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

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)

TH&P

TORRES, HERNANDEZ & PUNTER, CPA, PSC

Certified Public Accountants

PUERTO RICO LAND AUTHORITY
(A Component Unit of The Commonwealth of Puerto Rico)

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TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Puerto Rico Land Authority (From now on the Authority), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

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Opinions

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis - of - Matter

Restatement of Prior Year Basic Financial Statements

As discussed in Note 17 to the basic financial statements, the 2015 and 2016 basic financial statements has been restated to correct net position, resulting from pension plan audited deferred outflows/inflows of resources, pension expense and net pension liability balances provided by the Employee's Retirement System of the Commonwealth of Puerto Rico. Our opinion is not modified with respect to these matters.

Adjustment for Impairment Loss

The Commonwealth of Puerto Rico and other public entities have not been able to repay their credit lines and loans with Government Development Bank of Puerto Rico (from now on GDB), which in turn, has affected the GDB liquidity and its ability to repay its obligations. GDB faces significant risks and, at present, does not have enough cash flow to repay its obligations as they become due. As a result of this, the Authority and the “Fondo de Innovacion para el Desarrollo Agrícola de Puerto Rico” (from now on FIDA), a component unit of the Authority, has performed a required impairment analysis, and adjusted as an impairment loss certificates of deposits, still with GDB as of basic financial statements date. Our opinion are not modified with respect to this matter. (See Note 19 to the basic financial statements).

2010 Agriculture Department Reorganization Plan Number 4

As more explained on Note 16 (D) to the basic financial statements, Article 36 of the "Reorganization Plan number 4", discussed on Note 1 to the financial statements, amended laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as “Technological Innovation and Agricultural Promotion” (“Fondo de Innovacion”), to be transferred to the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). According to the Reorganization Plan, this fund can be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico. However, the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines through the GDB, and management of incentives already given to farmers. The Comptrollers Office of Puerto Rico (COPR) made recommendations to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations. The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements.

Emphasis - of - Matter (Continued)

Damages to Capital Assets from Huricanes Irma and Maria

As explained in Note 21 (a), the Authority suffered damages to offices, warehouses, other structures and equipment, related to hurricanes Irma and Maria events, estimated at approximately $28.8 millions. The Authority, as of basic financial statements report date, is in the process of tracing the individual property and equipment items to a physical inspection damages detail, prepared by the Federal Emergency Management Agency (FEMA), to their capital assets details in order to dispose-off or adjust cost and accumulated depreciation related balances. Therefore, no adjustments to capital assets has been made in the accompanying basic financial statements for the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

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

The Authority is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). The accompanying basic financial statements of the Authority have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 21 to the basic financial statements, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the ability to continue as a going concern. The basic financial statements of the Authority do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis, on pages 4 through 12, and the schedule of proportionate share of the net pension liability and the schedule of contributions, as part of employees' retirement systems information, on pages 84 and 85 to 86 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Authority, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants
Carolina, Puerto Rico

Stamp **#E359290** of the College of CPA's of Puerto Rico is affixed to the original.

January 24, 2019

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

Management's Discussion and Analysis

June 30, 2017

This section of the Puerto Rico Land Authority ("the Authority") annual financial report, management discussion and analysis, presents our discussion of the Authority's financial performance and overview of financial activities during the fiscal year ended June 30, 2017. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Authority's total assets decreased approximately $1.5 millions, $170.7 millions in 2016, to $169.2 millions in 2017, or 1%. Total Assets and Deferred Outflow of Resources increased approximately $733,065, from $181.6 millions in 2016 to $182.3 millions in 2017,

- Total liabilities increased approximately $13.3 millions, from $134.8 millions in 2016 to $148.1 millions in 2017, or 9%. 2016 was restated to correct net position, resulting from pension plan audited deferred outflows/inflows of resources, pension expense and net pension liability balances provided by the Employee's Retirement System of the Commonwealth of Puerto Rico. Basically, increase is due to the accruals of $5.124 millions due to the requirements of the voluntary pre-retirement program, which started on 2017, and $7.7 millions in net pension liability.

- Investment in capital assets and net capital assets amounted to $94.1 million in 2016 and $94.2 million in 2017, for a increase of $57,745,

- Total operating revenues decreased approximately $1.2 millions, from $10.1 millions in 2016 to $8.9 millions in 2017, or 13%. Total operating expenses amounted to $20,491,533 in 2016 and $28,792,838 in 2017, for an increase of approximately $8.3 millions, or 29%, also related to the accrual of $5.124 millions due to the requirements of the voluntary pre-retirement program, which started on 2017,

- Total net non - operating revenues and expenses decreased by $47,985, $ 6.6 millions in 2016 to $ 6.5 millions in 2017, or .01%,

- Non - operating revenues "sales of land and exchange transactions related to land" decreased by approximately $1.1 millions, from $5.0 in 2016 to $3.9 in 2017, a decrease of approximately .26%,

- Non - operating revenues "Commonwealth of Puerto Rico Appropriations" decreased by $95,050, from $835,226 in 2016 to $740,176 in 2017, a decrease of approximately 13%, and

- Net position amounted to $36.8 millions in 2016 and $23.5 millions in 2017, for a decrease of $13.3 millions or 57%, as restated due to the effects of the audited pension plan data provided by ERS.

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

New Significant Accounting Standards Implemented

During fiscal year 2015-2016, two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Authority:

1- GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency, and

2- GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments".

Also, GASB issued Statement No. 72, "Fair Value Measurement and Application". This Statement address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderlytransaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB No. 72 does not have any impact on the Authority's financial statements.

During fiscal year 2016-2017, four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Authority:

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

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Basic Financial Statements

This annual financial report consists of: the management's discussion and analysis (or MDA representing this section, which is required supplementary information) and:

- **Basic financial statements**: The Authority is a self-supporting entity and follows the enterprise fund reporting, accordingly, the basic financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and the operations of the Authority. These statements are presented in a manner similar to a private business, such as a real estate developer and commercial institutions,

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

- **Notes to the financial statements**: which provides more detailed information that is essential to a user's full understanding of the data provided in the statements.

- **Required Supplementary Information - Employee's Retirement System:** the annual financial report includes two new required supplementary schedules after the notes to the basic financial statements, the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions, as the result of the implementation of GASB 68.

Statement of Net Position

The change in net position serves, over time, as an useful indicator of the Authority's financial position. As of June 30, 2017, the Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $23,501,720. As of June 30, 2016, the excess was $36,792,525 as restated, representing a decrease of $13.3 millions, or 57%.

The largest portion of the Authority's net position represented its investment in capital assets, of $94,209,367 and $94,151,622 for the years ended June 30, 2017 and 2016 respectively.

Statement of Cash Flows

The statement of cash flows presents the sources and uses of cash flows divided in four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

The Authority's reporting structure includes the financial information of the Authority and a blended component unit - "Fondo Innovacion para el Desarrollo de la Agricultura" ("FIDA").

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FINANCIAL ANALYSIS OF THE AUTHORITY

The following summarizes changes in the net position as of June 30, 2017 and 2016:

	2017	2016	$ Changes	% Changes
Assets				
Current assets	$ 46,410,207	$ 45,417,083	$ 993,124	0.02 %
Non- Current Assets	122,883,826	125,355,587	(2,471,761)	(0.02)%
Total Assets	169,294,033	170,772,670	(1,478,637)	(0.01)
Deferred Outflow of Resources	13,023,112	10,811,410	2,211,702	0.17 %
Total Assets and Deferred Outflow of Resources	$ 182,317,145	$ 181,584,080	$ 733,065	- %
Liabilities				
Current Liabilities	$ 25,846,835	$ 25,249,085	$ 597,750	0.02 %
Net Pension Liability	64,382,076	56,705,886	7,676,190	0.12 %
Net Pre-Retirement Liability	5,124,533	-	5,124,533	1.00 %
Other Non - Current Liabilities	52,788,840	52,808,292	(19,452)	- %
Total Liabilities	148,142,284	134,763,263	13,379,021	0.09 %
Deferred Inflows of Resources	10,673,141	10,028,292	644,849	0.06 %
Net Position				
Invested in Capital Assets, Net	94,209,367	94,151,622	57,745	- %
Unrestricted (Deficit)	(70,707,647)	(57,359,097)	(13,348,550)	0.19 %
Total Net Position	23,501,720	36,792,525	(13,290,805)	(0.57)%
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 182,317,145	$ 181,584,080	$ 733,065	- %

PUERTO RICO LAND AUTHORITY
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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Current Assets

Major components of current assets are as follows:

	2017	2016	$ Changes	% Changes
Cash and Equivalents	$ 14,618,890	$ 29,090,186	$ (14,471,296)	(0.99)%
Deposits Certificates	-	-	-	100 %
Rent and Other Receivables	31,776,019	16,311,389	15,464,630	0.49 %
Others	15,298	15,508	(210)	(0.01)%
Totals	$ 46,410,207	$ 45,417,083	$ 993,124	0.02 %

Decrease in cash and cash equivalents results from an additional impairment loss of $870,234 for the Puerto Rico Land Authority, and of $11,661,193 for FIDA, totaling $12,531,427 recorded for the year ended June 30, 2017, related to cash accounts with the Government Development Bank of the Commonwealth of Puerto Rico (from now on GDB). Increase in rent and other receivable balances is due from coffee and sugar taxes of $18,972,208 which has not been collected as of June 30, 2017, $11,130,074 and $7,742,134 of coffee and sugar taxes respectively. The net effect of both changes is an increase of $993,124, or .02%.

Other Major Components:

Capital Assets

Capital assets consists principally of land held for sale or for rent. During the year ended June 30, 2017, the Authority sold and exchange various land lots, generating a net gain on sales of $3,904,620.

Non - Current Assets

The largest amount, which represents the amount that will not be collected during next fiscal year, consists mostly of the long - term portion of notes receivables and investments in private agricultural businesses. FIDA is authorized by law to provide credit lines to private and governmental entities, and to invest in private entities which are dedicated to agricultural activities in Puerto Rico. At fiscal year end, management evaluates the investments and record valuation allowances for amounts deemed uncollectible.

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Current Liabilities

Major components of current liabilities are as follows:

	2017	2016	$ Changes	% Changes
Accounts Payable, Accruals and Other Liabilities	$ 24,855,202	$ 26,716,256	$ (1,861,054)	(0.07)%
Advances for Farming Development	991,633	1,772,941	(781,308)	(0.79)%
Totals	$ 25,846,835	$ 28,489,197	$ (2,642,362)	(0.10)%

Other Major Components:

Non - Current Liabilities as June 30, 2017 consisted of long - tem financing related to the real estate program, through the Puerto Rico Public Financing Corporation (PFC), a component unit of the Commonwealth. The financing is repaid through appropriations made by the Commonwealth. In addition, FIDA has a non - revolving credit line with the Government Development Bank of Puerto Rico (GDB) with an outstanding balance for principal and interest of $27.6 millions. Borrowings under the credit line are repaid from coffee and sugar tax allocations and are due on March 2027.

