RSM Puerto Rico

Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Table of Contents

RSM Puerto Rico
PO Box 10528
San Juan, PR 00922-0528

T 787-751-6164
F 787-759-7479
www.rsm.pr

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Infrastructure Financing Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Puerto Rico Infrastructure Financing Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Puerto Rico Infrastructure Financing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Puerto Rico Infrastructure Financing Authority as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern.

As described in Note 4 to the basic financial statements, as of June 30, 2017, the Authority's government-wide statement of net position (deficit) reflect a net deficit of approximately $2 billion in its governmental activities. Such deficit is mostly attributed to the recognition of certain liabilities, including bonds and loans payable aggregating approximately $2.1 billion that are not payable with current expendable resources. This situation occurs because the Authority's normal operations is to acquire and/or construct capital assets that will be transferred to other Commonwealth of Puerto Rico's agencies or other Component Units. The acquisition is mainly conducted through the issuance of long term debt that is funded by the Commonwealth of Puerto Rico with future appropriations. Accordingly, the Authority is completely dependent from the Commonwealth of Puerto Rico to pay its long term debt and effectively reverse its deficit position.

However, as described in Note 12 to the basic financial statements, the Commonwealth of Puerto Rico has been immersed into a severe and prolonged fiscal, economic and liquidity crisis, which raises further concern in regards to the Authority's dependency into the Commonwealth of Puerto Rico. The situation of the Commonwealth of Puerto Rico has resulted in the issuance of a series of laws and executive orders that have significantly impacted the Authority. On December 1, 2015, the Governor of the Commonwealth of Puerto Rico signed Executive Order No. OE-2015-46, which permitted the Commonwealth of Puerto Rico to redirect certain revenues in light of the Commonwealth of Puerto Rico's revised revenue estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenue that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the Clawback Provision), to pay debt issued or guaranteed by the Commonwealth of Puerto Rico. In connection with such provision, the Secretary of the Puerto Rico Department of Treasury retained, for the application to payments due on the Commonwealth's public debt, approximately $113 million which had been assigned to pay debt of the Authority. As a result, the Authority did not transfer sufficient funds to the Trustee to make the payments of principal and interest related to the Series 2005, Series 2006, and BANs 2015 A bonds. Further, on April 6, 2016, the Legislature of the Commonwealth of Puerto Rico enacted the Act Number 21, *Emergency Moratorium and Financial Rehabilitation Act* (the Moratorium Act). Among other provisions of the Moratorium Act, it authorized the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth and its instrumentalities and, stay creditor remedies that may result from the moratorium. On April 30, 2016, the Governor signed the Executive Order 2016-014 declaring the Authority in a state of emergency and providing for a moratorium on the payment of certain Authority's obligations. As a result, the Authority has not been able to pay the debt service of its long-term debt. The Authority's debt service payments in moratorium amounts to approximately $232.7 million as of June 30, 2017.

As described in Note 13 to the basic financial statements, during the year ended June 30, 2017, the Authority did not receive appropriations from the Commonwealth of Puerto Rico to pay the principal and interest due on the PFC loan. As of June 30, 2017, the principal balance and the related accrued interest amounted to $3,606,473 and $2,346,557, respectively, that will remain unpaid and on default until the Commonwealth's appropriations will resume.

As described in Note 5 to the basic financial statements, on June 30, 2016, the President of the United States of America signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). As permitted by PROMESA, a Financial Management and Oversight Board was created with broad powers over the Commonwealth of Puerto Rico and its instrumentalities, including the power to approve the fiscal plans, budgets, voluntary agreements with bondholders, debt restructuring plans, and critical projects eligible for expedited permitting processes. On May 15, 2017, the Governor announced that the Fiscal Agency and Financial Advisory Authority (FAFAA) and the Government Development Bank for Puerto Rico (GDB) entered into a restructuring support agreement (the RSA) with a significant portion of GDB's major stakeholders holding more than $2.45 billion in claims against GDB. On April 6, 2018, FAFAA, GDB and certain of GDB's financial creditors entered into a fourth amendment to the RSA. The RSA, as amended, is consistent with the underlying strategy of the New GDB Fiscal Plan, namely providing for a transaction resulting in an orderly wind-down of GDB's operations. GDB ceased its operations on March 23, 2018 and is currently winding down in an orderly fashion under Title VI of PROMESA. On April 25, 2018, FAFAA and GDB resubmitted the RSA, as amended by the four amendments thereto, to the Oversight Board for recertification. On May 8, 2018, the Oversight Board recertified the RSA as compliant with the GDB fiscal plan dated April 20, 2018 and certified the RSA as a Qualifying Modification under section 601 of PROMESA. Based on an evaluation of the availability and recoverability of funds deposited in the GDB, an impairment loss on deposits held in GDB amounting to $1.9 million was recorded in the Authority's basic financial statements as of and for the year ended June 30, 2017

As described in Note 26 to the basic financial statements, on March 2, 2018, Standard & Poor's Rating Services discontinued the unenhanced rating on the Authority's Special Tax Revenue Bonds and Special Tax Revenue Refunding Bonds.

All such events create a high level of uncertainty about the Authority's ability to continue as a going concern. The financial statements do not include any adjustment that may result from this uncertainty. Our opinion is not modified with respect to this matter.

Restatement

As discussed in Note 3 to the basic financial statements, the fund balance at the beginning of year has been restated to present a change in reporting entity and a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 17, the Schedule of Statutorily Required Employer Contributions on page 74 and the Schedule of Proportionate Share of the Collective Net Pension Liability on page 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
February 11, 2019

Stamp No. E368100 was affixed
to the original of this report.

RSM Puerto Rico

Management Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2017

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing Authority (the "Authority") and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2017, the restricted investment in bonds of Puerto Rico Sales Tax Financing Corporation (COFINA, for its acronym in Spanish) reported a decrease of its fair value of approximately $36.7 million.

- Capital assets reflected a net decrease of approximately $32 million, mainly due to completed projects transferred to other governmental entities of approximately $44.4 million and land premise transferred to the Puerto Rico Aqueduct and Sewer Authority ("PRASA") amounting to approximately $117 thousand. The transfer of capital asset is offset with the construction of "Paseo Puerta de Tierra" and "Malecones and Poblados" projects that were commenced and transferred during the year ended June 30, 2017 for a total amount of $13.4 million.

- Total liabilities reflected an increase of approximately $72 million, mainly due to an increase in accrued interest of approximately $89.6 million, an increase in bonds and notes payable as a result of the net amortization of discounts/premiums of approximately $12.4 million, a decrease in accounts payable and accrued expenses of approximately $20 million, an increase of approximately $1.3 million in net pension liability recorded in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, and a decrease due to the payments of principal of bonds payable made during the fiscal year amounting to approximately $13.5 million.

- Based on an evaluation of the availability and recoverability of funds deposited in the Government Development Bank ("GDB"), an impairment loss on cash and cash equivalents was determined. As a result, the basic financial statements included an impairment loss on deposits of approximately $1.9 million.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

- The Commonwealth and most of its public corporations are in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years. On December 1, 2015, the Governor of Puerto Rico signed Executive Order No. OE-2015-46, which provides that the Commonwealth will begin to redirect certain revenues in light of recently revised revenues estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenues that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the "Clawback Provision"), to pay debt issued or guaranteed by the Commonwealth. On April 2016, the Legislature of Puerto Rico enacted the Act 21 of 2016, known as the "*Puerto Rico Emergency Moratorium and Financial Rehabilitation Act*". Based on the provisions of the Act 21 of 2016, the Commonwealth, the Authority, and certain other governmental instrumentalities suspended the payment of debt service on their respective debts. Since the enactment of the Moratorium Act, the Governor of Puerto Rico adopted a series of additional executive orders pursuant thereto declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth, the Authority, and certain other governmental instrumentalities. As a result, the Authority was in default in relation to payment of principal and interest related with Series 2005, Series 2006, and BANs 2015A. As of June 30, 2017, the total of unpaid obligations under default amounted to approximately $232.7 million.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statements provide both short and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by private nongovernmental organizations. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

The government-wide financial statements include two statements:

- ***Statement of Net Position (Deficit)*** – This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position (deficit) may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the Authority's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

These financial statements present the following columns segregated by activities:

- ***Governmental Activities*** – These activities are mostly supported by intergovernmental revenue (Contributions from the Commonwealth of Puerto Rico). Most services normally associated with the Authority fall into general government, economic development, education, aqueduct and sewers, transportation, recreation and sports, edification, arts and entertainment, and public safety.

- ***Business Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business type activities of the Authority include the rental operations of the World Plaza Building.

The government-wide financial statements can be found immediately following this Management's Discussion and Analysis.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has two types of funds: Governmental Funds and Proprietary Funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both, the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Governmental Funds Financial Statements* –** The Authority has three major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Authority's major governmental funds are:

- General Fund
- Capital Projects Fund
- Debt Service Fund

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

***Notes to the Basic Financial Statements* –** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

***Adoption of New Accounting Pronouncements* –** As discussed in Note 2 and 3 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27*, and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to Measurement Date- an amendment to GASB Statement No 68* effective July 1, 2016.

As the result, the Authority has determined that a restatement to the July 1, 2016 beginning net position (deficit) was required to recognize the change in accounting principle for the implementation of GASB Statement No. 68 and GASB Statement No. 71 through which accounting for pension plans and the related disclosure requirements were modified.

3. GOVERNMENT- WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in the United States of America ("GAAP"), as prescribed by the Governmental Accounting Standard Board ("GASB"), to report on their net position (deficit). The Statement of Net Position (Deficit) presents the value of all of the Authority's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position (deficit).

The following was derived from the Statement of Net Position (Deficit) as of June 30, 2017, and 2016:

	Governmental Activities				Business Type Activities			
	2017	2016 (As restated)	Change	Percentage	2017	2016	Change	Percentage
Assets:								
Current assets	$ 4,361,808	$ 4,796,976	$ (435,168)	-9.1%	$ 2,927,811	$ 1,404,897	$ 1,522,914	108.4%
Capital assets, net	9,238,337	40,386,928	(31,148,591)	-77.1%	27,355,885	28,175,530	(819,645)	-2.9%
Noncurrent assets	160,980,812	210,452,090	(49,471,278)	-23.5%	-	-	-	0.0%
Total assets	174,580,957	255,635,994	(81,055,037)	-31.7%	30,283,696	29,580,427	703,269	2.4%
Deferred outflows of resources	41,668,315	44,490,386	(2,822,071)	-6.3%	-	-	-	0.0%
Liabilities:								
Liabilities due within one year	378,416,622	265,464,917	112,951,705	42.5%	46,146,793	44,707,631	1,439,162	3.2%
Liabilities due after one year	1,818,963,653	1,861,370,668	(42,407,015)	-2.3%	-	-	-	0.0%
Total liabilities	2,197,380,275	2,126,835,585	70,544,690	3.3%	46,146,793	44,707,631	1,439,162	3.2%
Deferred inflow of resources	151,188	262,122	(110,934)	-42.3%	-	-	-	0.0%
Net position / deficit:								
Net investment in capital assets	9,238,337	40,386,928	(31,148,591)	-77.1%	(2,005,265)	(1,185,620)	(819,645)	69.1%
Restricted for:								
Debt Service	-	-	-	0%	-	-	-	0.0%
Other purposes	59,118,653	95,863,322	(36,744,669)	-38.3%	-	-	-	0.0%
Unrestricted / (Deficit)	(2,049,639,181)	(1,963,221,577)	(86,417,604)	4.4%	(13,857,832)	(13,941,584)	83,752	-0.6%
Total net position (deficit)	$ (1,981,282,191)	$ (1,826,971,327)	$ (154,310,864)	8.4%	$ (15,863,097)	$ (15,127,204)	$ (735,893)	4.9%

In overall, the Authority's deficit of the governmental activities increased approximately $154.3 million or 8.4%, mainly as a result of a decrease in the fair value of the investments in COFINA Bonds of approximately $36.7 million, a decrease in revenues related with Contributions from Commonwealth of approximately $159.6 million, and an overall decrease in the expenses of approximately $24.8 million.

Total assets of governmental activities decreased approximately $81 million or 31.7%, mainly driven by a decrease of the fair value of the investment in COFINA Bonds of approximately $36.7 million, a decrease in the restricted cash and cash equivalents of approximately $13.5 million, an increase in the restricted – Due from Commonwealth balance of approximately $3.4 million, and a decrease in capital assets of approximately $31.1 million.

Deferred outflows of resources decreased approximately $2.8 million or 6.3%, due to changes in the deferred outflows related to pensions and deferred unamortized loss on advance refunding for the year ended June 30, 2017.

Total liabilities of the governmental activities increased by approximately $70.5 million or 3.3%, mainly due to an increase in accrued interest of approximately $87.4 million, an increase in bonds and notes payable as a result of the net amortization of discounts/premiums of approximately $12.5 million, a decrease in accounts payable and accrued expenses of approximately $17.2 million, and an increase of approximately $1.3 million in net pension liability recorded in accordance with GASB Statement No. 68.

These fluctuations are offset by a decrease in bonds payable of approximately $13.5 million due to the payments of principal during the fiscal year ended June 30, 2017.

During the year ended June 30, 2017, the Authority implemented the requirement of GASB Statement No. 68. As the result, as of June 30, 2017, the Authority recorded deferred inflows of resources related to pensions amounting to $151 thousand.

