</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>	<b>Questioned Cost</b>
2017-004	12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	Procurement and Suspension and Debarment	None
2017-005	ALL	All	Reporting	None
2017-006	66.458	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring	None
		<b>Total Questioned Costs</b>		<b>None</b>

Compliance with such requirements is necessary, in our opinion, for the **EQB** to comply with the requirements applicable to those programs.

***Qualified Opinion (See the above Table)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, **EQB** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the above table for the fiscal year ended June 30, 2017.

***Other Matters***

The **EQB's** response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The **EQB's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

**Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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


**To the President of the Puerto Rico Environmental Quality Board  
of the Commonwealth of Puerto Rico**

Page 3

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-004 through 2017-006 to be material weaknesses.

The **EQB's** response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The **EQB's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



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

Caguas, Puerto Rico  
September 26, 2018

Stamp No. E342419 was affixed to  
the original report.

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**PART III**  
**FINDINGS AND QUESTIONED COSTS**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditor’s report issued:  Unmodified Opinion  
 Modified:  Qualified Opinion  
 Adverse Opinion  
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None Reported

Type of auditors’ report issued on compliance for Major Federal Programs:

- Unmodified Opinion
- Qualified Opinion
  - State Memorandum of Agreement Program for the Reimbursement of Technical Services
  - Capitalization Grants for Clean Water State Revolving Funds
  - Beach Monitoring and Notification Program Implementation Grants
- Adverse Opinion  Disclaimer Opinion

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

Identification of Major Federal Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.472	Beach Monitoring and Notification Program Implementation Grants

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

Auditee qualified as low-risk auditee?  Yes  No

SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	2017-001 (See Finding Reference Number 2017-004)
<b>FEDERAL PROGRAM</b>	STATE MEMORANDUM OF AGREEMENT PROGRAM FOR THE REIMBURSEMENT OF TECHNICAL SERVICES (CFDA 12.113) U.S. DEPARTMENT OF DEFENSE
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE</b>
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	32 CFR §33.35 states that: “Grantees and subgrantees must comply with the requirements of OMB guidance in Subpart C, 2 CFR Part 180, as implemented by the Department of Defense in 2 CFR Part 1125. Those requirements include restrictions on entering into a covered transaction with any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension”.
<b>CONDITION</b>	<p>As part of the audit procedures, we ascertain the internal controls related to the suspension and debarment requirements, we noted that <b>EQB</b> did not perform a review under the suspended or debarred list of the Federal Government for their two suppliers of environmental projects.</p> <p>In addition, <b>EQB</b> has been automatically renewing their federal contracts with their DSMOA projects suppliers for the last thirteen years without reviewing if the suppliers are in the Suspended or Debarred list.</p>

SECTION II – FINANCIAL STATEMENT FINDINGS

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<b>FINDING REFERENCE NUMBER</b>	2017-002 (See Finding Reference Number 2017-005)
<b>FEDERAL PROGRAM</b>	ALL
<b>TYPE OF FINDING</b>	<b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	As established in the 2 CFR 200 Subpart F, section §200.510 (b), Schedule of Expenditures of Federal Awards Preparation, the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for Determining Federal Awards Expended.
<b>CONDITION</b>	We noted that <b>EQB</b> did not include Federal expenditures amounting to \$1,199,227, during the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	2017-003 (See Finding Reference Number 2017-006)
<b>FEDERAL PROGRAM</b>	CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS (SRF) (CFDA 66.458) U.S. ENVIRONMENTAL PROTECTION AGENCY
<b>TYPE OF FINDING</b>	MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	<p>As established in the 2 CFR Subpart D, sections § 200.331 through § 200.333, the pass-through entity is responsible for subrecipient monitoring and retain all supporting documentation for a period of three years from the date of submission of the final expenditure report or as required by the federal agency. The pass-through entity must:</p> <ul style="list-style-type: none"><li>(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, which may include consideration of such factors as:<ul style="list-style-type: none"><li>(1) The subrecipient's prior experience with the same or similar subawards;</li><li>(2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this Part, and the extent to which the same or similar subaward has been audited as a major program; among others.</li></ul></li><li>(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:<ul style="list-style-type: none"><li>(1) Reviewing financial and programmatic reports required by the pass-through entity.</li><li>(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.</li><li>(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision.</li></ul></li><li>(f) Verify that every subrecipient is audited as required by Subpart F — Audit Requirements of this Part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit Requirements.</li><li>(g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the passthrough entity's own records.</li><li>(h) Consider taking enforcement action against noncompliant subrecipients as described in § 200.338 Remedies for noncompliance of this Part and in program regulations.</li></ul>

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SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2017-003 (See Finding Reference Number 2017-006) – continuation

**CONDITION**

As part of the audit procedures, we ascertain the internal controls related to the subrecipient monitoring, we noted that **EQB** did not perform a review of the subrecipient's financial reports, including if applicable the Single Audit Report, as part of the subrecipient risk evaluation for the subawards provided.