Also included is the net pension liability related to the employee's retirement system, which as of June 30, 2017 amounted to $64,382,076, and increased by $7,676,190, or .12%. In addition, for the fiscal year ended June 30, 2017, the Authority accured $5,124,533, related to the voluntary pre-retirement program, under the requirements of Law Number 211-2015 of December 8, 2015, named "Law for Pre-Retirement Voluntary Program", as amended by Law Number 170-2016, of August 9, 2016.

Total liabilities increased by $13,379,021, or .09%.

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Operating Activities: The Authority entered into lease agreements on the land and properties it owns, with government and private entities. The agreements vary in prices offered and terms, depending on the intended public use and benefits to the Commonwealth of Puerto Rico's residents. The Authority also acquires and sells, to other government agencies and instrumentalities or private entities, land and property that have been determined to be used or developed for public interests. Operating expenses consists principally of payroll and related expenses, pension and pre-retirement expenses, program for the production of farming products and infrastructure and contracted services.

The following table summarizes the results of operations between fiscal years ended June 30, 2017 and 2016:

	2017	2016	$ Changes	% Changes
Operating Revenues	$ 8,947,946	$ 10,112,977	$ (1,165,031)	(0.13)%
Operating Expenses	28,792,838	20,491,533	8,301,305	0.29 %
Operating Loss	(19,844,892)	(10,378,556)	(9,466,336)	0.48 %
Non - Operating Revenues (Expenses)				
Sales of Land and Exchange Transaction - Land	3,904,620	5,013,343	(1,108,723)	(0.28)%
Bad Debt Recovered	999,249	-	999,249	1.00 %
Sales of Rice Production	128,076	624,675	(496,599)	(3.88)%
Coffee and Sugar Taxes	12,889,062	13,695,023	(805,961)	(0.06)%
Commonwealth Appropriations	740,176	835,226	(95,050)	(0.13)%
Federal Awards	435,170	169,754	265,416	0.61 %
Impairment Loss	(12,531,427)	(12,090,646)	(440,781)	0.04 %
Interest Expense	(10,839)	(1,645,303)	1,634,464	(150.79)%
Non - Operating (Expense) / Revenues, Net	6,554,087	6,602,072	(47,985)	(0.01)%
Change in Net Position	(13,290,805)	(3,776,484)	(9,514,321)	0.72 %
Net Position as of Beginning of Year, as Restated	36,792,525	40,569,009	(3,776,484)	(0.10)%
Net Position as of End of Year	$ 23,501,720	$ 36,792,525	$ (13,290,805)	(0.57)%

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Management's Discussion and Analysis (Continued)

June 30, 2017

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Total operating revenues decreased by approximately $1.2 millions, mainly due to the decrease in the rice production. Total operating expenses increased by approximately $7.3 millions, mainly because, as explained before, the effects of the voluntary pre-retirement program, under the requirements of Law Number 211-2015 of December 8, 2015, named "Law for Pre-Retirement Voluntary Program", as amended by Law Number 170-2016, of August 9, 2016, and the increase in the pension expense of approximately $3.1 millions.

Also, total non - operating revenues decreased by approximately $1,241 millions 2016 to 2017.

CAPITAL ASSETS

The Authority acquires and or develops land and structures with agricultural potential for future development by farmers. Also, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals. The following table summarizes the capital assets of the Authority as of June 30, 2017 and 2016:

	2017	2016	$ Changes	% Changes
Capital Assets Not Being Depreciated:				
Land	$ 86,515,201	$ 86,744,076	$ (228,875)	- %
Construction in Progress	1,669,531	1,185,025	484,506	0.29 %
Total Capital Assets Not Being Depreciated	88,184,732	87,929,101	255,631	- %
Capital Assets Being Depreciated	28,152,500	27,915,461	237,039	0.01 %
Less: Accumulated Depreciation	(22,127,865)	(21,692,940)	(434,925)	0.02 %
Total Capital Assets, Net	$ 94,209,367	$ 94,151,622	$ 57,745	- %

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report has the purpose of informing the Commonwealth of Puerto Rico residents and taxpayers, and our clients with a general financial overview of the Authority's finances and to comply with the Authority's accountability of the assets, funds and appropriations it holds and receives. If you have any questions about this report or need additional information, contact, Finance Director, at Puerto Rico Land Authority, 1311 Fernandez Juncos Avenue, 19 1/2, San Juan, Puerto Rico.

PUERTO RICO LAND AUTHORITY
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Statement of Net Position

June 30, 2017

	Puerto Rico Land Authority	FIDA	Eliminations	Totals
Assets				
Current Assets:				
Cash	$ 864,188	$ 13,754,702	$ -	$ 14,618,890
Accounts Receivable:				
Rent Receivable and Others, Net	4,426,225	-	-	4,426,225
Coffee and Sugar Tax Income From Commonwealth of Puerto Rico	-	18,972,208	-	18,972,208
Land Sales Receivable	3,700,000	-	-	3,700,000
Internal Balance Due From - FIDA	-	1,472,873	(1,472,873)	-
Due From Sugar Corporation of Puerto Rico	4,677,586	-	-	4,677,586
Total Accounts Receivable	12,803,811	20,445,081	(1,472,873)	31,776,019
Other Current Assets	9,854	5,444	-	15,298
Total Current Assets	13,677,853	34,205,227	-	46,410,207
Non-Current Assets:				
Restricted Cash	1,801,597	-	-	1,801,597
Notes Receivable, Net	2,477,159	18,735,340	-	21,212,499
Investment in Privately - Held Entities, Net	-	5,660,363	-	5,660,363
Capital Assets, Net	93,031,605	1,177,762	-	94,209,367
Total Non - Current Assets	97,310,361	25,573,465	-	122,883,826
Deferred Outflows of Resources:				
Contributions to Employees Retirement System	13,023,112	-	-	13,023,112
Total Assets and Deferred Outflows of Resources	$ 124,011,326	$ 59,778,692	$ (1,472,873)	$ 182,317,145

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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Statement of Net Position - (Continued)

June 30, 2017

	Puerto Rico Land Authority	FIDA	Eliminations	Totals
Liabilities				
Current liabilities:				
Accounts Payable and Accrued Liabilities	$ 3,369,379	$ 1,045,984	$ -	$ 4,415,363
Due to Governmental Entities	18,901,971	287,006	-	19,188,977
Accrued Compensated Absences, Current Portion	679,888	119,613	-	799,501
Interests Payable	-	451,361	-	451,361
Advances for Farming Development	991,633	-	-	991,633
Internal Balance Due To - Puerto Rico Land Authority	1,472,873	-	(1,472,873)	-
Total Current Liabilities	25,415,744	1,903,964	(1,472,873)	25,846,835
Non - Current liabilities:				
Notes Payable	17,051,349	-	-	17,051,349
Credit Line	-	27,674,033	-	27,674,033
Net Pension Liability	64,382,076	-	-	64,382,076
Net Pre-Retirement Liability	4,624,436	500,097	-	5,124,533
Deposits on Rent	2,648,150	-	-	2,648,150
Accrued Legal Claims	4,476,762	-	-	4,476,762
Accrued Compensated Absences, Net of Current Portion	798,130	140,416	-	938,546
Total Non - Current Liabilities	93,980,903	28,314,546	-	122,295,449
Total Liabilities	119,396,647	30,218,510	(1,472,873)	148,142,284
Deferred Inflows of Resources:				
Deposits on Sales of Land	8,100,609	-	-	8,100,609
Deferred Revenue	-	1,340,307	-	1,340,307
Unamortized Investment in Employees Retirement System	1,232,225	-	-	1,232,225
Total Deferred Inflow of Resources	9,332,834	1,340,307	-	10,673,141
Commitments and Contingencies	-	-	-	-
Net Position (Deficit):				
Invested in Capital Assets	93,031,605	1,177,762	-	94,209,367
Unrestricted (Deficit)	(97,749,760)	27,042,113	-	(70,707,647)
Total Net Position (Deficit)	(4,718,155)	28,219,875	-	23,501,720
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 124,011,326	$ 59,778,692	$ (1,472,873)	$ 182,317,145

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

	Puerto Rico Land Authority	FIDA	Totals
Operating Revenues:			
Rental Income	$ 7,179,279	$ -	$ 7,179,279
Services to Farmers	252,807	-	252,807
Royalty Income	295,702	-	295,702
Interest Income	-	1,013,319	1,013,319
Other	179,509	27,330	206,839
Total Operating Revenues	7,907,297	1,040,649	8,947,946
Operating Expenses:			
Program for the Production of Farming Products	141,624	1,444,823	1,586,447
Rice Production	-	1,083,415	1,083,415
Research Fund - Act # 26-2008	-	303,127	303,127
Specialty Crops	-	435,170	435,170
Infrastructure Program	-	1,142,132	1,142,132
Payroll and Personnel Costs	8,296,412	1,182,812	9,479,224
Pension Expense	5,713,077	-	5,713,077
Pre-Retirement Expense	5,030,960	545,347	5,576,307
Repairs and Maintenance	112,419	16,260	128,679
Utilities	536,758	-	536,758
Supplies and Materials	10,914	-	10,914
Contracted Services	229,653	324,616	554,269
Insurance	32,197	29,099	61,296
Travel, Representation and Meals	100,157	12,107	112,264
Fuel	56,101	-	56,101
Depreciation	696,925	40,968	737,893
Bad Debt Expense	-	600,000	600,000
Other - General and Administrative	331,415	333,101	664,516
Bank Charges	11,249	-	11,249
Total Operating Expenses	21,299,861	7,492,977	28,792,838
Operating Income (Loss) Before Non - Operating Revenues (Expenses)	(13,392,564)	(6,452,328)	(19,844,892)

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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

Statement of Revenues, Expenses and Changes in Net Position - (Continued)