The deficit in business-type activities increased approximately $736 thousand or 4.9%, from approximately $15.1 million in 2016 to approximately $15.9 million in 2017. The increase was caused primarily by an overall increase in the depreciation expense, bad debt expense, and interest expense for the year ended June 30, 2017. During 2018, there was an increase in the rental revenues and an overall decrease in the deficit as a result of operating lease agreements signed with the Office of the Courts Administration and the Circuit Court of Appeals of the Commonwealth.

Condensed program net revenues or expenses and changes in net position (deficit) are presented below:

	Governmental Activities				Business-Type Activities			
	2017	2016 (As restated)	Change	Percentage	2017	2016	Change	Percentage
Revenues:								
Program revenues:								
Operating grants and contributions	$ 25,849,894	$ 185,465,509	$ (159,615,615)	-86.1%	$ -	$ -	$ -	0.0%
Charges for services	3,260,208	2,615,189	645,019	24.7%	6,489,510	5,616,317	873,193	15.5%
General revenues (expenses):								
Gains (losses) on investments	(36,744,669)	45,035,586	(81,780,255)	-181.6%	-	-	-	0.0%
Investments earnings	337,848	280,139	57,709	20.6%	5,795	3,135	2,660	84.8%
Other	-	-	-	0.0%	19,153	444,300	(425,147)	-95.7%
Total revenues	(7,296,719)	233,396,423	(240,693,142)	-103.1%	6,514,458	6,063,752	450,706	7.4%
Expenses:								
Functions/Programs:								
General government	(82,810,367)	4,085,054	(86,895,421)	-2127.2%	-	-	-	0.0%
Education, aqueduct and sewers, and transportation	297,263	690,749	(393,486)	-57.0%	-	-	-	0.0%
Economic development program	322,810	2,935,821	(2,613,011)	-89.0%	-	-	-	0.0%
Recreation and sports	44,980,637	11,919,274	33,061,363	277.4%	-	-	-	0.0%
Edifications	1,200,374	4,585,204	(3,384,830)	-73.8%	-	-	-	
Arts and entertainment	-	45,514	(45,514)	-100.0%	-	-	-	0.0%
Public safety	248,823	46,117	202,706	439.5%	-	-	-	0.0%
Weatherization program	-	1,723,959	(1,723,959)	-100.0%	-	-	-	0.0%
Impairment loss on deposits	1,878,659	30,048,890	(28,170,231)	-93.7%	3,098	2,991,050	(2,987,952)	-99.9%
Interest on long-term debt	93,642,577	115,810,300	(22,167,723)	-19.1%	-	-	-	0.0%
World Plaza Building	-	-	-	0.0%	7,247,253	6,928,428	318,825	4.6%
Total expenses	59,760,776	171,890,882	(112,130,106)	-65.2%	7,250,351	9,919,478	(2,669,127)	-26.9%
Increase (decrease) in net position before transfers	(67,057,495)	61,505,541	(128,563,036)	-209.0%	(735,893)	(3,855,726)	3,119,833	-80.9%
Beginning deficit	(1,826,971,327)	(1,888,476,868)	61,505,541	-3.3%	(15,127,204)	(11,271,478)	(3,855,726)	34.2%
Ending deficit	$ (1,894,028,822)	$ (1,826,971,327)	$ (67,057,495)	3.7%	$ (15,863,097)	$ (15,127,204)	$ (735,893)	4.9%

Governmental Activities

Revenues **–** Total revenues decrease approximately $240.7 million or 103.1%, mainly because the effect of the total loss on investment for 2017 that amounted to approximately $36.7 million and the gain on investment for 2016 that amounted to approximately $45 million, for a total fluctuation of approximately $81.8 million. This change is due to the decrease in the fair value of the investments in COFINA Bonds. In addition, the Contributions from the Commonwealth of Puerto Rico decreased by approximately $159.6 million, due to the fiscal, economic and liquidity crisis confronted by the Commonwealth.

Expenses – Total expenses decreased approximately $24.9 million or 14.5%, mainly due to a decrease in the impairment loss on deposits in GDB of approximately $28.2 million, a decrease in interest on long term-debt of approximately $22.2 million, net of an increase in the recreation and sports expenses of approximately $33.1 million which is mainly related with the completed projects transferred to other governmental entities.

Business-Type Activities

Revenues **–** Revenues increased approximately $873 thousand or 15.5%, mainly due to the increase in occupancy in the World Plaza Building in 2017, net of a decrease in the other general revenues of approximately $425 thousand that is mainly due to insurance proceeds revenues recorded in 2016 due to a fire that affected the World Plaza Building in 2013.

Expenses **–** Total expenses decrease approximately $2.7 million or 26.9%, mainly due to a decrease in impairment loss on deposits in GDB of approximately $3 million and an increase in bad debt expenses of approximately $340 thousand.

4. GOVERNMENTAL FUNDS RESULTS

General Fund – Total assets in the general fund decreased approximately $36.1 million as a direct result of the decrease in the fair value of the restricted non-spendable investment in COFINA Bonds of approximately $36.7 million. The fund balance decreased from approximately $99.3 million in 2016 to approximately $64 million in 2017 or 35.52%, mostly due to the decrease in fair value of the investment in COFINA Bonds.

Revenues in the general fund decreased from approximately $58.3 million in 2016 to a loss of approximately $32.2 million 2017, mainly due to the effect of the valuation of the restricted non-spendable investment in COFINA Bonds and a decrease of approximately $8.4 million in the contributions from Commonwealth of Puerto Rico. Investment loss during 2017 was approximately $36.7 million, while in 2016, there was a net investment income of approximately $45 million. General government expenditures of $3.3 million for 2017 remained similar to 2016. This, due to cost control measures implemented for the administrative and operating expenses of the Authority. The impairment loss decreased from approximately $2.3 million in 2016 to an impairment recovery of approximately $213 thousand in 2017.

Capital Projects Fund – Total assets decreased from approximately $54.6 million in 2016 to approximately $53.2 million in 2017, or 2.48%. This reduction is mainly related to an impairment of deposits in GDB of approximately $2.1 million.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

Total liabilities decreased from approximately $47.9 million in 2016 to approximately $44.4 million in 2017 or 7.28%. The decrease is mainly related to a reduction in accounts payable and accrued liabilities of approximately $5.8 million and an increase in the Due to Commonwealth of approximately $2.1 million. Total revenues decreased from approximately $30.5 million in 2016 to approximately $21.6 million in 2017, for an increase of approximately $9 million, or 29%, mainly driven by a decrease in contributions from the Commonwealth of Puerto Rico of approximately $8.8 million.

Debt Service Fund – Total assets decreased from approximately $16.1 million in 2016 to approximately $4.4 million in 2017, resulting in a decrease of approximately $11.7 million, or 73%. The decrease is due to the utilization of funds maintained with the trustees to paid debt services related to the Bonds Series 2007 and BAN Series 2015 during the fiscal year 2017.

5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles and building. The following is a schedule of the Authority's capital assets activity:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 6,751,428	$ 6,868,328	$ 4,438,534	$ 4,438,534	$ 11,189,962	$ 11,306,862
Construction in progress	2,447,650	33,479,472	-	-	2,447,650	33,479,472
Building	-	-	22,561,474	22,561,474	22,561,474	22,561,474
Building improvements	-	-	3,516,368	3,516,368	3,516,368	3,516,368
Furniture and equipment	1,051,533	1,037,621	483,932	460,252	1,535,465	1,497,873
Vehicles	57,692	57,692	-	-	57,692	57,692
Total capital assets	10,308,303	41,443,113	31,000,308	30,976,628	41,308,611	72,419,741
Less accumulated depreciation and amortization	1,069,966	1,056,185	3,644,423	2,801,098	4,714,389	3,857,283
Capital assets - net	$ 9,238,337	$ 40,386,928	$ 27,355,885	$ 28,175,530	$ 36,594,222	$ 68,562,458

Overall capital assets change of approximately $32 million was driven by an increase in construction work in process of approximately $13.4 million and the transfer of completed projects with accumulated costs of approximately $44.4 million.

Debt Outstanding

As of June 30, 2017, the Authority had approximately $2,039.5 million in long-term and other liabilities, mainly composed of approximately $1,978.1 million of bonds payable (net of premiums and discounts), $15.6 million of loans payable, and $7.9 million of net pension liability. Total long-term and other liabilities include bonds and loans payable, termination benefits, net pension liability, and accrued compensated absences.
In overall, long-term and other liabilities decreased by approximately $33.2 million, mainly as a result of the repayment of principal of approximately $13.5 million of bonds, and the net effect of the discount accretion and amortization of premiums of approximately $12.5 million.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

6. CURRENTLY KNOWN FACTS

PFC Notes

The Authority has defaulted on the PFC Notes since fiscal year 2016 due to a non-appropriation of funds for the payment in the annual budget of the Commonwealth. See Note 13 for further details.

Investments

On June 13, 2017, Standard & Poor's Rating Services downgraded the rating of the COFINA's subordinated sale tax bonds to D from CC.

Executive Order

On December 1, 2015, the Governor signed Executive Order No. OE-2015-046, which provides that the Commonwealth will redirect certain revenues in light of recently revised revenues estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenue that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the "Clawback Provision"), to pay debt issued or guaranteed by the Commonwealth. See Note 12 for further details.

Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Legislature enacted the Act Number 21 "Emergency Moratorium and Financial Rehabilitation Act". The Act provides for the following: (a) authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico ("EDB") or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) amend GDB's Enabling Act to give GDB options and tools that it may need to address its own resolution (these amendments (a) modernize GDB's Organic Act related to a receivership for GDB, and authorize the creation of a temporary "bridge" bank to carry on certain of GDB's functions and honor deposits; (c) amends the Enabling Act of the EDB to modernize its receivership provisions and; (d) create a new fiscal agency and financial authority. As a result, on April 30, 2016, the Governor signed the Executive Order 2016-014 declaring the Authority in an emergency state and providing for a moratorium on the payment of certain Authority's obligations. In addition, since the enactment of the Moratorium Act, the Governor of Puerto Rico adopted a series of executive orders pursuant thereto declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth and certain other governmental instrumentalities. As a result, the Authority failed to make certain debt service payments. Pursuant to the executive orders referred to above, the Commonwealth retained and deposited in a Treasury Sigle Account ("TSA") certain revenues that would have otherwise been transferred to the Authority and other public corporations for the payment of their respective debt obligations.

In addition, the Authority was in default in relation to payment of principal and interest related with Series 2005, Series 2006, and BANs 2015A. As of June 30, 2017, the total of unpaid obligations under default amounted to approximately $232.7 million. See Note 12 for further details.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

Default

Due to the implementation of the Executive Order No. OE-2015-046 and the Emergency Moratorium and Financial Rehabilitation Act described above, the Authority did not transfer sufficient funds to the Trustee to make the required payments of principal and interest related with Series 2005, Series 2006, and BANs 2015A. The total unpaid obligations under default amounted to approximately $232.7 million as of June 30, 2017. (See Note 12 for further details).

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

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). The Act would create a structure for exercising federal oversight over the fiscal affairs of territories. PROMESA would: (a) establish an Oversight Board with broad powers of budgetary and financial control over Puerto Rico; and (b) create procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for debts of other territories. Other diverse provisions of the Act include the Puerto Rico's right to determine its future political status is affirmed, the authority of the Governor, with board approval, to reduce the minimum wage for most workers in Puerto Rico under the age of 25 for a four-year period, an automatic stay on litigation, and accelerated processes for the review and permitting of infrastructure projects designated as "Critical Projects."

Act 74 of 2016

Act 74 of 2016 was enacted on July 20, 2016. Under the Act, GDB is authorized to consolidate its investment in loans corresponding to financing and obligations granted to governmental entities of the Commonwealth of Puerto Rico, which are payable, under various laws, of legislative appropriations, whose total value in GDB books as of December 31, 2015, including accrued interest at the same date, amounts to approximately $4,366 million; to authorize GDB to restructure such consolidated borrowings into a single loan and to reduce the GDB's investment in loans from approximately $4,366 million to the value in the Bank's books in a new loan restructured to a term of thirty five (35) years at an interest rate of five (5) percent per annum; to establish the terms of repayment of the consolidated loan; to provide that no department, agency, public corporation or instrumentality of the Commonwealth of Puerto Rico may take additional financing or of any class based on the laws or legal authority that authorized the loans that, through this measure, are consolidated and restructured; to Authorize the Bank to terminate the loan agreements related to the original loans, which by this Law will be consolidated and restructured into a single loan in accordance with the provisions thereof; and, for other related purposes. As of June 30, 2017, the Authority's loans payable to GDB subject to consolidation amounted to approximately $60.5 million, including accrued interest of $11.1 million. See Note 13 for further details.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