In addition, **EQB** did not ensure that the subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years beginning on or after December 26, 2014, met the audit requirements of 2 CFR Part 200, subpart D, and that the required audits were completed within 9 months of the end of the subrecipient's audit period. No internal controls related to obtain and review those Single Audits were designed.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	<b>2017-004 (See Finding Reference Number 2017-001)</b>
<b>FEDERAL PROGRAM</b>	<b>STATE MEMORANDUM OF AGREEMENT PROGRAM FOR THE REIMBURSEMENT OF TECHNICAL SERVICES (CFDA 12.113) U.S. DEPARTMENT OF DEFENSE</b>
<b>AWARD NUMBER</b>	<b>W912DY-14-2-0242, W912DY-16-2-0242</b>
<b>COMPLIANCE REQUIREMENT</b>	<b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE</b>
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	32 CFR §33.35 states that: “Grantees and subgrantees must comply with the requirements of OMB guidance in Subpart C, 2 CFR Part 180, as implemented by the Department of Defense in 2 CFR Part 1125. Those requirements include restrictions on entering into a covered transaction with any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension”.
<b>CONDITION</b>	<p>As part of the audit procedures, we ascertain the internal controls related to the suspension and debarment requirements, we noted that <b>EQB</b> did not perform a review under the suspended or debarred list of the Federal Government for their two suppliers of environmental projects.</p> <p>In addition, <b>EQB</b> has been automatically renewing their federal contracts with their DSMOA projects suppliers for the last thirteen years without reviewing if the suppliers are in the Suspended or Debarred list.</p>
<b>QUESTIONED COSTS</b>	Not determined
<b>CONTEXT</b>	<b>EQB</b> should evaluate if every supplier and vendor are not included in the Suspended and Debarred list. (The sampling was a statistically valid sample.)
<b>EFFECT</b>	<b>EQB</b> authorized disbursements to suppliers that can be suspended or even debarred from doing business with the Federal Government. Therefore, <b>EQB</b> was unable to determine if they disburse unauthorized funds. If the <b>EQB</b> DSMOA suppliers have been suspended or debarred, <b>EQB</b> would be unable to stop all disbursements to suppliers.
<b>CAUSE</b>	<b>EQB</b> did not have appropriate internal controls designed to comply with all requirements applicable to suspension and debarment.
<b>IDENTIFICATION AS A REPEAT FINDING</b>	N/A
<b>RECOMMENDATION</b>	<b>EQB</b> must properly design and document appropriate internal controls that provide assurance that all requirements applicable to suspension and debarment are in place and performed accordingly.



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**FINDING REFERENCE NUMBER**      2017-004 (See Finding Reference Number 2017-001) – continuation

**VIEWS OF RESPONSIBLE  
OFFICIALS AND PLANNED  
CORRECTIVE ACTION**

As per requested, hereby the PREQB will be reviewing all the standards operational procedures in our contracting process (OP-0030 – Contractual Selection & OP-0016 Contract Execution) to implement all the Auditor's recommendation regarding their single audit findings. Also, an official communication to all Programmatic Areas will be address in order that every Manager acknowledge their responsibility when conduct a selection of any possible contractor or supplier that will be handle federal funds. Therefore, the correspondent certification of eligibility, including the S/B certification, will be request before starting every contract process.