For the Fiscal Year Ended June 30, 2017

	Puerto Rico Land Authority	FIDA	Totals
Non - Operating Revenues (Expenses):			
Sales of Land	$ 3,904,620	$ -	$ 3,904,620
Bad Debt Recovered	999,249	-	999,249
Sales of Rice Production	-	128,076	128,076
Coffee and Sugar Taxes	-	12,889,062	12,889,062
Commonwealth Appropriations	660,176	80,000	740,176
Federal Awards	-	435,170	435,170
Impairment Loss	(870,234)	(11,661,193)	(12,531,427)
Interest Expense	(10,839)	-	(10,839)
Total Non - Operating Revenues, Net	4,682,972	1,871,115	6,554,087
Change in Net Position	(8,709,592)	(4,581,213)	(13,290,805)
Beginning Net Position, as Previously Reported	(8,644,308)	33,091,970	24,447,662
Prior Period Adjustments	12,635,745	(290,882)	12,344,863
Net Position, Beginning of Year, as Restated	3,991,437	32,801,088	36,792,525
Net Position at End of Year	$ (4,718,155)	$ 28,219,875	$ 23,501,720

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	Puerto Rico Land Authority	FIDA	Totals
Cash Flows From Operating Activities:			
Collection of Rent	$ 7,631,445	$ -	$ 7,631,445
Collection of Services to Farmers	252,807	-	252,807
Collection of Royalties	295,702	-	295,702
Collection of Interests	-	1,611,309	1,611,309
Miscellaneous Collections	179,509	27,330	206,839
Payments to Employees, Related Payroll Costs and Others	(7,115,081)	(688,360)	(7,803,441)
Payment for Goods and Services on Operating Activities	(1,684,674)	(5,454,385)	(7,139,059)
Net Cash Used in Operating Activities	(440,292)	(4,504,106)	(4,944,398)
Cash Flows for Capital and Related Financing Activities:			
Capital Expenditures Acquisition	(630,667)	(1,134,697)	(1,765,364)
Proceeds From Sales of Land	1,078,175	-	1,078,175
Impairment Loss	(870,234)	(11,661,193)	(12,531,427)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(422,726)	(12,795,890)	(13,218,616)
Cash Flows for Non-Capital Financing Activities:			
Contributions From the Commonwealth	660,176	80,000	740,176
Sales of Rice	-	128,076	128,076
Payment on Deposits on Sales and Rent of Land	81,241	-	81,241
Repayment on Advances To Farming Development	(781,308)	-	(781,308)
Coffee and Sugar Tax Appropriations	-	1,750,001	1,750,001
Federal Awards Contributions	-	435,170	435,170
Interest Paid	(10,839)	-	(10,839)
Advances From Other Related	-	5,132,444	5,132,444
Advances To Other Related	(5,210,929)	-	(5,210,929)
Net Cash Provided by Non-Capital Financing Activities	(5,261,659)	7,525,691	2,264,032
Cash Flows From Investing Activities:			
Collection of Principal on Notes Receivables	280,759	-	280,759
Net Cash Provided by Investing Activities	280,759	-	780,856
Net Change in Cash and Cash and Equivalents	(5,843,918)	(9,774,305)	(15,618,223)
Cash and Cash and Equivalents Beginning of Year	8,509,703	23,529,007	32,038,710
Cash and Cash and Equivalents at End of Year	$ 2,665,785	$ 13,754,702	$ 16,420,487
Reconciliation of Cash and Cash Equivalents with the Statement of Net Position:			
Unrestricted Cash and Deposit Certificates	$ 864,188	$ 13,754,702	$ 14,618,890
Restricted Cash	1,801,597	-	1,801,597
Total Cash and Cash Equivalents	$ 2,665,785	$ 13,754,702	$ 16,420,487

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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

Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2016

	Puerto Rico Land Authority	FIDA	Totals
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:			
Operating Loss	$ (13,392,564)	$ (6,452,328)	$ (19,844,892)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:			
Depreciation	696,925	40,968	737,893
Bad Debt	-	600,000	600,000
Decrease in Rent Receivable	452,166	597,990	1,050,156
Decrease in Accounts Payable and Accrued Liabilities	2,089,041	(57,104)	2,031,937
Decrease (Increase) in Other Assets	139	349	488
Increase in Due to Governmental Entities	4,067,670	-	4,067,670
Increase in Pension Liability	7,676,190	-	7,676,190
Increase in Deferred Inflow	482,654	271,567	754,221
Increase in Deferred Outflow	(2,211,702)	-	(2,211,702)
Increase in Accrued Compensated Absences	(275,281)	494,452	219,171
Decrease in Accrued Legal Claims	(25,530)	-	(25,530)
Net Cash Used by Operating Activities	$ (440,292)	$ (4,504,106)	$ (4,944,398)

See accompanying notes and auditor's reports, which are an integral part of the Basic Financial Statements.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND ACTIVITIES

The Puerto Rico Land Authority (from now on the Authority), is a public corporation and a component unit of the Commonwealth of Puerto Rico. The Authority was created by Act No. 26 approved on April 12, 1941, as amended, to carry out the provisions of the Land Law of Puerto Rico. By provision of Reorganization Plan No. 1 of May 4, 1994, the Land Authority became a programmatic and operational component of the Department of Agriculture (from now on DA).

On July 26, 2010, the Governor of Puerto Rico approved the “Reorganization Plan Number 4”, also known as “Plan for the 2010 DA Reorganization”. This Law provided for the reorganization of such Department and its programmatic and operational components, and was presented as part of Law Number 182 of December 17, 2009, known as “Reorganization and Modernization Law of the Executive Branch of Puerto Rico”. The purpose of this law was to provide DA and its components more administrative and legal flexibility in order to implement and carry out its responsibilities and obligations.

Through this plan, the Corporation for Rural Development and the Administration for Services and Agricultural Development (also known as ASDA) were eliminated. The tasks of this two entities were transferred to a new entity, the “Administration for the Development of Agricultural Enterprises” (“Administración para el Desarrollo de Empresas Agropecuarias” or ADEA). Also, the program for family farms was transferred to the Authority and the ownership of the land lots from the Corporation for Rural Development.

From the Reorganization Plan, DA is now composed of the following entities:

- The DA,
- The Authority and its affiliates,
- The Corporation for Agricultural Insurance (“Corporación de Seguros Agrícolas”), and
- ADEA.

The basic financial statements of the Authority are included as a component unit of the Commonwealth of Puerto Rico and substantially conform to the standards and practices established by the Governmental Accounting Standards Board (from now on GASB).

The Authority was created for the following purposes:

- Acquiring land with agricultural potential through purchase, transfer, exchange, bequest and donation or by the exercise of power of forceful expropriation,
- Selling land that has no agricultural use,
- Maintaining land with agricultural potential under lease,
- Leasing heavy agricultural machinery and equipment,
- Conducting all types of transactions related to land purchase, sale and leasing applications,
- Making appraisals of land to be sold,
- Preparing plans and control of land for sale and rent, and
- Negotiate the collection of rent from farmers through Legal and Finance Offices.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ORGANIZATION AND ACTIVITIES (CONTINUED)

The Authority operates one program, the Real Estate Program, which leases land owned by the Authority and held for agricultural purposes, principally to farmers, including farming services when requested by farmers. Moreover, the Authority is authorized by law to sell surplus land and properties to other governmental entities and individuals.

Also, the Authority manages infrastructure projects on behalf of the DA. Legislative funds were appropriated to create and improve drainage systems, water and sewer systems, bridges, roads, lakes, lighting systems and others. The basic financial statements do not reflect the effects of transactions related to managing such infrastructure projects and funds.

FINANCIAL REPORTING ENTITY

The financial reporting entity included in this report consists of the basic financial statements of the Authority (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

GASB Accounting Standards Codification Section 2100, "Defining the Financial Reporting Entity", describes the criteria for determining which organizations, functions, and activities should be considered part of the Authority for financial reporting purposes. Following GASB Sections 2100 and 2600 "Reporting Entity and Component Unit Presentation and Disclosure", there are two methods of presentation of the component unit in the basic financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Authority's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Authority's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- Financial dependency of the potential component unit on the primary government, or
- The primary government appoint a voting majority of the potential component unit's governing body and,
  1. The primary government can impose its will on the potential component unit and/or,
  2. A financial benefit/burden exists between the primary government and the potential component unit.

In addition, a legally separate, tax exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents,
- The primary government, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separates organization, and

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL REPORTING ENTITY (CONTINUED)

- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

GASB Statement 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

Based on the above criteria, the basic financial statements of the Authority include the balances of one of its component units, the “Fondo de Innovacion para el Desarrollo Agrícola de Puerto Rico” (from now on “FIDA”). The primary purpose is to promote private investment in the general farming industry, by approving loans, warranties, direct and indirect investments, and other credit financing facilities, with favorable repayment conditions and interests rates to the agricultural industries. The Authority created FIDA during fiscal year 2001-2002 under the name "Integral Fund for the Agriculture Development of Puerto Rico". On December 16, 2010, the Authority's Board of Directors approved to change the name. All significant interfund transactions were eliminated.

BASIS OF BASIC FINANCIAL STATEMENTS PRESENTATION

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to governmental entities. A summary of the Authority’s significant accounting policies applied in the preparation of the accompanying basic financial statements is summarized as follows:

(A) METHOD OF ACCOUNTING FOR PROPRIETARY FUNDS AND BASIC FINANCIAL STATEMENTS PRESENTATION

FINANCIAL STATEMENT PRESENTATION

The Authority reports its financial position and results of operations as an enterprise fund. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business - type activities, which are financed mainly by fees and charges to users of the services provided by the funds operations. Proprietary funds distinguish operating revenues and expenses from non - operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non - operating revenues and expenses.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF BASIC FINANCIAL STATEMENTS PRESENTATION (CONTINUED)

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", the Authority recognized deferred outflows of resources in the basic financial statements. These items are a consumption of net position by the Authority that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Authority has items that are reportable on the Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 14) and items that relates to deferred inflows of resources from deposits on sales of land transactions (Note 9) as of basic financial statements date.

Note 13 provides details on deferred outflows of resources and deferred inflows of resources.

REQUIRED SUPPLEMENTARY INFORMATION - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management’s discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Authority’s financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide information that is essential to a user’s full understanding of the data provided in the basic financial statements

REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYEES RETIREMENT SYSTEM

GASB Statement No. 68, "Accounting and Financial Reporting for Pension"s, that is effective for the Authority’s fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Authority to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

(B) USE OF ESTIMATES

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

(C) CASH AND CASH EQUIVALENTS

Cash includes demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (from now on GDB), and cash equivalents in commercial banks, on hand and short-term investments with maturities of three months or less.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding that the basic financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to US GAAP.

(D) INVESTMENTS IN AGRICULTURAL BUSINESSES

Investments in private entities are reported at cost, since these are not intended to obtain profit, but rather to promote agricultural and related businesses. During the year ended June 30, 2017, the Authority evaluated its investments in agricultural businesses for impairment and determined that no impairment of investment had occurred.