GDB's Restructuring Support Agreement and Title VI Process

On May 15, 2017, the Governor announced that the Fiscal Agency and Financial Advisory Authority ("FAFAA") and GDB entered into a restructuring support agreement (the " RSA") with a significant portion of GDB's major stakeholders holding more than $2.45 billion in claims against GDB, including more than 300 on-island bondholders, 50 on-island credit unions, and the Ad Hoc Group of Bank's Bondholders, which holds more than $1 billion of GDB's public bonds. On April 6, 2018, FAFAA, GDB, and certain of GDB's financial creditors entered into a fourth amendment to the RSA. The RSA, as amended, is consistent with the underlying strategy of the New GDB Fiscal Plan, mainly providing for a transaction resulting in an orderly wind-down of GDB's operations. The RSA also sets forth the parameters for a proposed GDB Title VI Plan under which distributable cash flow would be allocated among GDB's various financial creditors and provides greater clarity as to how GDB's operations would be wound down (the "GDB Title VI Plan"). The proposed GDB Title VI Plan contemplated by the RSA provides for certain GDB creditors - consisting primarily of holders of GDB public bonds and deposit claims held by certain municipalities of the Commonwealth and certain municipal and nonpublic entities - to exchange their claims against GDB at a discount for new bonds (the "New Bonds"). If the GDB Title VI Plan is approved, such GDB creditors will receive New Bonds, and their claims, valued at full face value but without accrued interest, will be exchanged for New Bonds at an "Upfront Exchange Ratio" of 55. The New Bonds will be issued by a newly formed special purpose instrumentality created pursuant to statute (the "Issuer"). Pursuant to Act No. 109 of 2017 (Act No. 109 of 2017), effective as of the closing date of the Qualifying Modification, the balance of liabilities owed between any government entity and GDB may be automatically determined by applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB in a manner consistent with the Qualifying Modification. Furthermore, Act No. 109 of 2017 provides that all transactions effected pursuant thereto are valid and binding with respect to all government entities and that, other than as expressly provided therein or in the transaction documents, no government entity has any further rights or claims against GDB, the new issuer or the Public Entity Trust based, in whole or in part, on facts existing or occurring on or prior to the closing of the Qualifying Modification. Upon the closing of the Qualifying Modification, government entities are deemed to forever waive, release and discharge GDB, the new issuer and the Public Entity Trust from any and all such claims. The assets of the Public Entity Trust consist of claims against the Commonwealth for loans with an outstanding principal balance of approximately $905 million to be asserted by the Public Entity Trust in the Commonwealth's Title III cases. The Public Entity Trust will be structured to provide priority treatment for claims arising from deposits of certain federal funds with GDB. As with the assets securing the New Bonds, certain assets to be placed in the Public Entity Trust are expressly subject to further diligence and recategorization. The RSA also requires the Commonwealth's Governmental and Business-Type entities to net their debts with GDB against their deposits and investments also held by GDB. On March 23, 2018, GDB ceased its operations and its currently winding down in an orderly fashion under Title VI of Promesa. On April 25, 2018, FAFAA and GDB resubmitted the RSA, as amended by the four amendments thereto, to the Oversight Board for recertification. On May 8, 2018, the Oversight Board recertified the RSA as compliant with the GDB fiscal plan dated April 20, 2018 and certified the RSA as a Qualifying Modification under section 601 of PROMESA.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

Act 5 of 2017

On January 2017, the Governor of the Commonwealth of Puerto Rico signed into law the "Puerto Rico Financial Emergency and Fiscal Responsibility Act", declaring an emergency period commencing on the effective date of the Act and ending upon May 1, 2017. During such period, the Act granted the Governor powers to assure services essentials to the public, health, safety and welfare of the residents of Puerto Rico. The Act also provides that the Governor shall pay debt service to the extent possible after all essential services of the Commonwealth of Puerto Rico have been provided for or ordered to do so by the Oversight Board created under PROMESA or any other board created under federal law. The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA, between the Governor and/or the Puerto Rico Fiscal Agent, and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.

On July 19, 2017, the emergency period that prevailed under the Act No. 05-17 was extended until December 31, 2017 with the enactment into law (Act No. 46-2017). This new legislation allows the Governor of Puerto Rico to sign executive orders to extend the emergency period for successive periods of six months while the Oversight Board maintains its oversight and operations in Puerto Rico. See Notes 24 and 26 for further details.

Act 106 of 2017

On June 27, 2017, the Treasury Department of Puerto Rico issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new "pay-as-you-go (PayGo)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the fiscal year 2017, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the y Department of Puerto Rico before the 15 of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase. In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which its active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, Act to Guarantee the Payment to Our Pensioners and Establish a new Plan for Defined Contributions for Public Servants. This law creates the legal framework so that the government can guarantee payments to pensioners through the PayGo scheme. With this system, the government makes pension payments from the general fund, according to the money available. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. This law also creates a Defined Contribution Plan, similar to a 401 (k) plan, which guarantees the contributions of public servants, for in the future, benefits will not be paid by the retirement systems.

Downgrade

On July 1, 2016, Standard & Poor's Rating Services downgraded to the lowest level of "D" the Authority's Special Tax Revenue Bonds. On April 5, 2017, Moody's downgraded the Authority's Special Tax Revenue Bonds to a level C rating from its previous ratings of Ca.

On March 2, 2018, Standard & Poor's Rating Services discontinued the unenhanced rating on the Authority's Special Tax Revenue Bonds and Special Tax Revenue Refunding Bonds.

7. REQUEST FOR INFORMATION

This financial report is designed to provide all interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, PO Box 41207, Minillas Station, San Juan, PR 00940.

PO Box 41207 • San Juan, PR 00940-1207 • Teléfono (787) 763-5757

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)
June 30, 2017

	Governmental Activities	Business-type activities	Total
ASSETS:			
Cash in GDB	$ 1,611	$ -	$ 1,611
Cash and cash equivalents in other financial institutions	2,731,575	2,693,239	5,424,814
Accounts receivable, net	324,212	309,164	633,376
Due from Commonwealth of Puerto Rico	980,604	-	980,604
Internal balances	302,325	(302,325)	-
Prepaid expenses and other assets	21,481	227,733	249,214
Due from GDB	81,684	-	81,684
Other	23,480	-	23,480
Restricted assets:			
Cash in GDB	35,109	-	35,109
Cash and cash equivalents in other financial institutions	37,193,911	-	37,193,911
Accrued interest receivable	10,407	-	10,407
Investments and investment contracts	60,335,816	-	60,335,816
Due from Commonwealth of Puerto Rico	16,353,730	-	16,353,730
Due from Municipality of San Juan	381,956	-	381,956
Due from other governmental entities	11,664,719	-	11,664,719
Net investment in direct financing lease	34,900,000	-	34,900,000
Capital assets, net:			
Non-depreciable:			
Land	6,751,428	4,438,534	11,189,962
Construction in progress	2,447,650	-	2,447,650
Depreciable, net	39,259	22,917,351	22,956,610
Total assets	174,580,957	30,283,696	204,864,653
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on debt refunding	39,971,193	-	39,971,193
Pension related	1,697,122	-	1,697,122
Total deferred outflows of resources	41,668,315	-	41,668,315
Total assets and deferred outflows of resources	216,249,272	30,283,696	246,532,968
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION (DEFICIT)			
Liabilities:			
Accounts payable and accrued expenses	39,274,249	852,921	40,127,170
Accrued interest payable	152,433,372	7,932,722	160,366,094
Due to the Commonwealth of Puerto Rico	3,531,140	-	3,531,140
Liabilities due in one year:			
Compensated absences	388,483	-	388,483
Termination benefits	42,510	-	42,510
Bonds and loans payable	182,746,868	37,361,150	220,108,018
Liabilities due in more than one year:			
Termination benefits	89,723	-	89,723
Net pension liability	7,899,363	-	7,899,363
Bonds and loans payable	1,810,974,567	-	1,810,974,567
Total liabilities	2,197,380,275	46,146,793	2,243,527,068
DEFERRED INFLOW OF RESOURCES:			
Pension related	151,188	-	151,188
Total deferred inflow of resources	151,188	-	151,188
NET POSITION (DEFICIT):			
Net investment in capital assets	9,238,337	(2,005,265)	7,233,072
Restricted for:			
Other purposes	59,118,653	-	59,118,653
Unrestricted	(2,049,639,181)	(13,857,832)	(2,063,497,013)
TOTAL NET POSITION (DEFICIT)	$ (1,981,282,191)	$ (15,863,097)	$ (1,997,145,288)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities
For the Fiscal Year Ended June 30, 2017

		Program Revenues		Net (expense) / revenue and changes in net position (deficit)		
FUNCTIONS / PROGRAMS	Expenses	Operating Grants and Contributions	Charges for Services	Governmental Activities	Business - Type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	$ (82,810,367)	$ 25,849,894	$ 3,260,208	$ 111,920,469	$ -	$ 111,920,469
Education, aqueduct and sewers, and transportation	297,263	-	-	(297,263)	-	(297,263)
Economic development program	322,810	-	-	(322,810)	-	(322,810)
Recreation and sports	44,980,637	-	-	(44,980,637)	-	(44,980,637)
Edifications	1,200,374	-	-	(1,200,374)	-	(1,200,374)
Public safety	248,823	-	-	(248,823)	-	(248,823)
Impairment loss on deposits held in GDB	1,878,659	-	-	(1,878,659)	-	(1,878,659)
Interest on long-term debt	93,642,577	-	-	(93,642,577)	-	(93,642,577)
Total governmental activities	147,014,145	25,849,894	3,260,208	(117,904,043)	-	(117,904,043)
BUSINESS - TYPE ACTIVITIES:						
World Plaza Building	7,250,351	-	6,489,510	-	(760,841)	(760,841)
Total	$ 154,264,496	$ 25,849,894	$ 9,749,718	(117,904,043)	(760,841)	(118,664,884)
GENERAL REVENUES (EXPENSES):						
Loss on investment				(36,744,669)	-	(36,744,669)
Unrestricted investment earnings				337,848	5,795	343,643
Other revenues				-	19,153	19,153
CHANGE IN NET POSITION (DEFICIT)				(154,310,864)	(735,893)	(155,046,757)
NET POSITION (DEFICIT) - Beginning of year, as restated				(1,826,971,327)	(15,127,204)	(1,842,098,531)
NET POSITION (DEFICIT) - End of year				$ (1,981,282,191)	$ (15,863,097)	$ (1,997,145,288)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities
For the Fiscal Year Ended June 30, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Governmental Funds
ASSETS				
Cash in GDB	$ 1,611	$ -	$ -	$ 1,611
Cash and cash equivalents in other financial institutions	2,731,575	-	-	2,731,575
Due from other governmental entities	324,212	-	-	324,212
Due from other governmental funds	2,695,880	201,454	3,000	2,900,334
Due from other funds	10,341	291,984	-	302,325
Due from Commonwealth of Puerto Rico	126,360	-	-	126,360
Due from GDB	81,684	-	-	81,684
Other	23,480	-	-	23,480
Restricted assets:				
Cash in GDB	-	35,109	-	35,109
Cash and cash equivalents in other financial institutions	-	37,062,660	131,251	37,193,911
Accrued interest receivable	-	10,407	-	10,407
Investments and investment contracts	59,118,653	7	1,217,156	60,335,816
Due from other governmental entities	-	12,046,675	-	12,046,675
Due from Commonwealth of Puerto Rico	9,526,570	3,558,650	3,072,750	16,157,970
	$ 74,640,366	$ 53,206,946	$ 4,424,157	$ 132,271,469

Continues

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Activities
For the Fiscal Year Ended June 30, 2017

Continued

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	$ 880,498	$ -	$ -	$ 880,498
Liabilities payable from restricted assets:				
Bonds and loans payable	7,196,685	-	119,260,000	126,456,685
Accrued interest payable	2,093,864	-	113,431,543	115,525,407
Accounts payable and accrued liabilities	236,018	38,155,548	-	38,391,566
Due to Commonwealth of Puerto Rico	-	3,531,140	-	3,531,140
Due to other governmental funds	201,454	2,698,880	-	2,900,334
Total liabilities	10,608,519	44,385,568	232,691,543	287,685,630
FUND BALANCES:				
Non-spendable	59,118,653	-	-	59,118,653
Restricted for:				
Capital Projects	-	8,821,378	-	8,821,378
Unassigned	4,913,194	-	(228,267,386)	(223,354,192)
Total fund balances	64,031,847	8,821,378	(228,267,386)	(155,414,161)
	$ 74,640,366	$ 53,206,946	$ 4,424,157	$ 132,271,469

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

FUND BALANCES - GOVERNMENTAL FUNDS		$ (155,414,161)
Amounts reported for governmental activities in the statement of net position (deficit) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These amounts are:		
Non-depreciable capital assets	9,199,078	
Depreciable capital assets, net	39,259	9,238,337
Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds	21,481	21,481
Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Net investment in direct financing lease	34,900,000	
Due from Commonwealth	1,050,004	35,950,004
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds		
Deferred charges on debt refunding	39,971,193	
Pension related	1,697,122	41,668,315
Deferred inflows of resources are not reported in the funds		
Pension related	(151,188)	(151,188)
Liabilities, including bonds payable, loans payable, net pension liability, and accrued interest payable are not due and payable currently and, therefore, are not reported in the funds		
Bonds and loans payable	(1,867,264,750)	
Accrued interest payable	(36,907,965)	
Accounts payable and accrued expenses	(8,422,264)	(1,912,594,979)
DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (1,981,282,191)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Intergovernmental revenues:				
Contributions from Commonwealth of Puerto Rico	$ 4,437,798	$ 21,216,336	$ 195,760	$ 25,849,894
Interest and investment income (loss):				
Interest bearing demand deposits	5,838	198,763	133,247	337,848
Investments and investment contracts	(36,744,669)	-	-	(36,744,669)
Direct financing lease revenues	-	-	3,072,750	3,072,750
Charges for services	63,866	-	-	63,866
Other	16,190	139,052	768,350	923,592
Total revenues	(32,220,977)	21,554,151	4,170,107	(6,496,719)
EXPENDITURES:				
Current:				
General government	3,247,253	633,576	-	3,880,829
Education, aqueduct and sewers and transportation	-	180,363	-	180,363
Economic development program	-	322,810	-	322,810
Recreation and sports	-	561,923	-	561,923
Edifications	-	1,200,374	-	1,200,374
Public safety	-	248,823	-	248,823
Impairment loss (recovery) on deposits held in GDB	(212,517)	2,091,176	-	1,878,659
Debt service:				
General government	-	-	78,369	78,369
Maturing bonds and loans	-	-	132,760,000	132,760,000
Interest	-	-	80,604,223	80,604,223
Capital outlays:				
General government	13,912	-	-	13,912
Recreation and sports	-	5,946,417	-	5,946,417
Transportation	-	7,440,475	-	7,440,475
Total expenditures	3,048,648	18,625,937	213,442,592	235,117,177

Continues

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

Continued	**General Fund**	**Capital Projects Fund**	**Debt Service Fund**	**Governmental Funds**
REVENUES OVER (UNDER) EXPENDITURES	$ (35,269,625)	$ 2,928,214	$ (209,272,485)	$ (241,613,896)
OTHER FINANCING SOURCES:				
Transfers in	-	-	793,663	793,663
Transfers out	-	(793,663)	-	(793,663)
Total other financing sources	-	(793,663)	793,663	-
NET CHANGES IN FUND BALANCES	(35,269,625)	2,134,551	(208,478,822)	(241,613,896)
FUND BALANCES - beginning of year, as restated	99,301,472	6,686,827	(19,788,564)	86,199,735
FUND BALANCES - end of year	$ 64,031,847	$ 8,821,378	$ (228,267,386)	$ (155,414,161)

The accompanying notes are an integral part of these basic financial statements.