**IMPLEMENTATION DATE**

December 2018

**RESPONSIBLE PERSON**

PREQB's Program Managers and the personnel that is in charge of handle the agency contracts.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	<b>2017-005 (See Finding Reference Number 2017-002)</b>
<b>FEDERAL PROGRAM</b>	<b>ALL</b>
<b>AWARD NUMBER</b>	<b>ALL</b>
<b>COMPLIANCE REQUIREMENT</b>	<b>REPORTING</b>
<b>TYPE OF FINDING</b>	<b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	As established in the 2 CFR 200 Subpart F, section §200.510 (b), Schedule of Expenditures of Federal Awards Preparation, the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for Determining Federal Awards Expended.
<b>CONDITION</b>	We noted that <b>EQB</b> did not include Federal expenditures amounting to \$1,199,227, during the preparation of the Schedule of Expenditures of Federal Awards (SEFA).
<b>QUESTIONED COSTS</b>	Not determined
<b>CONTEXT</b>	<b>EQB</b> prepare the SEFA using the reimbursement request basis, under the Special High-Risk Status declared by the Environmental Protection Agency (EPA) on the year 2001. Once the <b>EQB</b> is no longer under this status, the SEFA must include, not only the expenditures submitted for the reimbursement, but must also include the expenditures that are covered with the requests in advance, and that they were incurred during the current fiscal year 2017. (The sampling wasn't a statistically valid sample.)
<b>EFFECT</b>	The incomplete SEFA could provoke an incorrect Major Program Determination performed by the auditor, resulting in the most likely exclusion of a Major Program for audit purpose.
<b>CAUSE</b>	The original SEFA prepared by the <b>EQB</b> staff presented incomplete information related to the total Federal expenditures for the fiscal year under audit.
<b>IDENTIFICATION AS A REPEAT FINDING</b>	N/A
<b>RECOMMENDATION</b>	<b>EQB</b> must performs a regular fiscal monitoring over the Federal program transactions in order to provide reasonable assurance that all Federal transactions/programs are properly recorded and included on the SEFA.
<b>VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION</b>	The Environmental Quality Board will include on the Schedule of Expenditures of Federal Awards all the federal programs expenditures incurred during the year (under the cash basis of accounting), independently of when the request is made to the federal agencies.
<b>IMPLEMENTATION DATE</b>	June 2019
<b>RESPONSIBLE PERSON</b>	Narda Márquez, EQB's Finance Division Chief

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	<b>2017-006 (See Finding Reference Number 2017-003)</b>
<b>FEDERAL PROGRAM</b>	<b>CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS (SRF) (CFDA 66.458) U.S. ENVIRONMENTAL PROTECTION AGENCY</b>
<b>AWARD NUMBER</b>	<b>CS-72000110-1, CS-72000111-0, CS-72000112-1, CS-72000113-1, CS-72000114-1 and CS-72000115-0</b>
<b>COMPLIANCE REQUIREMENT</b>	<b>SUBRECIPIENT MONITORING</b>
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE</b>
<b>CRITERIA OR SPECIFIC REQUIREMENT</b>	<p>As established in the 2 CFR Subpart D, sections § 200.331 through § 200.333, the pass-through entity is responsible for subrecipient monitoring and retain all supporting documentation for a period of three years from the date of submission of the final expenditure report or as required by the federal agency. The pass-through entity must:</p> <ul style="list-style-type: none"><li>(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring, which may include consideration of such factors as:<ul style="list-style-type: none"><li>(1) The subrecipient's prior experience with the same or similar subawards;</li><li>(2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this Part, and the extent to which the same or similar subaward has been audited as a major program; among others.</li></ul></li><li>(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:<ul style="list-style-type: none"><li>(1) Reviewing financial and programmatic reports required by the pass-through entity.</li><li>(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.</li><li>(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision.</li></ul></li><li>(f) Verify that every subrecipient is audited as required by Subpart F — Audit Requirements of this Part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit Requirements.</li><li>(g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the passthrough entity's own records.</li><li>(h) Consider taking enforcement action against noncompliant subrecipients as described in § 200.338 Remedies for noncompliance of this Part and in program regulations.</li></ul>

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2017-006 (See Finding Reference Number 2017-003) – continuation

**CONDITION** As part of the audit procedures, we ascertain the internal controls related to the subrecipient monitoring, we noted that **EQB** did not perform a review of the subrecipient's financial reports, including if applicable the Single Audit Report, as part of the subrecipient risk evaluation for the subawards provided.

In addition, **EQB** did not ensure that the subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years beginning on or after December 26, 2014, met the audit requirements of 2 CFR part 200, subpart D, and that the required audits were completed within 9 months of the end of the subrecipient's audit period. No internal controls related to obtain and review those Single Audits were designed.

**QUESTIONED COSTS** Not determined

**CONTEXT** **EQB** should evaluate every subrecipients as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., if the subrecipient has (1) a history of non-compliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems). Evaluation of subrecipient risk also may take into consideration the extent of Federal monitoring of subrecipient entities that also are recipients of prime Federal awards. (The sampling was a statistically valid sample.)

**EFFECT** **EQB** authorized subawards to its subrecipients without a performing a financial risk evaluation. Therefore, **EQB** was unable to determine the higher risk or lower risk for each subrecipient before the authorization of the subawards.