(E) INTERFUND BALANCES

Interfund receivables and payables balances have been eliminated from the statement of net position, except for the amount due from (to) Sugar Corporation of Puerto Rico because its closing period is December 31, 2016. The Sugar Corporation of Puerto Rico is a component unit of the Commonwealth and in accordance with Act No. 189 named "Law for the Transfer of Assets and Liabilities for Negotiations of the Sugar Corporation and the Puerto Rico Land Authority", of September 5, 1996, is in the process of liquidation.

(F) RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for uncollectible notes and other receivables is an amount that the Authority believes will be adequate to absorb possible losses on existing receivables that are identified as to be remote collectibles and others that may become collectible based on collection analysis and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

(G) CAPITAL ASSETS AND DEPRECIATION POLICY

The Authority defines capital assets as assets with an individual cost of more than $100 and a useful life of three (3) years or more. Assets to be depreciated were assigned a residual value of 10% of original cost. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Estimated Useful Lives
Land	-
Construction in Progress	-
Building and Improvements	20 - 40
Infrastructure	10 - 20
Industrial Equipment, Machinery and Equipment and Others	5 - 20
Furniture and Fixtures, Vehicles	3 - 7

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) CAPITAL ASSETS AND DEPRECIATION POLICY (CONTINUED)

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any is credited or changed to operations.

(H) ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG - LIVED ASSETS

The Authority follows GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2017, the Authority evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in the Authority’s basic financial statements.

(I) LAND AND PROPERTIES COST

When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date in which land was acquired, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land.

(J) ACCOUNTING FOR PENSION COSTS

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

In addition, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27", effective for the Authority's’ fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Authority to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan’s fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan’s fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. To the extent practical, the basic financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68", was required to be implemented simultaneously with the provisions of GASB 68.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) ACCOUNTING FOR PENSION COSTS (CONTINUED)

The Authority implemented both GASB Statement No's. 68 and 71 for the fiscal year ended June 30, 2015 and the basic financial statements of the Authority for the year ended June 30, 2014 were restated, with unaudited information available at the date of the Authority's reports. After that, on June 2016, the plan issued its audited financial statements with a decrease in Fiduciary Net Position and an increase in Net Pension Liability.

The Authority accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing multi-employers plan. During fiscal year ended June 30, 2015, the Authority implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable,

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and

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

For the purpose of applying the requirements of GASB No. 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of the Authority participate. The Authority is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (See also Note 14).

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) COMPENSATED ABSENCES

As of the effectiveness of Act No. 26-2017, named "Law for Compliance with Fiscal Plan", every government employee shall be entitled to accrue one and one-fourth (1¼) day of vacation leave for every month of service. The employees shall begin to accrue the vacation leave upon completion of a three (3)-month period and said leave shall be retroactive to the employment commencement date. Furloughed or part-time employees shall accrue vacation leave proportionately to the number of hours regularly worked. The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year. Vacation leave is granted to employees in order to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which it was accrued. Every agency or public instrumentality is required to devise a vacation plan for every calendar year, in collaboration with supervisors and employees, establishing the period during which employees shall enjoy their vacation time in the manner that is more compatible with the needs for service. Said plan shall be completed no later than on December 31st of every year, so that it takes effect on January 1st of the following year.

The Authority accrued a liability for compensated absences, which meet the following criteria: (1) the Authority's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, "Compensated Absences", the Authority has accrued a liability for compensated absences, which has been earned but not taken by the Authority’s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective as of June 30, 2017. All vacation pay is accrued when incurred. The current portion is the amount estimated to be used in the following year.

As per Law No. 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 days of vacations and 90 days of sick leave until December 31st. of each year. Payment should be up to a maximum of 5 days in excess.

As of June 30, 2017, the Authority accrued compensated absences amounts to $1,738,047 which represents the Authority’s commitment to fund such compensated absences for future operations. Of this amount, the Authority estimates that approximately $799,501 are due during the next fiscal year.

(L) ACCRUAL FOR LEGAL CLAIMS

The estimated amount of the liability for legal claim is recorded, on the accompanying statement of net position, based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such legal claims. The Authority consulted with legal counsel to determine whether an unfavorable outcome is probable. Because of uncertainties inherent in the estimation process, management's estimate of the liability for legal claims may change in the near term.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) NET POSITION CLASSIFICATION

Net position represent the difference between assets and liabilities and are presented in three components as follows:

- **Invested in Capital Assets, Net of Related Debts** - consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position invested in capital assets, net of related debt, is composed of the following:

Capital Assets, Net of Accumulated Depreciation	$ 94,209,367
Outstanding Balance on Related Debt	-
Total Invested in Capital Assets, Net of Related Debt	$ 94,209,367

- **Restricted Net Position** - consist of net position with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government; (2) law through constitutional provisions or enabling legislation. As of June 30, 2017 there is no restrictions imposed, and therefore, no restricted net position has been presented, and

- **Unrestricted Net Position** - consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

(N) OPERATING REVENUES AND EXPENSES

The Authority distinguishes between operating and non - operating revenues and expenses in its statement of revenues, expenses and changes in net position. The principal revenues of the Authority are charges for land rental and services to farmers. The Authority also recognizes as operating revenues interest income generated on loans granted by FIDA. Operating expenses for the Authority include the costs of developing farming products, payroll and fringe benefits, and other administrative expenses such as utilities, repairs, contracted services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non - operating revenues and expenses.

The Authority receives contributions from the Commonwealth. These contributions, which are subject to annual appropriations, are used to partially finance the operations of the Real Estate Program. Amounts received are recorded as a non - operating revenue in the period stated in the grant.

(O) REVENUE RECOGNITION

The following represents the Authority's policy for revenue recognition:

- All leases are deemed operating leases, therefore rental income is recognized as operating revenue over the term of the lease. Advance lease payments are recorded as deferred revenue and recognized as rental revenue when earned over the lease period.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) REVENUE RECOGNITION (CONTINUED)

- Rental income is composed of the lease canon and estimated property tax, using The Municipal Revenues Collection Center (from now on CRIM) tax rate, and multiplied by the number of lots leased.

- For services provided to farmers, revenue is recognized at the time the service was rendered.

- For land and property sales, revenues are recognized when title is conveyed to buyers. Funds received from infrastructure program and federal assistance are recognized when disbursement of the funds are made.

- Income from coffee and sugar taxes is recognized when the Commonwealth of Puerto Rico notifies FIDA. Coffee taxes imposed and collected by Federal U.S. Agencies are deposited at the Commonwealth, commingled with sugar taxes collections. Pending bills and undeclared taxes are not recorded in FIDA books.

(P) PROPERTY TAXES

On September 9, 2010, the Superior Court in San Juan, Court of First Instance, decided that the Authority should paid to CRIM $12,117,630 for property taxes accrued as of June 30, 2010. Total outstanding debt as of June 30, 2017 is $11,704,721, net of credits, and is applied to “bonafide farmers” (Law number 225) against their accounts receivable (See Note 12). This amount is reported as part of due to governmental entities as of June 30, 2017.

(Q) RISK FINANCING

To minimize its risk of loss, the Authority purchases insurance coverage for public liability, automobile, crime, inland marine, commercial property and garage, as well as medical and workmen’s insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Puerto Rico Treasury Department. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage. See also Note 21 (a).

(R) NON-EXCHANGE TRANSACTIONS

GASB Statement No. 33, “Accounting and Financial Reporting for Non-exchange Transactions”, establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

GASB has issued the following pronouncements that, for the Authority, have effective dates after June 30, 2017:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

  1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

  2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

  3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

  This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In the circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

Definition of a Lease

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

Lease Term

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

1. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

2. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

3. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

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

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

1. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

2. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

3. An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short - Term Leases

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

Lessee Accounting

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

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

Lessor Accounting

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

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

PUERTO RICO LAND AUTHORITY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

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

Subleases and Leaseback Transactions

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

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

The Authority has not yet determined the effect these statements will have on the basic financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Authority is restricted, by law, to deposit funds only in institutions approved by the Puerto Rico Treasury Department (from now on PRTD), and such deposits are required to be maintained in separate accounts in the Authority's name.

Under the laws and regulations of the Government, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (from now on FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the PRTD, but not in the Authority's name.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk

This is the risk that an issuer or other counterpart to an investment will not fulfills its obligations. As of June 30, 2017, the Authority has invested only in cash in commercial banks approximately $12.5 millions which are insured by the FDIC, generally up to a maximum of $250,000. As mentioned before, public funds deposited by the Authority in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. Also, all securities pledged as collateral are held by the Secretary of the PRTD of the Commonwealth. Funds deposited with the Economic Development Bank for Puerto Rico (from now on "EDB"), a component unit of the Commonwealth, are not covered by this Commonwealth requirement. Therefore, the Authority's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Authority's deposits is considered low as of June 30, 2017.

Deposits placed with government banks include certificates of deposits, issued by EDB, amounting to approximately $2.1 millions. These deposits are unsecured and uncollaterized. However, no losses related to defaults by EDB on deposit transactions have been incurred by the Authority through June 30, 2017.

Impairment Loss on Deposits with Governmental Development Bank of Puerto Rico (GDB)

The Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Pursuant to enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to the GDB's ability to continue as a going concern.

On October 18, 2016, the Secretary of the Treasury Department (from now on "the Department") of the Commonwealth issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary recommended to all component units and other entities with deposits at GDB to evaluate the possibility of recognizing an impairment loss as of June 30, 2017, for amounts held at GDB. See also Note 19.

As a result of the above matters, the Authority recognized an impairment loss on deposits held with GDB of $12,531,427 as of June 30, 2017.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2017, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interests at prevailing market rates. Therefore, as of June 30, 2017, the interest risk associated with the Authority's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Authority, the Authority is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Authority's deposits is considered low as of June 30, 2017.

NOTE 3 - RESTRICTED CASH - PUERTO RICO LAND AUTHORITY

The Authority received federal assistance, for approximately $1 million, to be used for the construction of a Pineapple Packing Facility in the Municipality of Florida, federal funds from a) Federal Emergency Management Agency (from now on “FEMA”), to help farmers in their infrastructure and recovery of crops for damages suffered in hurricanes and flooding during past years, and b) the Department of Education, to train and provide students with farming technical and scientific knowledge and skills. As of June 30, 2017, the Authority maintains unused funds amounted to $1,801,597 as restricted cash from such sources.