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (241,613,896)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are:		
Capital outlays	13,400,804	
Depreciation expense	(13,781)	13,387,023
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were:		
Principal payments	45,585,000	
Amortization of bonds premium and deferred charges on debt refunding, net	(16,088,380)	29,496,620
Some revenues reported in governmental funds were previously recognized at the government-wide level.		(800,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		45,219,389
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (154,310,864)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

		Business-Type Activities
ASSETS:		
Current assets:		
Cash and cash equivalents in other financial institutions	$	2,693,239
Accounts receivable, net		309,164
Prepaid expenses		227,733
Total current assets		3,230,136
Non current assets:		
Capital assets, net:		
Nondepreciable:		
Land		4,438,534
Depreciable, net		22,917,351
Total assets	$	30,586,021
LIABILITIES AND NET POSITION (DEFICIT):		
Current liabilities:		
Accounts payable and accrued expenses	$	852,921
Accrued interest payable		7,932,722
Line of credit		37,361,150
Due to other funds		302,325
Total current liabilities		46,449,118
NET POSITION (DEFICIT):		
Net investment in capital assets		(2,005,265)
Deficit		(13,857,832)
TOTAL NET DEFICIT	$	(15,863,097)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

	Business -Type Activities
Operating revenues:	
Rent income	$ 6,388,798
Other	100,712
Total operating revenue	6,489,510
Operating expenses:	
General, administrative, and other operating expenses	3,791,122
Depreciation expense	843,325
Total operating expenses	4,634,447
Operating income	1,855,063
Non-operating revenues (expenses):	
Interest and investment earnings	5,795
Insurance recovery	19,153
Impairment loss on deposits held in GDB	(3,098)
Bad debt expense	(340,003)
Interest expense	(2,272,803)
Total non-operating expenses, net	(2,590,956)
Net change in net position (deficit)	(735,893)
Net position (deficit) - beginning of year	(15,127,204)
Net position (deficit) - end of year	$ (15,863,097)

The accompanying notes are an integral part of these basic financial statements.

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017

	Business -Type Activities
Cash flows from operating activities:	
Receipts from customers and users	$ 7,302,798
Payments to suppliers	(4,624,559)
Impairment loss on deposits held in GDB	(3,098)
Net cash provided by operating activities	2,675,141
Cash flows from non-capital and related financing activities:	
Advances to other funds	(1,153,585)
Net cash used in non-capital and related financing activities	(1,153,585)
Cash flows from capital and related financing activities:	
Capital expenditures	(23,680)
Net cash used in capital and related financing activities	(23,680)
Cash flows from investing activities:	
Insurance recovery	19,153
Interest collected on deposits, investments and loans	5,795
Net cash provided by investing activities	24,948
Net change in cash and cash equivalents	1,522,824
Cash and cash equivalents, at beginning of year	1,170,415
Cash and cash equivalents, at end of year	$ 2,693,239
Cash and cash equivalents include:	
Cash in GDB	$ -
Cash and cash equivalents in other financial institutions	2,693,239
	$ 2,693,239
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 1,855,063
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	843,325
Impairment loss on deposits held in GDB	(3,098)
Bad debt expense	(340,003)
Changes in operating assets and liabilities:	
Decrease in accounts and loans receivable	1,153,291
Decrease in prepaid expenses	204
Decrease in accounts payable and accrued liabilities	(833,641)
Total adjustments	820,078
Net cash provided by operating activities	$ 2,675,141

The accompanying notes are an integral part of these basic financial statements.

1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the "Authority") is a Component Unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 44 of June 21, 1988, as amended (the "Act No. 44") and an affiliate of Government Development Bank for Puerto Rico (the "GDB"), another Component Unit of the Commonwealth. The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The accompanying financial statements present the net position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America ("US GAAP") for governments as prescribed by the Governmental Accounting Standard Board ("GASB").

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

Following is a description of the Authority's most significant accounting policies:

Government-Wide Financial Statements:

The statement of net position and the statement of activities report information on all activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services or interest earned on investment securities.

The statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- *Restricted* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the assets results from a resource flow that also results in the recognition of a liability or if a liability will be liquidated with the restricted assets reported.

- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first and the unrestricted resources when they are needed.

Statement of activities demonstrates the degree to which the expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Certain indirect costs have been allocated and are reported as direct program expenses of individual functions or programs. Program revenues include: (1) interest and investment income, including the changes in the fair value of investments; (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function and; (3) certain charges for services to customers that purchase, use or directly benefit from services given by a particular function. Other items not meeting the definition of program revenue are instead reported as general revenue.

Governmental Funds Financial Statements:

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are considered major funds.

Governmental Funds – Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows and balances of available resources. The Authority reports the following governmental funds:

- *General Fund* – The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.

- *Capital Projects Fund* – The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.

- *Debt Service Fund* – The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Proprietary Funds – These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The only major proprietary fund is the World Plaza Building Fund, which is used to account for the activities related to the rental of office space and parking lots.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements – The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred. However, principal and interest on long term debt, loans and notes payable are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt, notes and loans and acquisitions under capital leases are reported as other financing sources.

Proprietary Fund Financial Statements – The basic financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements. The proprietary fund account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenue is generated from rental, investing, and other related activities. Operating expenses include general and administrative expenses, among others. Revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash Equivalents:

Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less.

Investments and Investment Contracts:

To the extent available, the Authority's investments and investment contracts, except for money market investments and nonparticipating investment contracts, which use a cost base measure, are recorded at fair value as of June 30, 2017. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- *Level 1* – Investments whose values are based on quoted prices (unadjusted) for identical assets *or liabilities in active markets that a government can access at the measurement date.*

- *Level 2* – Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

- *Level 3* – Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Accounts Receivable:

Accounts receivable are stated net of estimated allowances for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Write-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Prepaid Expenses:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Restricted Assets:

Certain resources are set aside for the repayment of bonds payable, construction of capital projects and other purposes, such as future contributions to the revolving loan funds. All of these assets are classified as restricted assets on the accompanying statement of net position (deficit) and governmental funds balance sheet because these resources are limited for these purposes by applicable agreements.

Direct Financing Lease:

Aggregate rental payment due over the term of the lease less unearned income are included in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

Capital Assets:

Capital assets include land, construction in progress, buildings, furniture and equipment, vehicles, and buildings improvements. The threshold for capitalizing furniture and equipment, vehicles, and buildings improvements is $750. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair value at the time received. Capital assets and related depreciation are recognized in the government-wide financial statements and proprietary funds financial statements. Depreciation is determined using the straight-line method over the related asset's estimated useful lives. There is no depreciation recorded for land and construction in progress. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized.

The ranges of the useful lives are as follows:

Description	Years
Building	40
Building improvements	15
Furniture and equipment	3–5
Vehicles	3–5

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

Capital assets are evaluated for impairment, using the guidance provided by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage, among others. The Authority's management determined that there were no impairment losses for the year ended June 30, 2017.

Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The Authority has two items that qualify for reporting in this category in the government-wide Statement of Net Position (Deficit), which are the deferred amount on refunding debt and certain pension related items. Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense. In relation to the pension related items, which are related with the GASB Statement No. 68 and GASB Statement No. 71, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date according to the requirements of the GASB Statement No. 71. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category in the government-wide Statement of Net Position (Deficit), which is related with certain pension related items (GASB Statement No. 68). Changes in proportional share of contributions, differences between expected and actual experience, and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. There were no deferred inflows of resources at the governmental funds level.

Compensated Absences:

Based on the stipulations of the Act 29 of June 2017, employees are granted 15 days of vacation and 18 days of sick leave annually. Vacations and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of an employee resignation, it is reimbursed for accumulated vacation days up to the maximum allowed.

Bond Premiums/Discounts:

In the government-wide financial statements, premiums and discounts related to long-term debt are deferred and are amortized or accreted over the life of the related debt, using a systematic and rational methods that approximate the interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, Dedicated Tax Revenue Bonds Anticipation Notes, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements, are shown net of unamortized premium or discount.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued, as well as any related premium is reported as other financing source while discounts on debt issuances are reported as other financing use. Issuance costs are recorded as expenditures when paid.

Interfund Transactions:

The Authority has the following types of interfund transactions:

- *Loans* – Represent amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender fund and interfund payables (i.e. due to other funds) in borrower funds. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by nonspendable fund balance which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.
- *Reimbursements* – Represent repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
- *Transfers* – Represent flow of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Fund Balance:

Fund balances for each governmental fund are displayed into the following classifications, when applicable, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Non-spendable* – Amounts that cannot be spent because they are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.
- *Committed* – Amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned* – Amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* – Represent the residual classification for the general funds, and includes all spendable amounts not contained on the other classifications. In the other funds, the unassigned classification is only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted.

For classification of governmental fund balances, the Authority considers expenditures to be made from restricted resources first, then in the following order: committed, assigned, and unassigned resources.

The Authority has no committed or assigned fund balances.

Risk Management:

The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority compiles the information of all property owned and its respective replacement value and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2017 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Accounting for Pension Costs:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Termination Benefits:

The Authority accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Effects of New Accounting Standards:

During the fiscal year ended June 30, 2017, the Authority implemented the following GASB pronouncements:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 – This statement was issued to improve accounting and financial reporting by state and local governments for pensions. This statement replaces requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as requirements of GASB Statement No. 50, *Pension Disclosures*. This statement and GASB Statement No. 67 (applicable to Pension Plans) establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions and paying benefits to plan members as they come due. This statement was effective for the fiscal year ended June 30, 2015 but it was not until fiscal year 2017 that was implemented by the Authority. Additional information about the implementation of this statement and GASB Statement No. 71 is addressed in the Note 3 and Note 23.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68 – The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for the fiscal year ended June 30, 2015, but it was not until fiscal year 2017 that was implemented by the Authority.

Future accounting pronouncements:

GASB has issued the following accounting pronouncements that may have a future impact on the accounting and financial reporting practices and policies of the Authority:

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

GASB Statement No. 81, Irrevocable Split-Interest, which is effective for fiscal years beginning after December 15, 2016.

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

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

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

GASB Statement No. 86,* Certain Debt Extinguishment Issues,* which is effective for periods beginning after June 15, 2017.

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

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*,* which is effective for reporting periods beginning after June 15, 2018.

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

GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*,* which is effective for reporting periods beginning after December 15, 2018.

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

3. CHANGE IN REPORTING ENTITY AND ACCOUNTING PRINCIPLE

The basic financial statements of the Authority for the fiscal year ended June 30, 2016, presented an ARRA Fund to account for funds received as a subgrantee of the Office of the Governor of the Commonwealth of Puerto Rico (the "Governor's Office") under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the "ARRA Act" or the "ARRA Programs"). Under these ARRA Programs, the Authority was responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. The Authority also acted as coordinator of efforts and tasks to ascertain ARRA Act funds are properly managed. Additionally, the Authority was responsible for contracting, managing, and providing oversight to the school renovations or improvements projects. The ARRA Programs concluded during 2012. During recent years, the activities of the ARRA Fund were very limited. The Authority's management decided to eliminate the presentation of a ARRA Fund, based on the termination of receipts of federal funds which were restricted and committed for specific purposes of the ARRA Programs specific, and to present remaining resources of the fund as part of the General Fund.

The following table summarizes the changes to fund balances at the beginning of the year as previously reported for the General Fund and the ARRA Fund:

	General Fund	ARRA Fund
Beginning fund balance, as previously reported	$ 99,271,382	$ 30,090
Restatement	30,090	(30,090)
Beginning fund balance, as restated	$ 99,301,472	$ -

The Authority has determined that a restatement to the July 1, 2016 beginning net position was required to recognize the change in accounting principle for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, through which accounting for pension plans and the related disclosure requirements were modified.

This adjustment resulted in a change to the beginning net position of the Authority as follows:

Net Position (Deficit), at beginning of year as previously reported	$ (1,821,020,478)
Prior period adjustment:	
Implementation of GASB Statements No. 68 and No. 71:	
Net pension liability (measurement date June 30, 2015)	(6,573,847)
Deferred outflows of resources - pension related	633,386
Deferred outflows of resources (contributions made during fiscal year June 30, 2016)	251,734
Deferred inflow of resources - pension related	(262,122)
Total prior period adjustment	(5,950,849)
Net Position (Deficit), at beginning of year as restated	$ (1,826,971,327)

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Governmental Activities – The accompanying Statement of Net Position (Deficit) presents an accumulated deficit of approximately $2 billion. This situation occurs because the Authority's normal operations is to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other component units. The acquisition is mainly conducted through the issuance of long term obligations that will be funded by the Commonwealth with future appropriations. Accordingly, the Authority is completely dependent from the Commonwealth to effectively reverse its deficit position. Current cash flows shortage and liquidity uncertainties affecting the Commonwealth could have a significant impact in the Authority continuing operations and its ability to pay obligations as they become due. See notes 12 and 13 for further details.