Because **EQB** did not obtain the subrecipient's Single Audit Report, **EQB** was unable to ensure that the subrecipient takes timely and appropriate corrective action on all audit findings, if any. In cases of continued inability or unwillingness of a subrecipient to have the required audits, **EQB** was unable to take the appropriate action using sanctions, among others.

**CAUSE** **EQB** did not have appropriate internal controls designed to comply with all requirements applicable to subrecipient monitoring.

**IDENTIFICATION AS A REPEAT FINDING** N/A

**RECOMMENDATION** **EQB** must properly design and document appropriate internal controls that provide assurance that all requirements applicable to subrecipient monitoring are in place and performed accordingly.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION** The EQB Water Quality Program as an internal control procedure, will implement a checklist in all of the subrecipient's file that will include all the required documentation needed to be review and to complies with the federal requirements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2017-006 (See Finding Reference Number 2017-003) – continuation

**IMPLEMENTATION DATE**              December 2018

**RESPONSIBLE PERSON**                Javier Verardi, EQB's SRF Program Manager

**END OF SCHEDULE**

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(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2016

Findings Related to the Financial Statement:

<b>Finding Number</b>	2016-001	<b>Supporting Documentation</b> EQB did not received the related supporting documents of Special Revenue Fund on a timely basis.
<b>Auditee Comments</b>		The US Environmental Protection Agency, Region 2 the cognizant agency has issued the final determination on letter dated December 20, 2017. They note that this finding and recommendation does not affect EQB's assistance agreements. Since EQB has communicated the need to establish procedures to obtain, properly file and store supporting documentation for revenue transactions, this finding is closed.

Findings Related to the Federal Programs:

<b>Finding Number</b>	2016-002	<b>Reporting</b> EQB did not complete the single audit for the Fiscal Year 2015-2016 during the period established by the Uniform Guidance 2 CFR Section 200.512(a).
<b>CFDA Numbers</b>	ALL	
<b>Questioned Cost</b>	None	
<b>Auditee Comments</b>		The US Environmental Protection Agency, Region 2 the cognizant agency has issued the final determination on letter dated December 20, 2017. They find that EQB's response acceptable. The Single Audit was submitted to FAC on April 28, 2017 and the Board agrees to submit future Single Audits to FAC on a timely basis. This finding is closed.

(2) Audit Findings not Corrected or Partially Corrected:

NONE

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

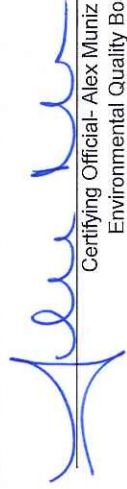
(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

**ENVIRONMENTAL QUALITY BOARD  
DEPARTMENT OF DEFENSE COMPLIANCE REVIEW  
CORRECTIVE ACTION PLAN**

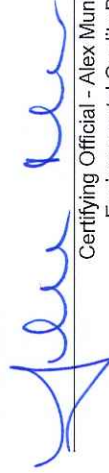
FINDING	AUDITOR'S FINDING	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION PLAN	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
2017-001	<p>EQB did not perform a review under the suspended or debarred list of the Federal Government for their two suppliers of environmental projects.</p> <p>In addition, EQB has been automatically renewing their federal contracts with their DSMOA projects suppliers for the last thirteen years without reviewing if the suppliers are in the Suspended or Debarred list.</p>	<p>EQB should evaluate if every supplier and vendor are not included in the Suspended and Debarred list. EQB must properly design and document appropriate internal controls that provide assurance that all requirements applicable to suspension and debarment are in place and performed accordingly.</p>	<p>As per request, hereby the PREQB will be reviewing all the standards operational procedures in our contracting process (OP-0030- Contractual Selection &amp; OP-0016 Contract Execution) to implement all the Auditor's recommendation regarding their single audits findings. Also an official communication to all Programmatic Areas will be address in order that every Manager acknowledge their responsibility when conduct a selection of any possible contractor or supplier that will be handle federal funds. Therefore, the correspondent certification of eligibility, including the s/b certification, will be request before starting every contract process.</p>	<p>EQB's Program Managers and the personnel that is in charge of handle the agency Contracts.</p>	NO	Dec-18