NOTE 4 - INVESTMENTS IN PRIVATELY - HELD ENTITIES

FIDA

FIDA is authorized by law to invest in private entities which are dedicated to agricultural activities in Puerto Rico. The activity of such investments during the year ended June 30, 2017 is summarized below:

Balance, July 1, 2016	$ 6,260,363
Decrease in Investments	(600,000)
Recovery on Investments	-
Balance, June 30, 2017	$ 5,660,363

The investments are in convertible preferred stock. Under the terms of the investment contracts FIDA will receive the investment par value plus any accrued and unpaid dividends plus a premium depending on the year the stocks are redeemed as defined in investment contracts. Generally, the redemption premiums range from 2.5% to 30%.

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NOTE 4 - INVESTMENTS IN PRIVATELY - HELD ENTITIES (CONTINUED)

The investments require payment of dividends at a rate that generally range from 5% to 7.5%. The dividends are cumulative and the investee cannot pay any dividends on common stock until all accrued dividends on the preferred stocks are paid. Dividends not declared and, therefore, in arrears as of June 30, 2017, amounted approximately to $4,229,481.

During each year, the Authority's management evaluates the recoverability of the investments and records a valuation allowance for investments which are deemed as doubtful of realization. As of June 30, 2017, the balance of the investments is net of an allowance of $3,070,235 for investments considered doubtful of realization.

NOTE 5 - RENT RECEIVABLE

Puerto Rico Land Authority

As of June 30, 2017, the Authority’s rent receivable was as follows:

Rent and Other Receivables From Commonwealth Agencies and Municipalities	$ 2,426,694
Rent and Land Leases From Third Parties	16,765,539
	19,192,233
Less Allowance for Doubtful Accounts	(14,766,008)
Net Rent Receivable	$ 4,426,225

The Authority has a policy of including in the allowance for doubtful accounts all balances over one year old, except for certain balances, principally with governmental entities, that the Authority's management believes will be collectible.

NOTE 6 - NOTES AND INTERESTS RECEIVABLE

As of June 30, 2017, the Authority’s notes and interests receivable were as follows:

Puerto Rico Land Authority:	
Family Farms Program	$ 2,477,159
FIDA:	
Private Entities	14,387,686
Governmental Entities	4,347,654
	18,735,340
Total	$ 21,212,499

NOTE 6 - NOTES AND INTERESTS RECEIVABLE (CONTINUED)

Family Farms Program

The Family Farms Program (from now on "the Program") was the main program of the Corporation for Rural Development (from now on "CDR"), a component unit of the DA of the Commonwealth. The Program was created for the purpose of stimulating the use of agricultural land by individuals who meet certain requirements. The land, transferred to qualified individuals under the program, is granted in usufruct. The usufructuary is under obligation to use the land for agricultural purposes only.

The value of the usufruct is the market value of the land and will be paid by the usufructuary over a period of 40 years, plus annual interest of 3% on the unpaid balance. In case the usufructuary does not comply with the payment requirements or with other conditions specified in the program, the usufruct is considered terminated.

During 2010, the Legislature of the Commonwealth approved Reorganization Plan No. 4 of the DA ("the Reorganization Plan"). Under the Reorganization Plan, the program was transferred from CDR to the Authority, which assumed all responsibilities and obligations under the program. The Reorganization Plan required CDR to transfer to the Authority all notes receivable and titles of all agricultural land under the Program.

As the result, during the year ended June 30, 2011, the Authority recorded notes receivables in the amount of $3,722,000 under the program, which consisted of total notes receivable received from CDR of $11,333,000, net of an allowance of, for notes receivable considered doubtful of collection, in the amount of $7,611,000.

As of June 30, 2017, notes receivable outstanding balance of $9,215,468 is presented net of an allowance for doubtful notes of $6,738,309, for $2,477,159. In addition, the Authority has not recorded the cost of any land available under the program or the land that should be recorded for terminated usufruct, as explained above.

FIDA

FIDA, as permitted by law, has entered into line of credit agreements with certain governmental entities and private agricultural businesses. The outstanding balances are unsecured and bear interest at rates ranging from 5% to 9% for governmental entities and from 7% to 10% for private agricultural businesses.

The outstanding balance of $23,813,277$ as of June 30, 2017, is presented net of an allowance for doubtful notes of $5,077,937, for $18,735,340.

During the year ended June 30, 2017, interest income recognized on notes receivable from governmental entities amounted to approximately $382,947, included as part of interest income in operating revenues. Also, as of June 30, 2017, FIDA has a note receivable from a governmental entity with an outstanding balance of approximately $4,692,041, for which no interest charged has been approved by FIDA's Board of Directors.

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NOTE 7 - CAPITAL ASSETS

Puerto Rico Land Authority

Capital assets consisted of the following:

Description	Beginning Balance	Additions	Adjustments/ Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 86,744,076	$ -	$ (228,875)	$ 86,515,201
Construction in Progress	1,185,025	1,095,969	(611,463)	1,669,531
	87,929,101	1,095,969	(840,338)	88,184,732
Capital Assets Being Depreciated:				
Building and Improvements	3,701,376	17,614	-	3,718,990
Infrastructure	14,389,931	504,912	(2,496)	14,892,347
Industrial Equipment	1,520,289	-	-	1,520,289
Machinery and Equipment	5,509,430	31,643	(18,968)	5,522,105
Vehicles	704,011	-	-	704,011
Furniture and Fixtures	2,090,424	22,817	(318,483)	1,794,758
	27,915,461	576,986	(339,947)	28,152,500
Less: Accumulated Depreciation	(21,692,940)	(737,893)	302,968	(22,127,865)
	6,222,521	(160,907)	(36,979)	6,024,635
Total Capital Assets, Net	$ 94,151,622	$ 935,062	$ (877,317)	$ 94,209,367

See also Note 21 (a) related to damages to offices, warehouses, other structures and equipment related to hurricane events. The Authority, as of basic financial statements report date, is in the process of tracing the individual property and equipment items in the physical inspection detail prepared by FEMA to their capital assets details, in order to dispose-off or adjust cost and accumulated depreciation related balances. Therefore, no adjustments to capital assets has been made in the accompanying basic financial statements for the year ended June 30, 2017.

Infrastructure Program

The infrastructure program is designed to improve water resource usage and fertilization of land dedicated to the production of fruits and vegetables, through the maintenance of risk pumps and other utilities. Currently, the majority of improvements made through the infrastructure funds are provided by the DA.

NOTE 8 - REAL ESTATE AND EQUIPMENT FOR FUTURE USE

By virtue of Act No. 189, described in Note 1(E), the Sugar Corporation of Puerto Rico and the Land Authority were authorized to transfer certain assets used in the production, marketing and selling of sugar to the sugarcane farmers (known as "colonos"). The Act imposed several restrictions upon the assets transferred to the sugarcane owners, in order to maintain the benefits of the Act. Because of the restrictions imposed by the Act and because of the infringement by the sugarcane growers of said restrictions, the assets were returned to the Corporation and the Land Authority. On September 2, 2004,

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NOTE 8 - REAL ESTATE AND EQUIPMENT FOR FUTURE USE (CONTINUED)

the “Agroindustria Azucarera del Oeste, Inc." (known as “AGRASO”) and Land Authority/Sugar Corporation agreed to return all assets, by virtue of Act. No. 189, in exchange of payments of certain obligations and release of debt owned to the Sugar Corporation.

The assets received have an estimated book value of $4,090,000, detailed as follows:

Land	$ 1,535,000
Buildings	873,000
Machinery and Equipment	1,682,000
Total	$ 4,090,000

The Act established that in case of infringement, all assets transferred would be returned at cost or fair market value, whichever is lower. Due to significant adverse environmental damages, equipment becomes obsolete and unfit for industrial purposes, and a projection of future costs associated to clean up premises and legal actions involved, the Corporation considers this property as fully impaired, therefore, no value had been assigned in the accompanying financial statements. The Authority is trying to consolidate all impaired equipment and obsolete structures in sugar mills to convert into disposal material to be sold. As of financial statements date, the Authority cannot determine future losses or gains related to these impaired assets.

NOTE 9 - DEPOSITS ON SALE OF LAND

The Authority is authorized by the Land Law of Puerto Rico to sell surplus land and properties that have no agricultural use to other governmental entities and individuals. The liability for deposits reflected in the accompanying statement of net position, as deferred inflows of resources, represents amounts received in connection with land transactions in process. It also includes legal foreclosures and expropriations cases not finally executed by court.

NOTE 10 - NOTES PAYABLE

Notes payable as of June 30, 2017 consisted of the following:

Puerto Rico Land Authority:

Participation in Bonds Payable Issued by Puerto Rico Finance Corporation:	$ 17,051,349

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NOTE 10 - NOTES PAYABLE - PUERTO RICO LAND AUTHORITY (CONTINUED)

On December 27, 2001, the Authority entered into a loan agreement ("the Note") with the GDB to refinance certain debts, as authorized by Act No. 164 of December 17, 2001. The Puerto Rico Public Finance Corporation (from now on "PFC") acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds ("PFC Bonds"). The PFC Bonds were issued under a trust indenture, whereby the PFC pledged and sold the Note, along with other notes, under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold.

During June 2004, the PFC issued PFC 2004 series A and B bonds, and advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164. The Authority recognized a mirror effect of this advance refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding. The aggregate debt service requirements of the notes will be funded with annual appropriations from the Commonwealth.

During the fiscal year ended June 30, 2012, PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2004 and before, under Act No.164, including $15,099,000 of the Authority corresponding portion of the debt. The Authority recognized a mirror effect of these current refunding by the PFC in its own notes payable, in proportion to the portion of the Authority's notes payable included in the PFC refunding.

The Authority recorded a due from Commonwealth amounting to $338,849 as of June 30, 2014, for an advance made to the bond trustee to cover future debt service requirements of the refunded notes. The aggregate debt service requirements of the refunded notes in excess of the advance already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

In December 2011, the Puerto Rico Sales Tax Financing Corporation (from now on "COFINA"), issued bonds, and a portion of the proceeds from such bond issuance was used to cancel certain appropriation bonds of the Commonwealth and its agencies, departments and certain component units, including $8,355,950 of the Authority's notes payable to PFC. As a result of this bond defeasance, the Authority recognized a contribution from COFINA of $8,555,495 and recognized a loss on extinguishments of debt of $54,886 during the year ended June 30, 2012.

The notes outstanding balance as of June 30, 2017, was $17,051,349 and matures throughout August 1, 2032. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by the PFC under Act No. 164.