Business-type Activities – The accompanying statement of net position presents an accumulated deficit of approximately $15.9 million. This situation occurs mainly due to the debt issued to acquire and refurbish the World Plaza building and other costs incurred in connection with the acquisition of the building, that by its nature were not considered capital assets, and the net effect of the depreciation of capital assets. During fiscal year 2017, the overall operations began to improve as a direct result of operating lease agreements signed in prior year with the Office of the Courts Administration and the Circuit Court of Appeals of the Commonwealth.

5. CASH AND CASH EQUIVALENTS, AND INVESTMENTS AND INVESTMENT CONTRACTS

The Authority is authorized to deposits funds in GDB and/or in the custody of financial institutions approved by the Commonwealth. Commonwealth's regulations required domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage. GDB is exempt from collateral requirements established by the Commonwealth.

In accordance with investment guidelines promulgated by GDB for agencies and public corporations of the Commonwealth under the provisions of Act No. 113 of August 3,1995, and Executive Order 1995-50A (the "Investment Guidelines"), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts

The Investment Guidelines also establish limitations and other guidelines. Investments related to bond issuances are purchased in accordance with the related bond indenture.

As of June 30, 2017, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

Description	Amount
Unrestricted assets:	
Cash in GDB	$ 1,611
Cash in other financial institutions	5,424,814
Total unrestricted cash	5,426,425
Restricted assets:	
Cash in GDB	35,109
Cash in other financial institutions	6,165,825
Total restricted cash	6,200,934
Cash equivalents and investments and investments contracts:	
Cash equivalents	31,028,086
Investments and investment contracts, temporarily restricted	1,217,156
Investments, permanently restricted	59,118,660
Total cash equivalents and investments and investment contracts	91,363,902
	$ 102,991,261

The investment in capital appreciation bonds of the Puerto Rico Sales Tax Financing Corporation (COFINA) represents a restricted investment, whereby the Authority cannot dispose of the investment unless it is approved by the Legislature of Puerto Rico. In addition, the Authority is not allowed to use the interest earned to support its programs.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2017:

Description	Due Within One Year	Due After Ten Years	Total
Time deposits:			
Banco Popular de Puerto Rico	$ 65,366	$ -	$ 65,366
Money market funds:			
Short term investments	76,025	-	76,025
Federated Prime Obligations	30,886,695	-	30,886,695
Nonparticipating investment contracts — Calyon	-	1,217,156	1,217,156
COFINA Revenue Bonds, Junior Subordinate, Series 2011A	-	59,118,660	59,118,660
	$ 31,028,086	$ 60,335,816	$ 91,363,902

Fair value of investments based on the hierarchy of inputs are determined as follows:

	Fair Value	Classification Level
Investments by Fair Value Level		
Debt Securities:		
Cofina Revenue Bonds, Junior Subordinate, Series 2011 A	$59,118,660	1

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The investment in Sales Tax Revenues Bonds Junior Subordinate, Series 2011A, issued by COFINA, are not subject to redemption prior to maturity, which range from August 1, 2046 to August 1, 2050. The Authority may not dispose of this investment or its earnings, unless approved by the Legislature of Puerto Rico.

The credit quality ratings for investments and investment contracts at June 30, 2017, are as follows:

	Credit Risk Rating	
Counterparty	**Standard & Poor's**	**Moody's**
U.S. Bank Trust National Association	AA-	A1
Government Development Bank for Puerto Rico	D	C
Federated Prime Obligations	AAAm	Aaa-mf
Calyon	A	A1
Banco Popular de Puerto Rico	BB+	Ba2
COFINA Revenue Bonds Junior/Sub. Series 2011 A	D	Ca

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in the GDB are exempt from collateral requirement established by the Commonwealth and thus, represents custodial credit risk because in the event of the GDB's failure, the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

The Commonwealth and its component units have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to pay its obligations.

Impairment of deposits held in GDB

On May 15, 2017, the Governor announced that the Fiscal Agency and Financial Advisory Authority (“FAFAA”) and GDB entered into a restructuring support agreement (the " RSA") with a significant portion of GDB's major stakeholders holding more than $2.45 billion in claims against GDB, including more than 300 on-island bondholders, 50 on-island credit unions, and the Ad Hoc Group of Bank's Bondholders, which holds more than $1 billion of GDB's public bonds.

On April 6, 2018, FAFAA, GDB and certain of GDB's financial creditors entered into a fourth amendment to the RSA. The RSA, as amended, is consistent with the underlying strategy of the New GDB Fiscal Plan, namely providing for a transaction resulting in an orderly wind-down of GDB's operations. The RSA also sets forth the parameters for a proposed GDB Title VI Plan under which distributable cash flow would be allocated among GDB's various financial creditors and provides greater clarity as to how GDB's operations would be wound down (the “GDB Title VI Plan”).

The proposed GOB Title VI Plan contemplated by the RSA provides for certain GDB creditors - consisting primarily of holders of GDB public bonds and deposit claims held by certain municipalities of the Commonwealth and certain municipal and nonpublic entities - to exchange their claims against GDB at a discount for new bonds (the “New Bonds”). If the GDB Title VI Plan is approved, such GDB creditors will receive New Bonds, and their claims, valued at full face value but without accrued interest, will be exchanged for New Bonds at an "Upfront Exchange Ratio" of 55. The New Bonds will be issued by a newly formed special purpose instrumentality created pursuant to statute (the “Issuer”).

Pursuant to Act No. 109 of 2017 (Act No. 109 of 2017), effective as of the closing date of the Qualifying Modification, the balance of liabilities owed between any government entity and GDB may be automatically determined by applying the outstanding balance of any deposit of such entity against the outstanding balance of any loan of such entity with GDB in a manner consistent with the Qualifying Modification. Furthermore, Act No. 109 of 2017 provides that all transactions effected pursuant thereto are valid and binding with respect to all government entities and that, other than as expressly provided therein or in the transaction documents, no government entity has any further rights or claims against GDB, the new issuer or the Public Entity Trust based, in whole or in part, on facts existing or occurring on or prior to the closing of the Qualifying Modification.

Upon the closing of the Qualifying Modification, government entities are deemed to forever waive, release and discharge GDB, the new issuer and the Public Entity Trust from any and all such claims. The assets of the Public Entity Trust consist of claims against the Commonwealth for loans with an outstanding principal balance of approximately $905 million to be asserted by the Public Entity Trust in the Commonwealth's Title Ill cases. The Public Entity Trust will be structured to provide priority treatment for claims arising from deposits of certain federal funds with GDB. As with the assets securing the New Bonds, certain assets to be placed in the Public Entity Trust are expressly subject to further diligence and recategorization.

The RSA also requires the Commonwealth's Governmental and Business-Type entities to net their debts with GDB against their deposits and investments also held by GDB. GDB ceased its operations on March 23, 2018 and is currently winding down in an orderly fashion under Title VI of PROMESA. On April 25, 2018, FAFAA and GDB resubmitted the RSA, as amended by the four amendments thereto, to the Oversight Board for recertification. On May 8, 2018, the Oversight Board recertified the RSA as compliant with the GDB fiscal plan dated April 20, 2018 and certified the RSA as a Qualifying Modification under section 601 of PROMESA.

Based on an evaluation of the availability and recoverability of funds deposited in the GDB, an impairment loss on deposits held in GDB amounting to $1.9 million was recorded in the Authority's basic financial statements as of and for the year ended June 30, 2017, as follows:

	Deposits held with GDB as of June 30, 2017							
	Governmental Activities				Business-Type Activities			
Description	Deposit Balance	Prior Year Impairment Loss	Current Year Impairment Recovery (Loss)	Book Balance	Deposit Balance	Prior Year Impairment Loss	Current Year Impairment Loss	Book Balance
Unrestricted:								
Cash	$ 2,070,331	$ (2,281,237)	$ 212,517	$ 1,611	$ 2,994,148	$ (2,991,050)	$ (3,098)	$ -
Restricted:								
Cash and cash equivalents	29,893,937	(27,767,652)	(2,091,176)	35,109	-	-	-	-
	$ 31,964,268	$ (30,048,889)	$ (1,878,659)	$ 36,720	$ 2,994,148	$ (2,991,050)	$ (3,098)	$ -

6. DUE FROM OTHER GOVERNMENTAL ENTITIES

Accounts receivable presented in Balance Sheet - Governmental Funds as of June 30, 2017, are as follows:

Description	General Fund	Capital Projects Fund	Total
Due from other governmental entities	$ 324,212	$ 11,664,719	$ 11,988,931
Due from Municipality of San Juan	-	381,956	381,956
	$ 324,212	$ 12,046,675	$ 12,370,887

The reconciliation to the government-wide statement of net position (deficit) as of June 30, 2017, is as follows:

Unrestricted receivable	$ 324,212
Restricted receivable:	
Due from Municipality of San Juan	381,956
Due from other governmental entities	11,664,719
	$ 12,370,887

On December 2011, the Authority entered into an Agreement with the Municipality of San Juan (the "Municipality") to sell a parcel of land owned by the Authority for $5 million. Pursuant to provisions set forth by this agreement, the Municipality committed to settle a legal claim against the Authority in the amount of approximately $3.7 million and to pay the remaining $1.3 million in three equal installments, which were due at the date of closing, in July 2012 and in July 2013. As of June 30, 2017, accounts receivable due from the Municipality related with this transaction amounted to $381,956. Receivables from other governmental entities are related to construction projects managed by the Authority.

7. ACCOUNTS RECEIVABLE-BUSINESS TYPE ACTIVITY

The Authority earns income from the leasing of office space in the World Plaza Building. The World Plaza Building is a commercial space building owned by the Authority that is located in San Juan, Puerto Rico with approximately 368,585 square feet available for rent. The occupancy rate is 96%. Rental income is accounted as it is earned, and the related expenses as incurred.

Accounts receivable, net amounting to $309,164 presented as of June 30, 2017 in the Statement of Net Position (Deficit) - Proprietary Funds, is composed of rent and related receivables, net of allowance for doubtful accounts of $2,383,430.

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2017:

Fiscal Year Ending June 30,	Amount
2018	$ 6,015,105
2019	5,838,592
2020	5,254,898
2021	1,059,437
2022	83,653
2023-2025	218,667
Total minimum future rentals	$ 18,470,352

8. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities. Concurrent with the transaction, the Authority assumed a loan payable to GDB for $34,225,725 and entered into a lease agreement with Mental Health and Anti-Addiction Services Administration ("MHAASA").

In October 2007, the Authority issued the Mental Health Infrastructure Revenue Bonds, Series A and B, in the aggregate amount of $43,330,000 to pay in full the note hereunder plus accrued interest of $3,305,780. The Authority entered into a trust agreement with Banco Popular de Puerto Rico (the "Trustee"), providing a lease agreement that was assigned to the Trustee requiring that payments by MHAASA under the lease be made directly to GDB to cover the principal and interest required on the bonds.

The lease terms stated that the payments will be for 30 years after the commencement of the bond's term and the lease amount will be equal to the annual principal and interest requirement of the bonds hereunder. MHAASA's annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sub lessors of MHAASA were assigned to the Trustee as security interest for the lease payments. MHAASA has the option to purchase the leased premises for $1 at the end of the lease term.

The total rentals receivable under the lease contract, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the lease is recognized monthly at a constant periodic rate of return on the unrecovered investment.

The composition of the net investment in direct financing lease at June 30, 2017, is as follows:

Description	Amount
Net minimum lease payments receivable	$ 63,731,625
Less unearned lease income	(28,831,625)
Total	$ 34,900,000

At June 30, 2017, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Principal	Interest	Total Amount
2018	$ 800,000	$ 2,222,750	$ 3,022,750
2019	900,000	2,169,625	3,069,625
2020	900,000	2,113,375	3,013,375
2021	1,000,000	2,054,000	3,054,000
2022	1,100,000	1,988,375	3,088,375
2023-2027	6,500,000	8,809,750	15,309,750
2028-2032	8,700,000	6,373,250	15,073,250
2033-2037	12,100,000	3,006,250	15,106,250
2038	2,900,000	94,250	2,994,250
	$ 34,900,000	$ 28,831,625	$ 63,731,625

9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets:				
Nondepreciable:				
Land	$ 6,868,328	$ -	$ (116,900)	$ 6,751,428
Construction in progress	33,479,472	13,386,892	(44,418,714)	2,447,650
Depreciable:				
Furniture and equipment	1,037,621	13,912	-	1,051,533
Vehicles	57,692	-	-	57,692
Total capital assets	41,443,113	13,400,804	(44,535,614)	10,308,303
Less: Accumulated depreciation				
Furniture and equipment	998,493	13,781	-	1,012,274
Vehicles	57,692	-	-	57,692
Total accumulated depreciation	1,056,185	13,781	-	1,069,966
Governmental activities capital assets, net	40,386,928	13,387,023	(44,535,614)	9,238,337
Business-type activities:				
Capital assets:				
Nondepreciable:				
Land	4,438,534	-	-	4,438,534
Depreciable:				
Building	22,561,474	-	-	22,561,474
Building improvements	3,516,368	-	-	3,516,368
Furniture and equipment	460,252	23,680	-	483,932
Total capital assets	30,976,628	23,680	-	31,000,308
Less: Accumulated depreciation				
Building	2,433,857	564,037	-	2,997,894
Building improvements	207,434	234,425	-	441,859
Furniture and equipment	159,807	44,863	-	204,670
Total accumulated depreciation	2,801,098	843,325	-	3,644,423
Business-type activities capital assets, net	28,175,530	(819,645)	-	27,355,885
Total capital assets, net	$ 68,562,458	$ 12,567,378	$ (44,535,614)	$ 36,594,222

The Authority issued certain bonds and notes and received legislative appropriations to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority ("PRASA"), various municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations. These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2017, the Authority incurred construction costs for the benefit of other instrumentalities, which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds, as follows:

Function/Programs	Amount
Economic development program	$ 322,810
Education, aqueduct and sewers and transportation	180,363
Recreation and sports	561,923
Edifications	1,200,374
Public safety	248,823
	$ 2,514,293

During the year ended June 30, 2017, depreciation expense of approximately $14 thousand and $843 thousand, were charged to the general government function and Business-type activities, respectively, in the accompanying statement of activities.