  
 Certifying Official- Alex Muniz Lasalle  
 Environmental Quality Board



**ENVIRONMENTAL QUALITY BOARD  
DEPARTMENT OF DEFENSE COMPLIANCE REVIEW  
CORRECTIVE ACTION PLAN**

FINDING	AUDITOR'S FINDING	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION PLAN	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
2017-002	EQB did not include Federal expenditures amounting to \$1,199,227, during the preparation of the Schedule of Expenditures of Federal Awards (SEFA).	EQB must perform a regular fiscal monitoring over the Federal program transactions in order to provide reasonable assurance that all Federal transactions/programs are properly recorded and included on the SEFA.	<p>To clarify PREQB reports the program expenditures on the Schedule of Expenditures of Federal Awards (SEFA) on the period when the request for advance or reimbursement requested is made to the federal agencies rather than when the expenditures were incurred. To maintain consistency with SEFA presentations of previous audits, the expenditures incurred during the year that have not been requested to the federal agencies by the Reimbursement or Request for advance methods are not included in the SEFA. However, these expenditures that are not presented in the SEFA are included as a disbursement within the Statement of Cash Receipts and Cash Disbursements. In addition a reconciliation between the SEFA with the Statement was included as part of one of the SEFA notes. From now on, the Environmental Quality Board will include on the Schedule of Expenditures of Federal Awards all the federal programs expenditures incurred during the year (under the cash basis of accounting), independently of when the request is made to the federal agencies.</p>	Narda Márquez, EQB's Finance Division Chief	NO	Jun-19



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FINDING	AUDITOR'S FINDING	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION PLAN	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
<b>2017-003</b>	EQB did not perform a review of the subrecipient's financial reports, including if applicable the Single Audit Report, as part of the subrecipient risk evaluation for the subawards provided. In addition, EQB did not ensure that the subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years beginning on or after December 26, 2014, met the audit requirements of 2 CFR part 200, subpart D, and that the required audits were completed within 9 months of the end of the subrecipient's audit period. No internal controls related to obtain and review those Single Audits were designed	EQB should evaluate every subrecipients as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., if the subrecipient has (1) a history of non-compliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems). Evaluation of subrecipient risk also may take into consideration the extent of Federal monitoring of subrecipient entities that also are recipients of prime Federal awards.	The EQB Water Quality Program as an internal control procedure, will implement a checklist in all of the subrecipient's file that will include all the required documentation needed to be review and to complies with the federal requirements.	Javier Verardi EQB's SRF Program Manager	Yes	Dec-18

  
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 Certifying Official - Alex Muniz Lasalle  
 Environmental Quality Board



GOBIERNO DE PUERTO RICO  
OFICINA DEL GOBERNADOR  
JUNTA DE CALIDAD AMBIENTAL



Área de Calidad de Agua

Nombre Proyecto: \_\_\_\_\_ Número: \_\_\_\_\_

Agencia	Fecha	Comentarios
<b>Endosos Estatales Etapa Planificación y Diseño (Paso 1)</b>		
Aviso Público (NEPA)		
Autoridad de Tierras		
Autoridad de Carreteras (ACT)		
DTOP Estatal		
DTOP Municipal		
Departamento de Agricultura		
Departamento de Salud		
Endoso Municipal		
ICP (arqueología)		
OGPe (ambiental)		
Junta de Planificación (CZM)		
<b>Endosos Federales Etapa Planificación y Diseño (Paso 1)</b>		
COE (IP & NW permit)		
EPA general endorsement		
FWS		
NOAA		
NRCS (US Agriculture)		
SHPO		
<b>Permisos/Endosos/Certificaciones Etapa de Construcción y Operación (Paso 2 &amp; 3)</b>		
ACT		
ADS		
AEE		
CSP Centro Excavaciones		
CSP Demoliciones		
DRNA Corte y Poda		
DRNA Actividad Incidental		
DRNA Explosivos		
DRNA Extracción de Agua (Dewatering)		
DRNA Cruce Río o Quebrada		
DTOP Estatal		
DTOP Municipal		
JCA CCA		
JCA SPCC-Plan		
JCA Asbesto y plomo		
JCA PFE (Generadores EB)		
EPA NPDES		
EPA SWPPP		
OGPe (Permiso Consolidado y otras obras)		
<b>Fechas Información Relevante</b>		
Fecha Subasta		
Reunión Pre-comienzo/Notice of Proceed		
Fecha Terminación		
<b>Otros documentos</b>		
Single Audit Proponente		

NOTA: Otros Endosos y/o Permisos pueden aplicar. \* APLICA \*\* CONDICIONADO  
La reglamentación federal (40CFR Sub-Part K 35.3140) requiere actualizar endosos cada 5 años.