The activity of the notes payable, during the year ended June 30, 2017, was as follows:

	Balance 6/30/2016	Increase	Decrease	Balance 6/30/2017
Notes Payable	$ 17,051,349	$ -	$ -	$ 17,051,349

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NOTE 10 - NOTES PAYABLE - PUERTO RICO LAND AUTHORITY (CONTINUED)

The estimated repayment schedule of the note payable during the next years follows:

Fiscal Years Ending June 30,	Principal	Interests	Totals
2017	$ 908,172	$ 1,852,445	$ 2,760,617
2018-2022	2,280,051	4,363,069	6,643,120
2023-2027	2,322,464	3,827,408	6,149,872
2028-2032	11,540,662	1,039,287	12,579,949
Total	$ 17,051,349	$ 11,082,209	$ 28,133,558

FIDA - Credit Line

FIDA maintains a non - revolving credit line with GDB, in which FIDA may borrow up to $94 millions. Proceeds from this credit line are used by FIDA to fund investments in agricultural businesses, loans to farmers and contributions, as permitted by laws and regulations. Repayment of principal and interests is made from the collection of coffee and sugar taxes allocated by the Commonwealth. The note does not have a formal repayment schedule. Credit line bear interests at an annual 5% rate and is due on March 1, 2027.

A summary of the activity in the credit line during the year ended June 30, 2017 follows:

Balance 6/30/2016	Increase	Decrease	Balance 6/30/2017
$ 27,674,033	$ 451,361	$ -	$ 28,125,394

Outstanding interests payable related to this credit line amounted to $612,456.

NOTE 11 - RELATED PARTY TRANSACTIONS

Intercompany transactions occurred during the fiscal year ended June 30, 2017 between Puerto Rico Land Authority and FIDA, because by request of FIDA, the Authority makes payments on behalf of FIDA and records the corresponding receivable or payable transaction, as applicable.

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NOTE 12 - DUE TO OTHER GOVERNMENTAL ENTITIES

As of June 30, 2017 due to other governmental entities consisted of the following:

Municipal Revenues Collection Center (CRIM)	$ 11,704,721
Puerto Rico Electric Power Authority	2,772,347
Retirement System Administration	4,427,725
Puerto Rico Aqueduct and Sewer Authority	282,759
Others	1,425
Total Due to Other Governmental Entities	$ 19,188,977

NOTE 13 - DEFERRED OUTFLOWS AND INFLOW OF RESOURCES

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

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

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

Based on this concept, the Authority reports the following as deferred outflows of resources and deferred inflows of resources:

- The deferred outflows of resources and deferred inflows of resources resulting from the implementation of GASB No. 68. Note 14 presents additional information about the composition of these items.

- The deferred inflow of resources from deposits on sales of land transactions as of financial statement date. See also Note 9.

NOTE 14 - PENSION PLAN

As previously described in Note 1 (J), the Authority implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pension", during fiscal year 2015, and new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68", was implemented simultaneously with the provisions of GASB No. 68.

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NOTE 14 - PENSION PLAN (CONTINUED)

Description of the Plan

Employees of the Authority participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer contributory, hybrid defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 206 participating employers (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of July 1, 2015, membership of the ERS consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	109,649
Current Participating Employees - Defined Benefit	54,074
Current Participating Employees - System 2000 and Act No. 3	65,605
Disabled members, receiving benefits	15,444
Total Membership	244,772

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2015 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program),
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program), and
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

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NOTE 14 - PENSION PLAN (CONTINUED)

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 Defined Contribution Hybrid 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 programs will become part of the Defined Contribution Hybrid Program.

Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits retirement age.

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

Participant of the Program

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

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include those in the following categories:

(a) Police of Puerto Rico,
(b) Firefighters of Puerto Rico,
(c) Elective officers of the People of Puerto Rico and the employees of the Legislature,
(d) Officers and employees of the Government of Puerto Rico,
(e) Officers and employees of public enterprises,
(f) Officers and employees, including mayors, of the municipalities, and
(g) Irregular personnel fulfilling the requirements of regular employee.

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

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

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

(1) Creditable Service

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

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

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

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

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

(2) Service Retirements

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

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

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

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

(d) Eligibility for Members Hired after June 30, 2013 - attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(3) Service Retirement Annuity Benefits

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

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

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For

NOTE 14 - PENSION PLAN (CONTINUED)

participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

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

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

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

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

NOTE 14 - PENSION PLAN (CONTINUED)

For all other Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

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

(4) Compulsory Retirement

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

(5) Termination Benefits

(a) Lump Sum Withdrawal

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

(b) Deferred Retirement

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

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

(6) Death Benefits

(a) Pre-Retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

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

(b) High-Risk Death Benefit under Act No. 127

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

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

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

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

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

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

NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

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

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

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

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

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

NOTE 14 - PENSION PLAN (CONTINUED)

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(7) Disability Benefits

(a) Disability

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

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

(b) High-Risk Death Benefit under Act No. 127

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

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

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

(d) Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2016-2017 the disability insurance amounted to $6,648.

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NOTE 14 - PENSION PLAN (CONTINUED)

(8) Special Benefits

(a) Minimum Benefits

- Past Ad hoc Increases

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

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

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

- Coordination Plan Minimum Benefit

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

(c) Special "Bonus" Benefits

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

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

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

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

(9) Contributions

(a) Member Contributions

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

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

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

Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1%

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NOTE 14 - PENSION PLAN (CONTINUED)

annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

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

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

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

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

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

Payment Year	Amount	Comment
FY 2016-17	$596 million	Collective FY 2016-17 AUC
FY 2016-17	$180 million	Past due and payable immediately by selected employers
	$776 million	Total due in FY 2016-17
FY 2017-18	$685 million	Total due in FY 2017-18
FY 2018-19 to FY 2032-33	$685 million	Estimated amount payable annually, subject to significant change due to annual re-measurement

(10) Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4,

NOTE 14 - PENSION PLAN (CONTINUED)

2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10 of 1992, Act No. 14 of 1981, Act No. 122 of 2000, Act Nos. 203 and 33 of 2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contribution Account during the years of military leave.

(11) Early Retirement Programs

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

(12) Changes in Plan Provisions since Prior Valuation

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

(13) Other Postemployment Benefits (OPEB) - Healthcare Benefits

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

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

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

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

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

NOTE 14 - PENSION PLAN (CONTINUED)

Liquidity Risk and Uncertainties

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

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

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

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

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as $120.0 million and subsequent annual amounts will be determined annually based on actuarial

NOTE 14 - PENSION PLAN (CONTINUED)

studies to be performed by the ERS's actuaries as necessary for the ERS's gross assets to remain above $1.0 billion. An appropriation for such AUC of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

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

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

Remediation Plan

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

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

NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

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

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

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

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

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

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

Other measures taken to improve the liquidity of the ERS include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds).

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

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NOTE 14 - PENSION PLAN (CONTINUED)

(1) Net Pension Liability

The Authority's Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability but the information for each program are not available. The Net Pension Liability was measured as of June 30, 2015, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. 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 plans program relative to the projected contributions of all participating employers, actuarially determined. As of June 30, 2017, the Authority's used the proportionate share of 0.17078%, provided by ERS.

The Authority's proportionate share of the Net Pension Liability as of June 30, 2017 was as follows:

	Proportionate Share of Net Pension Liability
Act Number 447	$ 47,016,546
Act Number 1	11,023,839
Act Number 305	6,341,691
	$ 64,382,076

As June 30, 2017, the Authority reported $64,382,076 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS, as follows:

Net Pension Liability	Total	Proportional Share (.17078%)
Total Pension Liability	$ 36,432,873,000	$ 62,220,193
Fiduciary Net Position (Deficit)	(1,265,885,000)	(2,161,883)
Net Pension Liability	$ 37,698,758,000	$ 64,382,076
Plan's Fiduciary Net Pension (Deficit) of Total Pension Liability	-3.47%	-3.47%
Covered Payroll	$ 3,344,382,000	$ 5,711,548
Net Pension Liability as a % of Covered Payroll	1,127.23 %	1,127 %

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NOTE 14 - PENSION PLAN (CONTINUED)

(2) Pension Expense

For the fiscal year ended June 30, 2017, the Authority recognized pension expense of $$5,713,077. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

(3) Deferred Outflows/Inflow of Resources

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

	Deferred Outflow Of Resources	Deferred Inflow Of Resources
Pension Contributions Subsequent to Measurement Date	$ 757,297	$ -
Differences Between Actual and Expected Experience	-	883,864
Changes in Assumptions	9,820,253	-
Change in Employer's Proportion and Differences Between The Employer's Contributions and the Employer's Proportionate Share of Contributions	2,392,925	-
Net Differences Between Projected and Actual Earnings on Plan Investments	52,637	348,361
	$ 13,023,112	$ 1,232,225

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. $757,297 reported as deferred outflows of resources related to pensions resulting from the Lottery contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended/ Ending June 30,	Amounts
2017	$ 1,857,860
2018	$ 1,857,860
2019	$ 1,939,162
2020	$ 1,960,031
2021	$ 1,025,752

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NOTE 14 - PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for the current valuation. The liability results as of June 30, 2014 we based on projecting the ERS obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability gains or losses.

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

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

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the June 30, 2014 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets
Actuarial assumptions:	
Investment Rate of Return	6.55% Net Pension Plan Investment, Including Inflation
Municipal Bond Index	2.85% as per Bond Buyer General Obligation 20 - Bond Municipal index
Inflation	2.50%
Discount Rate	2.85%
Salary increase	3.00% per year. No compensation increases are assumed until July 1, 2017, as a result of Act No. 66 and the current general economy.
Mortality	Pre-Retirement Mortality: for general employees not covered Under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the base year, and projected forward using MP-2016 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act. No. 127.

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NOTE 14 - PENSION PLAN (CONTINUED)

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

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

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

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

The Long-Term Expected Rate of Return

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

The pension plan's policy regarding allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the ERS's financial condition for the benefits provided through the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2014:

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NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

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

Illiquid Assets

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

Discount Rate

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

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

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

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**	**Proportional Share**
Balance as of June 30, 2015	$32,669,162,000	$(668,272,000)	$33,337,434,000	$56,933,791
Changes for the year:				
Service Cost	496,732,0000	-	496,732,0000	848,321
Interest on Total Pension Liability	1,230,843,000	-	1,230,843,000	2,102,038
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(252,405,000)	-	(252,405,000	(431,058))
Effect of Assumptions Changes or Inputs	3,853,693,000	-	3,853,693,000	6,581,351
Benefit Payments	(1,565,152,000)	(1,565,152,000)	-	-
Administrative Expenses		(27,670,000)	27,670,000	47,255
Other Expenses	-	(32,761,000)	32,761,000	55,949
Interest on Bonds	-	(196,211,000)	196,211,000	335,091
Member Contributions		333,633,000	(333,633,000)	(569,780)
Other Income	-	110,201,000	(110,201,000)	(188,202)
Net Investment Income	-	870,000	(870,000)	(1,486)
Employer Contributions	-	779,477,000	(779,477,000)	(1,331,194)
Balance as of June 30, 2016	**$36,432,873,000**	**$(1,265,885,000)**	**$37,698,758,000**	**$64,382,076**

ERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in September 2016. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASB's No. 67 and 68 calculations through at least the 2016-2017 fiscal year. ERS will continue to check the materiality of the difference in calculation until such time as actuarial have changed his methodology.