10. INTERFUND BALANCES

The summary of the amounts due from/to other funds as of June 30, 2017, is as follows:

Receivable By	Payable By	Purpose	Amount
General Fund	Capital Projects Fund	Reimbursement of administrative costs	$ 2,695,880
Capital Projects Fund	General Fund	Reimbursement of administrative costs	201,454
Debt Service Fund	Capital Projects Fund	Reimbursement of administrative costs	3,000
			$ 2,900,334

11. RESTRICTED NET POSITION / FUND BALANCES

Restricted assets of the Authority included in the statement of net position / fund balances as of June 30, 2017 consist of cash and cash equivalents, receivables, investments, and other assets, net of its related liabilities payable from those restricted assets, to be used for the following purposes:

Description	Amount
Restricted for investment in capital appreciation bonds of COFINA, whereby the Authority is not allowed to use the interest earned in this investment. In the governmental funds financial statements this amount is presented as non-spendable fund balance.	$ 59,118,653

12. BONDS PAYABLE

Special Tax Revenue Bonds:

On June 16, 2005, the Authority issued $309,102,577 Special Tax Revenue Bonds, Series 2005 A (the “Series 2005 A Bonds”), $324,625,000 Special Tax Revenue Bonds, Series 2005 B (the “Series 2005 B Bonds”), and $699,235,339 Special Tax Revenue Refunding Bonds, Series 2005 C (the “Series 2005 C Bonds”). The Series 2005 A Bonds mature at various dates from July 1, 2029 through 2045, inclusive, the Series 2005 B Bonds maturing on July 1, 2037 and 2041, and the Series 2005 C Bonds maturing on July 1, 2028. The Series 2005 B Bonds may be redeemed by the Authority prior to maturity upon not less than 30 days’ prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C are not subject to redemption prior to maturity, were issued as Capital Appreciation Bonds.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1 at rates ranging from 4% to 5.5%. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value.

The Series 2005 A and B Bonds were issued primarily for the purpose of providing approximately $292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately $26 million for certain advances made to the Authority by GDB for the purpose of providing funds to pay certain capital improvements of the Authority or other Commonwealth’s instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately $317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and Series 2005 B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority’s Capital Projects Fund.
The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority’s Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest and to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements. Such transaction resulted in a deferred loss on refunding of $76,267,097.

The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in a special redemption fund under the terms of an escrow deposit agreement. Such net proceeds, together with such other available moneys, were invested in government obligations, whose principal and interest when due, together with any moneys deposited with the Trustee remaining uninvested, will provide moneys sufficient to pay the principal redemption of premium and interest on the refunded bonds through the date of redemption.

On September 28, 2006, the Authority issued $469,770,000 Special Tax Revenue Bonds, Series 2006 (the "Series 2006 Bonds"), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the "Games"). The proceeds of this issuance provided for: (1) the acquisition, improvements and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth's instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010 to July 1, 2046.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies issued by an unrelated insurance company.

Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million of certain federal excise taxes received by the Commonwealth be transferred to the Authority. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth.

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit in the sinking fund the federal excise taxes and other moneys deposited as are required to meet the debt service requirements with respect to the Bonds.

The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Legislature of the Commonwealth, however, is not obligated to make the necessary appropriation to cover such deficiency.

The Authority was required under the trust agreement to establish a reserve account in the sinking fund to deposit and maintain therein an amount equal to the reserve requirements, as defined. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

Additional bonds, secured on parity with the Bonds, may be issued for any purpose authorized by Act No. 44, subject to compliance with certain financial tests in the trust agreement.

On March 16, 2015, the Authority issued the Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015 under and pursuant to Act No. 1 of 2015, as amended by Act No. 2 of 2015 of the Legislature of Puerto Rico approved January 15, 2015, as amended, in the aggregate principal amount of $245,955,000 with a maturity date of May 1, 2017, with an interest rate of 8.25% payable monthly on the first business day of each month, commencing on April 1, 2015.

The Series 2015A Notes are subject to redemption in whole or in part in Authorized Denominations at any time, at the option of the Authority upon not less than 20 days' prior written notice.

The Series 2015A Notes are subject to mandatory sinking fund redemption prior to maturity, and to redemption from funds in the redemption fund.

Proceeds of the Series 2015A Notes, together with funds contributed by the Puerto Rico Highways and Transportation Authority ("PRHTA"), were used to (i) redeem the PRHTA Special Revenue Bonds 2013A Bond Anticipation Notes (the "PRHTA Notes"), make a deposit to the Note Account established under the Trust Agreement to pay debt service on the Series 2015A Notes, and (iii) pay certain costs of issuance of the Series 2015A Notes.

The Series 2015A Notes are payable from, and are secured by the pledge of a Trust Estate comprising certain assets and revenues of the Authority, which include (i) a $6.25/barrel Petroleum Products Tax on Non Diesel products, (ii) any funds received by the Authority pursuant to the terms of a Financial Assistance Agreement between the Authority and PRHTA and (iii) any additional revenues pledged to the Authority in accordance with the Trust Agreement. The revenues pledged to the payment of the Series 2015A Notes could be applied to pay general obligation debt of the Commonwealth if its available resources are insufficient to cover all approved appropriations.

The Series 2015A Notes are guaranteed by the Commonwealth. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of principal of and interest on the Series 2015A Notes. The Commonwealth does not guarantee any payments in excess of scheduled principal of and interest on the Series 2015A Notes. For the year ended June 30, 2017, principal and interest paid on Dedicated Tax Fund Revenue Bonds Anticipation Notes amounted to approximately $12.7 million and $625 thousand, respectively.

As of June 30, 2017, debt service requirements for special tax revenue bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2018	$ 162,550,000	$ 181,994,904	$ 344,544,904
2019	45,580,000	66,212,800	111,792,800
2020	47,990,000	63,739,281	111,729,281
2021	50,525,000	61,096,613	111,621,613
2022	53,275,000	58,271,900	111,546,900
2023-2027	313,160,000	243,299,650	556,459,650
2028-2032	389,770,000	171,454,550	561,224,550
2033-2037	409,210,000	154,340,625	563,550,625
2038-2042	451,260,000	103,707,875	554,967,875
2043-2047	527,794,999	32,526,250	560,321,249
	2,451,114,999	$ 1,136,644,448	$ 3,587,759,447
Add — Net Premium/(Discount)	64,598,182		
Less:			
Unaccreted discount on capital appreciation bonds	(572,919,584)		
	$ 1,942,793,597		

Mental Health Infrastructure Revenue Bonds:

On October 24, 2007, the Authority issued $39,800,000 Revenue Bonds, Series 2007 A, and $3,530,000 Series 2007 B (collectively, the “Series 2007 Bonds”). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to the GDB amounting to $34,225,725 related to the acquisition of certain mental health facilities known as MEPSI Center located in the Municipality of Bayamón. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to the GDB amounting to $3,305,780.

The Series 2007 A Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and the GDB, which provides for the assignment of a lease with an option to purchase, dated October 24, 2007, as disclosed in Note 8. The Series 2007 A Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

As of June 30, 2017, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2018	$ 800,000	$ 2,222,750	$ 3,022,750
2019	900,000	2,169,625	3,069,625
2020	900,000	2,113,375	3,013,375
2021	1,000,000	2,054,000	3,054,000
2022	1,100,000	1,988,375	3,088,375
2023-2027	6,500,000	8,809,750	15,309,750
2028-2032	8,700,000	6,373,250	15,073,250
2033-2037	12,100,000	3,006,250	15,106,250
2038	2,900,000	94,250	2,994,250
	34,900,000	$ 28,831,625	$ 63,731,625
Add — Premium	393,470		
	$ 35,293,470		

Executive Order:

On December 1, 2015, the Governor signed Executive Order No. OE-2015-46 (the “Executive Order”), which provides that the Commonwealth will begin to redirect certain revenues in light of recently revised revenues estimates and its deteriorating liquidity situation. Pursuant to the Executive Order, certain available revenue that have been budgeted to pay debt service on the debt of the Authority were redirected, pursuant to the constitutional requirements (the “Clawback Provision”), to pay debt issues or guaranteed by the Commonwealth. Since that date, the Secretary of the Treasury has retained, for the application to payments due on the Commonwealth’s public debt, approximately $113 million assigned annually to pay debt of the Authority which by law, constitute “available resources” subject to the Commonwealth’s priority provision set forth in the Constitution.

Emergency Moratorium and Financial Rehabilitation Act:

On April 6, 2016, the Legislature enacted the Act Number 21 “Emergency Moratorium and Financial Rehabilitation Act”. The Act provides for the following: (a) authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, GDB, the Economic Development Bank for Puerto Rico (“EDB”) or any of the remaining government instrumentalities of Puerto Rico and, stay creditor remedies that may result from the moratorium; (b) amend GDB’s Enabling Act to give GDB options and tools that it may need to address its own resolution (these amendments (a) modernize GDB’s Organic Act related to a receivership for GDB, and authorize the creation of a temporary “bridge” bank to carry on certain of GDB’s functions and honor deposits; (c) amends the Enabling Act of the EDB to modernize its receivership provisions and; (d) create a new fiscal agency and financial authority.

As a result, on April 30, 2016, the Governor signed the Executive Order 2016-014 declaring the Authority in an emergency state and providing for a moratorium on the payment of certain Authority's obligations. In addition, since the enactment of the Moratorium Act, the Governor of Puerto Rico adopted a series of executive orders pursuant thereto declaring an emergency period and moratorium with respect to certain debt obligations of the Commonwealth and certain other governmental instrumentalities. As a result, the Authority failed to make certain debt service payments. Pursuant to the executive orders referred to above, the Commonwealth retained and deposited in a Treasury Sigle Account ("TSA"), certain revenues that would have otherwise been transferred to the Authority and other public corporations for the payment of their respective debt obligations. As a result, the Authority was in default in relation to payment of principal and interest related with Series 2005, Series 2006, and BANs 2015 A. As of June 30, 2017, the total of unpaid obligations under default amounted to approximately $232.7 million.

Default:

Due to the implementation of the Executive Order No. OE-2015-46 and the Emergency Moratorium and Financial Rehabilitation Act described above, the Authority did not transfer sufficient funds to the Trustee to make the required payments of principal and interest related with Series 2005, Series 2006, and BANs 2015A.

The following obligations were not paid as contracted as of June 30, 2017:

	Unpaid Obligations		
Description	**Principal**	**Interest**	**Total**
Series 2005 Bonds	$ 36,330,000	$ 73,526,129	$ 109,856,129
Series 2006 Bonds	4,785,000	33,195,342	37,980,342
BANs 2015A	78,145,000	6,710,072	84,855,072
	$ 119,260,000	$ 113,431,543	$ 232,691,543

13. LOANS PAYABLE

PFC Loan:

On January 16, 2002, the Authority entered into a loan agreement (the "Note") with Puerto Rico Public Finance Corporation ("PFC"), a Component Unit of the GDB. The Note was originally a loan granted by the GDB (the "Old Note"), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the "PFC Bonds"). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under the Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

During the fiscal year 2014, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority. The note matures in June 2031. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164. During the year ended June 30, 2017, the Authority did not receive Commonwealth's appropriations to pay the principal and interest due on the Note, as such, the Authority was unable to pay in full the required debt payment service, and is not expected to make any additional debt service payments while the Emergency Moratorium and Financial Rehabilitation Act is in effect. As of June 30, 2017, the principal balance and the related accrued interest amounted to $3,606,473 and $2,346,557, respectively, that will remain unpaid and on default until the Commonwealth's appropriations will resume.

Centro de Bellas Artes Luis A. Ferre's Auditorium Loan:

On February 18, 2005, the Authority entered into a loan agreement with the GDB related to a nonrevolving line of credit in an amount not to exceed $40 million for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. Principal amount of the loan is due and payable on June 30, 2040. The loan bears interest at 7% as of June 30, 2017 and interest installments are due annually. As of June 30, 2017, the principal balance and the related accrued interest amounted to $4,779,941 and $1,097,403, respectively. During the year ended June 30, 2017, the Authority did not receive contributions from the Commonwealth of Puerto Rico to repay the loan.

ARRA Loan:

On June 1, 2009, the Authority entered into a revolving line of credit facility (the "Line of Credit") with the GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the "ARRA Programs"). The Line of Credit would be repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth of Puerto Rico. The line of credit matured on June 30, 2011, and subsequently was extended until January 31, 2016 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2017, the principal balance and the related accrued interest amounted to $7,196,685 and $2,093,863, respectively.

During the year ended June 30, 2017, the Authority did not receive contributions from the Commonwealth of Puerto Rico nor cost reimbursements from the federal government under the ARRA programs were received to repay the loan.

World Plaza Building Loan:

On March 8, 2012, the Authority entered into a $35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property, and is payable from future appropriations of the Commonwealth. The line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2017, the principal balance and the related accrued interest amounted to $37,361,150 and $7,932,722, respectively. During the year ended June 30, 2017, the Authority did not make payments of principal or interest on this line of credit.

As of June 30, 2017, debt service requirements for loan agreements are as follows:

Years Ending June 30	Principal	Interest	Total
2018	$ 44,839,228	$ 10,613,610	$ 55,452,838
2019	92,432	188,843	281,275
2020	96,134	184,902	281,036
2021	100,113	180,608	280,721
2022	104,473	175,921	280,394
2023-2027	491,190	809,460	1,300,650
2028-2032	2,440,737	219,799	2,660,536
2033-2040	4,779,941	1,097,403	5,877,344
	52,944,248	$ 13,470,546	$ 66,414,794
Add: Net premium	51,270		
	$ 52,995,518		

14. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2017, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
Special Tax Revenue Bonds:					
Series 2005 A, B and C Bonds	$ 1,928,594,999	$ -	$ -	$ 1,928,594,999	$ 74,595,000
Series 2006 Bonds	444,375,000	-	-	444,375,000	9,810,000
Mental Health Infrastructure Revenue Bonds —					
Series 2007 A and B Bonds	35,700,000	-	(800,000)	34,900,000	800,000
Dedicated Tax Revenue Bonds Anticipation Notes:					
Series 2015 A Bonds	90,845,000	-	(12,700,000)	78,145,000	78,145,000
Subtotal	2,499,514,999	-	(13,500,000)	2,486,014,999	163,350,000
Net premium/(discount)	71,407,658	-	(6,416,006)	64,991,652	(7,837,983)
Unaccreted discount on capital appreciation bonds	(591,789,897)	-	18,870,313	(572,919,584)	19,761,407
Total bonds payable	1,979,132,760	-	(1,045,693)	1,978,087,067	175,273,424
Loans payable:					
Principal	15,583,098	-	-	15,583,098	7,478,078
Net premiums	55,905	-	(4,635)	51,270	(4,635)
Other Liabilities:					
Accounts payables	43,993	-	(43,993)	-	-
Compensated absences	278,677	109,806	-	388,483	388,483
Net pension liability	6,573,847	1,325,516	-	7,899,363	-
Termination benefits	174,040	-	(41,807)	132,233	42,510
Total governmental activities	2,001,842,320	1,435,322	(1,136,128)	2,002,141,514	183,177,860
Business-type activities:					
Loans payable:					
Principal	37,361,150	-	-	37,361,150	37,361,150
Total	$ 2,039,203,470	$ 1,435,322	$ (1,136,128)	$ 2,039,502,664	$ 220,539,010

On July 5, 2016 and January 6, 2017, Ambac Assurance Corporation (Ambac), the insurance provider for the Series 2005, paid $42,675,388 and $9,708,050, as payment for certain bond’s principal and related accrued interest, maturing on July 1, 2016 and January 1, 2017. Previously, on January 4, 2016, Ambac had paid $10,584,331, as payment for accrued interest as of January 1, 2016. Consequently, the original bondholders received the principal and interest payments as required by the original bond repayment schedules. Pursuant to the agreement between the insurance provider and the Authority, upon such disbursement, Ambac, becomes the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such bond and is fully subrogated to all of the bondholder’s rights thereunder, including the bondholder’s right to payment thereof. As such, bonds payable and the related accrued interest as of June 30, 2017, are still reflected as unpaid in the accompanying financial statements and the table above, because Ambac Assurance Corporation has assumed the right of the original bondholders related to such payments.

As of June 30, 2017, principal bond payments and related accrued interest in arrears, which have been paid to the original bond holders under the terms described above, aggregates $32,085,000 and $30,882,768, respectively.

Long-term liabilities are presented in the government-wide statement of net position/deficit as of June 30, 2017, as follows:

Description		Amount
Bonds and loans payable - due in more than one year	$	1,810,974,567
Bonds and loans payable - due in one year		220,108,018
Accounts payable and accrued liabilities - due in more than one year		7,989,086
Accounts payable and accrued liabilities - due in one year		430,993
	$	2,039,502,664

On June 17, 2014, the Commonwealth signed into law Act No. 66 (also known as the "Fiscal Operation and Sustainability Act"), which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditures reduction measures and a structured management in order to satisfy the commitments of the Commonwealth. This Act provides, among other, cost reduction measures including that the public corporations cannot provide salary increases or increase benefits to the employees; the establishment of a maximum amount of $600 for Christmas bonus and $200 for summer bonus; and the elimination of payment of balances in excess over a maximum days of sick and vacation accruals.

Compensated absences, including vacations and sick leave, are available to be liquidated by the employees during the year.

15. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations (FAR). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made on June 2015 with no arbitrage exposure reflected. The next arbitrage calculation will be on June 2020. Arbitrage calculation for the Special Tax Revenue Bonds 2006 Series was made on September 2016 with no arbitrage exposure reflected. The next calculation will be on September 2021.

As of June 30, 2017, there is no arbitrage exposure.

16. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the Plan) based on Act No. 70 enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010.

The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employees' Retirement System of the Commonwealth of Puerto Rico (the "Retirement System") for a maximum period of ten years.

- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.

- The employee will receive the benefits of health and dental insurance for a period of one year

Only one employee was voluntarily separated from employment under the Plan. Total cost related to this termination benefits was $424 thousand and was discounted at 1.12%. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2017, the total liability related to this Plan was approximately $132 thousand.

Voluntary Pre-Retirement Program Act:

On December 2015, the Legislature enacted the "Voluntary Pre-Retirement Program Act", (the "Act 211-2015") to establish a program whereby eligible employees of the Government of the Commonwealth of Puerto Rico may voluntarily separate from service by receiving incentives until they meet the requirements for retirement.

Every agency or municipality had to conduct and submit to the Commonwealth's Office of Management and Budget, within a term not to exceed sixty (60) days after the effective date of the Act, a Voluntary Pre-Retirement Program implementation assessment. If the assessment suggested that participation in the Program would result in savings in the average payroll and fringe benefit expenses of such Agency, the employer shall devise the Pre-Retirement Employer Plan.

The Authority did not submit its Voluntary Pre-Retirement Program Implementation Assessment and is not participating in the Program.

17. REVOLVING LOAN FUNDS

Act No. 44 provided for the establishment of the Puerto Rico Water Pollution Control Revolving Fund (the "Revolving Fund"), a proprietary fund of the Commonwealth, which is administered by the Puerto Rico Environment Quality Board ("EQB") and by the Authority in accordance with Title VI of the Water Pollution Control Act (the Clean Water Act) of 1972. The EQB, as the designated instrumentality of the Commonwealth, is empowered to enter into capitalization grant agreements with the U.S. Environmental Protection Agency ("EPA"), to accept capitalization grant awards made under Title VI of the Clean Water Act and, in conjunction with the Authority, to manage the Revolving Fund in accordance with the requirements of the Clean Water Act, Act No. 44, and the Memorandum of Understanding entered into by and among EQB, PRASA, GDB, and the Authority.

On July 7, 1997, the Legislature of the Commonwealth enacted legislation, which, among other things, established the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the "Drinking Water Fund") with the purpose of receiving financial assistance under the Clean Water Act and provides for the participation of the Authority in the administration of said fund.

The net position, revenues, and expenses of these loan funds are not included in the accompanying basic financial statements since the Authority acts only as administrator of the Revolving Fund and the Drinking Water Fund. As of June 30, 2017, the Authority does not hold any cash or liability in a custodian capacity for aforementioned funds.

18. CONDUIT DEBT OBLIGATION

In December 2011, the Authority issued $669,215,000 Special Revenue Bonds (the "PRPA Bonds"), pursuant to a Loan and a Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority ("PRPA"), another component unit of the Commonwealth. The proceeds from the PRPA Bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. These bonds are limited obligations of the Authority and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement. The PRPA shall make loan payments sufficient to cover the payment of principal and interest due on the PRPA Bonds. The PRPA Bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB. Upon repayment of the PRPA Bonds, ownership of the acquired facilities is retained by the PRPA. The Authority is not obligated in any manner for the repayment of the PRPA Bonds. Accordingly, the PRPA Bonds are not reported as liabilities in the basic financial statements of the issuing entity. As of June 30, 2017, the remaining outstanding balance amounts to $190.6 million.

On May 16, 2017, the trustee made a demand for payment under the direct pay letters of credit issued by GDB in the amounts of $9,398,112 on account of interest due on the PRPA Bonds and $190,630,000 on account of principal due on the PRPA Bonds as a result of the acceleration of the PRPA Bonds. No payments have been made in connection with the trustee's demand for payment under the letters of credit. The trustee previously advised bond owners that events of default have occurred and are continuing under the Trust Agreement and that the principal of and interest on the outstanding PRPA Bonds were declared immediately due and payable.

19. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2017, the Authority entered into the following related party transactions:

- Legislative appropriations from the Commonwealth of $4 million were used for operating expenses.
- Interest income on interest-bearing demand and time deposits with GDB amounted to approximately $98 thousand.
- GDB provided payroll services to the Authority at fixed amount of $50 thousand.

The Authority has issued certain bonds and notes and received certain legislative appropriations to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority ("PRASA"), various municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations. These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities. For the fiscal year ended June 30, 2017, the Authority transferred completed capital projects of approximately $31 million to the Puerto Rico Highways and Transportation Authority, $13.3 million to different municipalities of Puerto Rico, and $117 thousand to PRASA.

20. COMMITMENTS — OPERATING LEASES

The Authority leases equipment under noncancelable operating leases. At June 30, 2017, the minimum annual future rentals under noncancelable leases are as follows:

Year Ending June 30	Amount
2018	$ 18,349

Rent expense for the year ended June 30, 2017, amounted to approximately $327 thousand.

21. COMMITMENTS — CONSTRUCTION

The Authority has active construction projects as of June 30, 2017, under various bond issuances. At June 30, 2017, the Authority's commitments with contractors are as follows:

Description	Commitment	Spent-to-Date	Commitment
Special Tax Revenue Bonds, Series 2005	$ 1,000,000	$ 966,679	$ 33,321
Special Tax Revenue Bonds, Series 2006	6,675,558	3,423,384	3,252,174
	$ 7,675,558	$ 4,390,063	$ 3,285,495

22. CONTINGENCIES

At June 30, 2017, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority's financial statements.

23. RETIREMENT PLAN

The following description refers to the Retirement System's benefits and operations before the approval of Act No. 106-2017, on August 23, 2017. See Note 26 for details.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

Disclosures about the Defined Benefit Retirement Plans:

Defined Benefit Program – Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 Program – The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan).

All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries.

Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

Defined Contribution Hybrid Program - On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

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

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
- Eliminated the “merit annuity” available to participants who joined the retirement System prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.
- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2017, the Authority was required to contribute 15.525% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). For fiscal year 2017, the employer's contribution was increased by one point twenty-five percent (1.25%). See Note 26 for changes effective July 1, 2017.

Total employee contributions for the defined benefit pension plan, the defined contribution plan, and the defined contribution hybrid program during the year ended June 30, 2017, amounted to approximately $101,721. The Authority's contributions for the years ended June 30, 2017, 2016, and 2015, amounted to approximately $301,332, $251,734 and $131,223, respectively. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $1,187,557 for the year ended June 30, 2017. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

As of June 30, 2017, the Authority reported a liability of $7,899,363 for its proportionate share of the net pension liability.

The June 30, 2017 net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of June 30, 2017, the Authority's proportionate share was 0.02109%, which resulted in an increase of 0.00123% from its proportionate as of June 30, 2016 (using the measurement date as of June 30, 2015).

For the year ended June 30, 2017, the Authority recognized pension expense of $403 thousand. As of June 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2017	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual investments earnings on pension plan investments	$ -	$ 42,742
Difference between expected and actual experience	6,458	108,446
Changes of assumptions	1,204,897	-
Change in proportion and difference between the employer's contributions and proportionate share of contributions	184,435	-
Contributions subsequent to measurement date	301,332	-
Total	$ 1,697,122	$ 151,188

The deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to measurement date amounting to $301,332 at June 30, 2017 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as adjustment to pension expense as follows:

Years Ending June 30	Amount
2018	$ 406,979
2019	229,431
2020	239,471
2021	242,048
2022	126,673
Total	$ 1,244,602

Actuarial Assumptions and Methods:

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value of assets
Inflation rate:	2.50%
Salary increases:	3% per year. No compensation increases are assumed until July 1, 2021 as a result of Act no 66 and the current general economy.

The mortality tables used in the June 30, 2016 valuation were as follows:

Pre-Retirement Mortality – For general employees not covered by Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupied only for members covered under Act No. 127.

Post-Retirement Healthy Mortality – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rated from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Disabled Mortality – Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, 2005, and 2007.

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

The Retirement System's policy regarding allocation of invested assets is established and may be amended by the Retirement System's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs.

The following was the Retirement System's Board adopted asset allocation policy at June 30, 2016:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
Domestic equity	25%	6.40%
International equity	10%	6.70%
Fixed income	64%	6.30%
Cash	1%	3.00%
	100%	

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

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Therefore, actuarial determined amounts are subject to change in the near term.