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

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

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

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NOTE 14 - PENSION PLAN (CONTINUED)

	1% Decrease 1.85%	**Current Discount Rate 2.85%**	**1% Increase 3.85%**
Total Pension Liability	$76,005,581	$66,543,959	$58,840,282
Fiduciary Net Position	(2,161,883)	(2,161,883)	(2,161,883)
Net Pension Liability	$78,843,698	$64,382,076	$56,678,399

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of the Puerto Rico Oversight, Management and Economic stability Act, Public law 114-87 (from now on "PROMESA"), on March 13, 2017. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 10% in the aggregate:

(a) Puerto Rico Government Employees Retirement System,
(b) Puerto Rico Judiciary Retirement System, and
(c) Puerto Rico Teachers Retirement System.

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

Pay-As-You-Go Funding

Operating a retirement system on a “pay-go” charge basis may be conceptually simple, but can be very difficult in practice when the plan sponsor’s current funds and ability to rely on reserves are limited. While the valuation of ERS liabilities for financial reporting purposes is conducted on an annual basis in arrears, statutory contributions and benefit payments vary continuously and respond instantaneously to emerging events.

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

(a) Contributions to ERS are primarily based on statutory percentage of payroll.

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

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NOTE 14 - PENSION PLAN (CONTINUED)

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

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

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

(c) And how would the impacts of specific management decisions be handled.

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

Pension Plan Fiduciary Net Position

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

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

NOTE 15 - OPERATING LEASES

The Authority's land operating lease terms vary generally from one to five years. Minimum future rental revenues on non-cancelable operating lease with terms of one year or longer are as follows:

Years	Amount
2018	$ 7,070,188
2019	7,070,188
2020	7,070,188
2021	7,070,188
2022 - 2044	29,322,239
Thereafter	1,430,948
	$ 59,033,939

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NOTE 15 - OPERATING LEASES (CONTINUED)

Real estates taxes, insurance and maintenance expenses are usually obligations of the lessees. Contracts provide, in certain cases, for rent increases during renewal periods to be based on fixed percentages. Usually, rent is collected six (6) months in advance, and is billed taking into consideration the rent of the parcel and property taxes estimated using the CRIM invoices sent to the Authority related the specific parcel of land. The lessee is responsible to provide a certificate of "bonafide farmer", in order to be released of such payment. In most cases, farmers need to pay in advance the total amount of the rent, and when condition is satisfied, an adjustment of such amount is credited to their account balance.

NOTE 16 - CONTINGENCIES

Puerto Rico Land Authority

(A) LITIGATIONS

The Authority is a defendant or a co-defendant in various lawsuits and complaints. The Authority's management, after consultation with legal counsel, has made a provision of $4,476,762 for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

The Authority is a defendant in various claim most of them resulting form the closing of several sugar mills throughout the years and from events generally incidental to its operations. Also, it has various environmental claims and penalties imposed by The Environmental Protection Agency (EPA), mainly from the handling of pesticide warehouses. The Authority is in the process of litigating such claims. The accompanying statement of net position include a reserve in relation to this matter, but the ultimate outcome is uncertain at this time and accordingly, the ultimate liability, if any, cannot be presently determined.

In July 2004, the Land Authority deposited in the Superior Court in San Juan, the amount of $5 million for expropriation of land form "Comunidad Agricola Bianchi". The case is still in court because "Comunidad Agricola Bianchi" does not consider the amount given as fair value of the property. The Authority's management believes that the case will be settled for an additional of $4 millions, which was considered in the reserve for contingencies included in the accompanying, basic financial statements.

During 2006, the "Central Roig Company, Inc.", which is one of the two corporations organized by sugarcane farmers that received 50% of the transferred assets of the Sugar Corporation (the sugar mills known as Central Roig, Central Coloso, Central Plata and Central Mercedita, together with the "Refineria Mercedita"), in compliance with and according to the provisions of Public Law No. 189 of December 26, 1997, is suing, among other parties, the Authority, alleging all sorts of actions in damages against the different parties, based upon their inability to produce sugarcane as contemplated by Public Law No.1 189 at the time that the aforementioned assets were transferred to them. The plaintiffs are basically alleging that, because of the failure of the different governmental agencies and third parties involved, to comply with certain undefined and allegedly multiple obligations and commitments to which they were bound, they suffered economic damages in excess of $l00 million. This case is related to two other cases considered in the contingency reserve. Management, based on advice from legal counsel, believes that no potential loss is forecasted as of this date, other that attorney's fees and litigation expenses.

NOTE 16 - CONTINGENCIES (CONTINUED)

(B) FEDERAL AWARDS

During the year ended June 30, 2015, the Authority received a grant fund from the Department of Education. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. For the year ended June 30, 2017 and as of the basic financial statements date, no audits have been conducted. Nevertheless, any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

(C) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS

The Authority is also audited by the Comptroller's Office of Puerto Rico (COPR), who has issued several reports on audits over operations of the Authority and FIDA. The oversight entities, such as the Puerto Rico Department of Justice, are evaluating actions to be taken against the Authority and its employees. The financial impact if any of the possible actions to be taken by the oversight entities can not be presently determined.

Innovation Fund for the Agriculture Development of Puerto Rico (FIDA)

(D) 2010 Agriculture Department Reorganization Plan Number 4

Article 36 of the Reorganization Plan number 4, discussed on Note 1 to the financial statements, amended laws number 165-2001 and 166-2001, requiring that funds received from coffee and sugar taxes be deposited in a new fund to be known as "Technological Innovation and Agricultural Promotion" ("Fondo de Innovacion"), to be transferred to the "Administration for the Development of Agricultural Enterprises" ("Administración para el Desarrollo de Empresas Agropecuarias" or ADEA). According to the Reorganization Plan, this fund can be administered by FIDA, through agreement with the Secretary of Agriculture, in order to promote the development of agriculture in Puerto Rico.

As of financial statement date, monies from such sugar and coffee taxes has not been deposited in such fund nor transferred to ADEA, and kept on FIDA accounts.

FIDA had received funds from sugar and coffee taxes, from 2011 (date in which the Reorganization Plan was to be implemented) to June 30, 2017 as follows:

Years	Amount
2011	$ 14,784,002
2012	13,932,814
2013	15,301,865
2014	12,866,028
2015	12,685,288
2016	13,695,023
2017	12,889,062
Total	$ 96,154,082

PUERTO RICO LAND AUTHORITY
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NOTE 16 - CONTINGENCIES (CONTINUED)

(D) 2010 Agriculture Department Reorganization Plan Number 4 (Continued)

On November 2015, COPR issued audit report number CP-16-03, covering FIDA operations from July 1, 2009 to December 31, 2013. In such report, COPR includes a special comment that the Reorganization Plan will impact FIDA operations and services that FIDA provides to farmers and agricultural activities, since monies that FIDA receives to fund their operations are to be transferred to the "Technological Innovation and Agricultural Promotion" fund of ADEA. Also, COPR comments that the Reorganization Plan does not define how FIDA will cover its operational costs while promoting the agricultural and agro industrial development in Puerto Rico. It also comment that the Reorganization Plan does not establish which of the two entities will be finally be responsible for payment of FIDA credit lines through the GDB, and management of incentives already given to farmers.

In his audit report, COPR makes a recommendation, to the Governor and the Legislative Assembly of Puerto Rico, to evaluate this concerns arising from Reorganization Plan Number 4, and the effect they will have on FIDA operations.

FIDA management has also raised these concerns and is in agreement with the COPR recommendations. In addition, on April 19, 2016, Project 2873 (P. de la C. 2873) was presented to the Legislature of Puerto Rico, and referred to the Governmental, Agriculture and Environmental and Natural Resources Commissions. Project 2873 propose to revitalize and restructure DA by including FIDA as a programatic and operational component of DA, separated from the Authority, for the purpose of promoting agricultural enterprises. According to Project 2873, the requirements of Reorganization Plan number 4 were never placed in operation, and are not in accordance with the present public policy of the Commonwealth of Puerto Rico, and that it is necessary to derogate the requirements of such Reorganization Plan.

The final outcome of COPR recommendations to the Governor and the Legislative Assembly of Puerto Rico, and the outcome of Project 2873, cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements.

NOTE 17 - RESTATEMENT OF NET POSITION

Puerto Rico Land Authority/FIDA

During the year ended June 30, 2017, the Authority and FIDA identified certain accounting errors belonging to prior years and other adjustments required under new GASB standards. The effect of these prior period adjustments on the net position of the Authority as of July 1, 2016 is as follows:

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NOTE 17 - RESTATEMENT OF NET POSITION (CONTINUED)

Net Position, Beginning of Year, as Previously Presented	$ 24,447,662	
Restatement Adjustments:		
Due to Governmental - Puerto Rico Electric Power Authority	$ 3,325,451	
Accruals Bonus	109,372	
Accrual GASB 68 (2014-2015)	8,004,055	
Accrual GASB 68 (2015-2016)	1,196,867	
Total Net Adjustment for the Authority	$ 12,635,745	12,635,745
Fixed Assets	(96,171)	
Accruals Sick Leave and Vacations	(123,936)	
Accruals Retirement System Debt	(70,775)	
Total Net Adjustment FIDA	$ (290,882)	(290,882)
Net Position, As Restated		$ 36,792,525

NOTE 18 - DATE OF MANAGEMENT'S REVIEW

The Authority followed the provisions of FASB ASC topic “Subsequent Events”, which establishes general standards to be applied in accounting for, and disclosure of events that occur after the statement of position date, but before basic financial statements are issued or available to be issued. This standard introduces the concept of "financial statements available to be issued", which are financial statements that are complete in form and format, that complies with US GAAP and have obtained all approvals required for issuance.

It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for the date, whether it is the date the basic financial statements were issued or were available to be issued. This topic should be applied to the accounting and disclosure of subsequent events not addressed on other applicable US GAAP.

The Authority's management evaluated subsequent events until January 24, 2019, date in which the basic financial statements are available to be issued. No events should be either recognized or disclosed in the basic financial statements. See also Note 21.