Discount Rate – The Retirement System's net position was not projected to be available to make all projected future benefit payments on current and active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer Obligation 20 Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine total pension liability. The discount rate was 2.85% at June 30, 2016.

Sensitivity of the Authority's proportionate share of net pension liability to change in the discount rate – The following table presents the Authority's proportionate share of the net pension liability calculated using the current discount rate of 2.85% as well what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net pension liability	$ 9,119,102	$ 7,899,363	$ 6,999,326

Payable to the Retirement System – As of June 30, 2017, the Authority reported a payable of approximately $26,852 for the outstanding amount of contributions to the Retirement System for current year.

Pension plan fiduciary net position – Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico.

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

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). The Act would create a structure for exercising federal oversight over the fiscal affairs of territories.

PROMESA would:

Establish an Oversight Board with broad powers of budgetary and financial control over Puerto Rico:

PROMESA would set up a Financial Management and Oversight Board with broad fiscal powers with seven voting members, along with the Puerto Rico governor (or designee) who would serve as an ex officio non-voting member. The President would appoint one member at his sole discretion. Congressional leaders would then each submit lists of candidates. The Speaker would submit two lists, with one restricted to candidates residing or doing business in Puerto Rico. The President would then choose members from those lists, although he could choose other candidates before September 1, 2016. Those candidates would be subject to Senate confirmation.

PROMESA charges the Oversight Board with powers to approve, for territory governments or instrumentalities of those governments (such as public corporations or municipal governments), fiscal plans, budgets, voluntary agreements with bondholders, debt restructuring plans, and critical projects eligible for expedited permitting processes.

Create procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for debts of other territories:

PROMESA would set up a process for adjustment of debts by a territorial government or an instrumentality of a territorial government. Eligibility for the restructuring process would first require approval of at least five of the seven voting members of the Oversight Board to issue a "restructuring certificate". The Oversight Board would take the place of a debtor government or instrumentality in the proceedings to adjust debts. Thus, the roles of filing the petition and proposing a plan would be taken by the Oversight Board, not the debtor.

The debt restructuring process, in general, is set up to ensure fair and equitable treatment of creditors. The treatment of public sector pensions is not addressed explicitly, although pensions are typically included when governments undergo debt restructuring processes. The Oversight Board may order a study of pension systems if it determines that they are underfunded.

PROMESA would create a process for creditor collective actions, which resemble collective actions clauses (CACs) that are a common feature of sovereign debt contracts. CACs typically allow some subset of creditors holding a supermajority of the face value of a given debt category to enter into an agreement that would bind remaining creditors within that category. The Act would require the Oversight Board, in consultation with the Puerto Rico government and its subunits that have outstanding debts, to set up voting pools for the CAC process. Separate pools, in general, would correspond to the relative priority or security arrangements of bondholders. Triggering the CAC provision for a voting pool would require a two-thirds vote (by value of eligible debt), in which holders of at least half of the eligible debt participated. Creditors in those voting pools not assenting to a modification agreement would retain certain rights, which might be affected by a subsequent debt restructuring. Creditors agreeing to a CAC provision, in general, would then avoid debt restructuring.
PROMESA includes other diverse provisions as follows:

- Puerto Rico's right to determine its future political status is affirmed.

- The Governor, with board approval, could reduce the minimum wage for most workers in Puerto Rico under the age of 25 for a four-year period.

- An automatic stay on litigation;

- Accelerated processes for the review and permitting of infrastructure projects designated as "Critical Projects." A Revitalization Coordinator would be appointed by the Puerto Rico Governor from a list provided by the Oversight Board. The Revitalization Coordinator would oversee the selection and review of Critical Projects, in consultation with the Governor.

It is expected that the approval of the PROMESA Act by the United States Government may have a significant impact over the future of the Authority. However, the final effect could not be determined by management.

25. PUERTO RICO FINANCIAL EMERGENCY AND FISCAL RESPONSIBILITY ACT

On January 2017, the Governor of the Commonwealth of Puerto Rico (the "Commonwealth") signed into law the "Puerto Rico Financial Emergency and Fiscal Responsibility Act" (the "Act No. 05-17"). On Section 102 of the Act, the Legislative Assembly declared that the critical public financial emergency identified and declared to exist by the Legislative Assembly on numerous prior occasions continues and has worsened; that this ongoing financial emergency and the resulting impact upon the solvency of the Government of Puerto Rico and its instrumentalities continues to materially and adversely affect the ability to meet financial obligations and to provide for the health, safety, and welfare of the residents of Puerto Rico; and that resolution of the financial emergency and establishing fiscal responsibility within the Government of Puerto Rico and its instrumentalities is vitally necessary to assure the provision of those governmental services essential to the public health, safety, and welfare of the residents of Puerto Rico.

The Act is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agent and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. The Act authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. The Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act 21 of 2016, as amended by Act 40 of 2016 and Act 68 of 2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

Based on the Act, an emergency period commencing on the effective date of the Act and ending upon May 1, 2017, which term may be extended by the Governor pursuant to an executive order for one additional period of three (3) months, was declared. Section 203 of the Act provides, among other, that, during the emergency period the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth of Puerto Rico have been provided for; or (b) ordered to do so by the Oversight Board or any other board created under federal law. In the event that the provisions of the Act are in conflict with the provisions of any other law, the provisions of this Act shall prevail. In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the Puerto Rico Fiscal Agent and Financial Advisory Authority to pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico. The Governor may take any and all actions that the Governor deems reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of the Commonwealth to continue providing essential services to residents of Puerto Rico.

26. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 11, 2019, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2017 financial statements.

Default

Due to the Executive Order No. OE-2015-046 and the Emergency Moratorium and Financial Rehabilitation Act, the Authority did not transfer sufficient funds to the Trustee to make the required payments of principal and interest related with Series 2005, Series 2006 and BANs 2015A due as of July 1, 2017.

Extension of Act 5 of 2017:

On July 19, 2017, the emergency period that prevailed under the Act No. 05-17 referred to in the Note 25, was extended until December 31, 2017 with the enactment into law (Act No. 46-2017) of House Bill 1133. This new legislation allows the Governor of Puerto Rico to sign executive orders to extend the emergency period for successive periods of six months while the Oversight Board maintains its oversight and operations in Puerto Rico.

Act 106 of 2017:

On June 27, 2017, the Treasury Department of Puerto Rico issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective, July 1, 2017, the new “pay-as-you-go (PayGo)” mechanism for all of the Commonwealth’s Retirement Systems. With the start of the fiscal year 2017, employers’ contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated and replaced by a monthly PayGo charge that will be collected from the aforementioned government entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality. The PayGo charge must be submitted to the y Department of Puerto Rico before the 15 of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the PayGo charge is expected to increase.

In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which its active participants would deposit their individual contributions in a new Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, Act to Guarantee the Payment to Our Pensioners and Establish a new Plan for Defined Contributions for Public Servants. This law creates the legal framework so that the government can guarantee payments to pensioners through the PayGo scheme. With this system, the government makes pension payments from the general fund, according to the money available. Approximately $2 billion was allocated for these purposes in the fiscal year 2018 budget. This law also creates a Defined Contribution Plan, similar to a 401 (k) plan, which guarantees the contributions of public servants, for in the future, benefits will not be paid by the retirement systems.

Aftermath of Hurricane Maria:

On September 20, 2017, Puerto Rico got a direct hit from Hurricane Maria, the strongest hurricane to hit the island in almost a century, leaving in its path the destruction of thousands of homes, the knock down of power across the entire island and the overflooding of many streets and roads. The hurricane also brought down cell towers, leveled most of the trees and landscape of the island and unloaded at least over 20 inches of rain, in what can be considered as an onslaught that could plunge Puerto Rico deeper into the fiscal and financial crisis it already was. As a result of the massive impact of the hurricane, a series of actions and events have been taken and some others are in consideration that could significantly alter the otherwise established courses of action that had been on track pursuant PROMESA and the Fiscal Plan for Puerto Rico (the “FPPR”). Some of these actions, events and considerations taken are being covered in the ensuing paragraphs.

On September 21, 2017, the Oversight Board announced its approval for the Commonwealth to reallocate up to $1 billion of its fiscal year 2018 budget to be used for emergency funding in the aftermath of Hurricane Maria. This action by the Oversight Board was taken using its authority under PROMESA and section 3 of the fiscal year 2018 budget resolutions. The announcement by the Oversight Board also stated that it will join the Government in seeking Federal Emergency Management Administration ("FEMA") and other potential sources of federal funds for the recovery and reconstruction of Puerto Rico.

On September 30, 2017, the Oversight Board announced it will no longer discuss the reduction of working hours for public employees, at least until fiscal year 2019, and it is also withdrawing its lawsuit of late August 2017 related to this matter. The Oversight Board, moreover, is also requesting the Federal Government to transfer employees from different agencies to assist in the recovery efforts of the coming months, to expedite responses to all requests for assistance from the Commonwealth, increase financial assistance, lift the caps on individual programs of financial aid available to Puerto Rico and waive the local government cost-sharing requirements across available programs, including permanent recovery work. This request to the Federal Government was made official in a letter dated October 3, 2017 from the Oversight Board to the Republican and Democrat leaders of Congress, where the Oversight Board quoted a preliminary report from Moody's Analytics which suggested that the damage assessment in Puerto Rico could reach as high as approximately $95 billion.

Moreover, the Oversight Board believes that Hurricanes Irma and Maria will cause the Commonwealth's central government and some of its instrumentalities to face severe cash shortfalls from lower revenues, higher costs and delayed or reduced cost-saving measures that had been required by the FPPR. Considering this picture, the Oversight Board also urged Congress to heed the Governor's calls for the maximum federal assistance to Puerto Rico to help it respond to and recover from Hurricanes Irma and Maria. Such federal assistance should come in the form of grants and reimbursements to assist Puerto Rico in responding to the catastrophic damage it has suffered, pursuant to an emergency liquidity program, low interest loans to assist Puerto Rico in responding to its cashflow deficiencies, and treating Puerto Rico with parity for Medicaid funding. The letter also indicated that Puerto Rico will need support to rebuild critical infrastructure and address the housing needs of a displaced population to avoid a mass migration from Puerto Rico to the mainland. Therefore, to this end, Congress should provide Puerto Rico with substantial emergency grants to fund necessary expenses to protect health and safety, repair damaged infrastructure and meet other critical needs of the people.

On October 4, 2017, senior administration official and top congressional aides of the Federal Government announced that President Trump's administration is finalizing a $29 billion disaster aid package that combines $16 billion to shore up the government-backed flood insurance program with almost $13 billion in new relief for hurricane victims. This package would address two urgent needs. The first is to pump money into the flood insurance program, which is rapidly running out of cash to pay an influx of claims from victims of hurricanes Harvey, Irma, and Maria. At the same time, FEMA continues to spend money for disaster relief operations at a high rate and requires more money. On October 12, 2017, the House of Representatives of the U.S. Congress finally approved the aforementioned disaster package by increasing the amount of aid from the originally proposed $29 billion to approximately $36 billion.

In the aftermath of Hurricane Maria, the Governor of Puerto Rico made some statements along the lines that as Puerto Rico battles to recover from the direct impact of Hurricane Maria, the Commonwealth's well known fiscal crisis would not be a priority at the moment, as such will be replaced with the priority of restoring the people's security and normalcy. The Governor backed his statements with the warning that the government basically will not receive revenues during October and November 2017 from a temporary halted economy as a result of the impact of the hurricane to the business activity in Puerto Rico. Economists throughout Puerto Rico and the world, as well as municipal markets experts have expressed themselves along the same lines, all coinciding that Hurricane Maria has changed the rules of the games for all the parties involved. For example, the damages to Puerto Rico has been massive enough to set aside creditor and debtor considerations for months and potentially longer. Investment firms that were claiming debt payments from the Government under Title III could accommodate themselves to the island's disaster by becoming investors. With economic activity on Puerto Rico paralyzed, sales and income tax collection is expected to all but vanish, along with fees to the public water and electricity utilities.

The injection of money from the different agencies and Federal packages described in the previous paragraph and from private insurers will stimulate economic growth and tax collection in the short and medium term, but the migration of tax-paying residents will lead to weaker collections for at least the next five years. Under this new scenario, a recalculation of the ten-year spending plan approved within the FPPR will be needed, hence, a reformulation of the entire fiscal plan all over again.

Discontinuance of Unenhanced Rating by Standard & Poor's Rating Services:

On March 2, 2018, Standard & Poor's Rating Services discontinued the unenhanced rating on the Authority's Special Tax Revenue Bonds and Special Tax Revenue Refunding Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Statutorily Required Employer Contributions
June 30, 2017

Year Ended June 30,	(a) Statutorily Required Contribution	(b) Contributions in Relation to Statutorily Required Contributions	(a - b) Contribution Deficiency (Excess)	(c) Authority's Covered Payroll	(b/c) Contributions as a Percent of Covered Payroll
2017	$ 301,332	$ 301,332	$ -	$ 1,187,557	25%

Fiscal year 2017 was the first year that the new requirements of GASB 68 were implemented at the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

Schedule of Proportionate Share of the Collective Net Pension Liability
June 30, 2017

Year Ended June 30,	(a) Authority's Proportion of the Net Pension Liability	(b) Authority's Proportionate Share of the Net Pension Liability	(c) Authority's Covered Payroll	(b/c) Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position (Deficit) as a Percentage of Total Pension Liability
2017	0.02109%	$ 7,899,363	$ 1,187,557	665.18%	(3.47%)

Fiscal year 2017 was the first year that the new requirements of GASB 68 were implemented at the Authority. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.