NOTE 19 - IMPAIRMENT LOSS ON CASH DEPOSITS WITH GDB

On October 18, 2016, Puerto Rico Treasury Department issued Circular Letter (CL) Number 1300-08-17 titled "Impairment Loss of Deposits with the GDB".

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NOTE 19 - IMPAIRMENT LOSS ON CASH DEPOSITS WITH GDB (CONTINUED)

CL 1300-08-17 states that due to the fiscal and financial crisis of the GDB and the Commonwealth of Puerto Rico, GASB 62 named "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AIPCA Pronouncements", requires that any governmental entity with deposits or similar financial instruments with the GDB performs an impairment analysis to those deposits or similar financial instruments. It also states that under GASB 31 named "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", a non-negotiable certificate of deposit (like the ones deposited in GDB), is an investment that is recorded at cost, unless its value is not affected by an impairment of the issuer's credit. GASB 31 requires that the loss in value of a certificate of deposit, due to credit problems of the issuer, be treated as an impairment loss.

CL 1300-08-17 also states that the Commonwealth of Puerto Rico and other public entities have not been able to repay their credit lines and loans with GDB, which in turn, has affected GDB liquidity and its ability to repay its obligations. GDB faces significant risks and at present (meaning as of March 22, 2017), does not have enough cash flow to repay its obligations as they become due. As a result of this, and as stated on CL 1300-08-17, GDB management believes there is substantial doubt about GDB ability to continue as a going concern.

The Authority and FIDA has performed the required impairment analysis, and adjusted as an impairment loss the following deposits, still with GDB as of financial statements date:

GDB Bank Accounts	$ 12,531,427

NOTE 20 - VOLUNTARY PRE-RETIREMENT PROGRAM

The voluntary pre-retirement program was created under Law Number 211-2015 of December 8, 2015, named "Law for Pre-Retirement Voluntary Program", as amended by Law Number 170-2016, of August 9, 2016.

The Voluntary Pre-Retirement Program is hereby created to offer a pre-retirement opportunity to Commonwealth of Puerto Rico employees who enrolled in the Retirement System before April 1st, 1990, or who began working in the Commonwealth of Puerto Rico before that date and were unable to contribute to the Retirement System due to their job status, but subsequently paid those previous years of service so that these could be credited retroactively to a date prior to April 1, 1990, or those employees who opted out of the Retirement Savings Account Program and have at least twenty (20) years of credited services under the benefit structure provided in Act No. 447 of May 15, 1951, as amended.

Employees who works for the Commonwealth shall be deemed to be eligible for the Voluntary Pre-Retirement Program, if he/she meets the following requirements:

1-To be a career employee, a trust employee entitled to be reinstated to a career position, or an employee appointed for a specific term in accordance with a law, such as the case of advocates, prosecutors, commissioners, etc.; provided, that the participant attains age sixty-one (61) before the date of expiration of his/her current term in order to retire,
2-To have enrolled in the Retirement System before April 1,1990, without having requested the reimbursement of his/her contributions, or have begun working for the Commonwealth of Puerto Rico before such date and were unable to contribute to the Retirement System due to his/her job status,

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NOTE 20 - VOLUNTARY PRE-RETIREMENT PROGRAM (CONTINUED)

but subsequently paid those previous years of service so that these could be credited retroactively to a date prior to April 1st, 1990, or those employees who opted out of the Retirement Savings Account Program,
3-As of the date on which enrollment in the Pre-Retirementb Program is requested, to have at least twenty (20) years of credited services in the Retirement System as provided in Act No. 447 of May 15, 1951, as amended by Act No. 3-2013, and other amending laws, and
4-Have not met the requirements to be eligible for retirement under Act No. 447 of May 15, 1951, as amended, on or before the effective date to enroll in the Voluntary Pre-Retirement Program; provided, that the members of the Puerto Rico Police who already meet the requirements to retire may enroll in the Program.

Pre-retirees shall receive the following benefits:

1-Sixty percent (60%) of their average compensation as of December 31, 2015, until they attain age sixty-one (61). Payment shall be made by the employer with the same frequency as it would have been made if the employee had remained employed,
2-Payout of unused vacation and sick leaves accrued as of the time of enrollment in the Program, in accordance with the limits established in the applicable legislation or regulations, exempt from income taxes,
3-While the person is enrolled in the Program, his/her account under the Defined Contribution Hybrid Program shall continue receiving the total amount of the individual contribution that the pre-retiree would have contributed, paid in full by the employer, at a rate of ten percent (10%) of his/her average compensation as of December 31, 2015,
4-Except for employees currently excluded from the payment of Social Security, during the time the participant is enrolled in the Program, the employer shall continue to make employer contributions on account of Social Security (6.2%) and Medicare (1.45%) corresponding to sixty percent (60%) of the participant's gross income. However, equal percentages corresponding to individual contributions shall be deducted from the participant's compensation, and
5-Keep health insurance coverage or medical service program, or employer contribution for health insurance, that the employee enjoyed at the time of making an election to enroll in the Voluntary Pre-Retirement Program up to two (2) years, as of the enrollment date or until he/she enters the Retirement System, or until the participant is eligible to receive health insurance coverage in another employment, or by any other source of coverage, whichever comes first.

Once a pre-retiree attains age sixty-one (61), he/she shall enter the Retirement System and receive the benefits to which he/she is entitled as a pensioner of the Commonwealth of Puerto Rico, in accordance with Chapter 5 of Act No. 447 of May 15, 1951, as amended

NOTE 21 - SUBSEQUENT EVENTS

(a) Contingencies - Hurricanes Irma and Maria

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island. It was declared a major disaster area by the President of the United States on September 10, 2017.

PUERTO RICO LAND AUTHORITY
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NOTE 21 - SUBSEQUENT EVENTS (CONTINUED)

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses. Several months after the incident, there were still many areas without energy and water service.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA), the U.S. Congress and the President for the assignment of federal assistance of approximately $2.6 billion, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

Damages to offices, warehouses, other structures and equipment of the Authority, related to hurricane events, are estimated at approximately $28.8 millions, as specified in a physical inspection detail prepared by FEMA. The report specifies the name of the facility or description of equipment, address or location, city located, a description of the damage, and amount of estimated damages. Although the Authority made arrangements to procure an insurance broker, the invoice for the insurance coverage was not paid previously to the hurricane events on September 2017, and therefore, no insurance coverage is available. Nevertheless, on January 2019, FEMA has provided assistance to the Authority in the amount of $351,282, and agreed to provide additional further assistance for approximately $266,065.

The Authority, as of basic financial statements report date, is in the process of tracing the individual property and equipment items in the physical inspection detail to their capital assets details, in order to dispose-off or adjust cost and accumulated depreciation related balances. Therefore, no adjustments to capital assets has been made in the accompanying basic financial statements for the year ended June 30, 2017.

(b) Oversight Board authorizes Government Development Bank to Restructure Debts under Title VI of PROMESA

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board), created by Congress, authorized the GDB to pursue the restructuring of its debts under Title VI of The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), and conditionally certified GDB’s Restructuring Support Agreement (RSA), under the relevant provisions of Title VI, with a significant portion of GDB’s financial creditors, which became effective pursuant to its terms on May 17, 2017. The RSA contemplates dividing GDB’s assets into two separate entities: one for the benefit of its financial creditors consisting of bondholders, municipal depositors and non-government entity depositors (“New Issuer”), and a Public Entity Trust (“PET”) for the benefit of other depositors (government entity depositors).

The Oversight Board’s decision was in response to a Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB’s operations and a comprehensive financial restructuring of GDB’s obligations. FAFAA noted further that

NOTE 21 - SUBSEQUENT EVENTS (CONTINUED)

by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation.

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

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

Also, the Oversight Board require a New Fiscal Plan that was approved on April 20, 2018. The Plan is based on the projected performance of GDB's existing loan asset portfolio, based on recent historical results. Based on the assessment of GDB's loan portfolio and the information available post-Hurricanes Irma and María, the Plan assumes currently performing municipal loans (after the corresponding application of municipal deposits against municipal loans), certain public-sector loans, and the sale of real estate owned assets are the only sources of revenue going forward. To the extent a loan asset is "non-performing", the Plan assumes such loan remains "non-performing" and therefore would not be a source of future inflows, although GDB, or any successor entity, reserves the right to pursue collection efforts, subject to the limitations imposed by the GDB Restructuring Act. Also, the Plan assumes the continued orderly sale or other legally available disposition of real estate owned assets, until such assets are transferred to the Recovery Authority per terms of the RSA.

GDB has segregated approximately $22 million in cash, corresponding to GDB's obligations to former GDB employees that retired pursuant to various pre-retirement and voluntary separation programs. Promptly after the certification of the Plan, GDB shall transfer such funds to a new trust to be constituted by GDB for the benefit of said retired employees, releasing GDB from such obligations.

(c) Going Concern - Commonwealth of Puerto Rico

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

The 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, which deficits the Commonwealth has financed, further increasing

PUERTO RICO LAND AUTHORITY
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NOTE 21 - SUBSEQUENT EVENTS (CONTINUED)

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

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

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

Required Supplementary Information
Schedule of Proportionate Share
of the Net Pension Liability
(Unaudited)

For the Fiscal Year Ended June 30, 2017

Last 10 Years (1)	June 30, 2016	June 30, 2015
Proportion of the Net Pension Liability	0.17078 %	0.17010 %
Proportionate Share of the Net Pension Liability	$ 64,382,076	$ 56,705,886
Covered - Employee Payroll	$ 5,711,548	$ 5,646,095
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	1,127.23 %	1,004.34 %
Plan's Fiduciary Net Position	$ 2,161,883	$ 1,136,709
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	(3.47)%	(2.05)%

Notes to the Schedule:

Benefit Changes: In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary. Beginning on July 1, 2017, the pension benefits were paid through pay-as-you-go method.

Changes Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

Fiscal year 2015 was the first year of implementation, therefore only years 2015 and 2016 are shown. The amounts presented have a measurement date as of June 30, 2014. Total pension liability was obtained from the audited Puerto Rico Government Employees Retirement System (PRGERS) financial statements as of June 30, 2016 and 2015. These reports are the basis to determine the net pension liability for the year ended June 30, 2017 and 2016 respectively.

Date References: Employee's Retirement System of the Government of the Commonwealth of Puerto Rico: Actuarial Valuation Report.

PUERTO RICO LAND AUTHORITY
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Schedule of Contributions
(Unaudited)

For the Fiscal Year Ended June 30, 2017

Last 10 Years (1)	June 30, 2015	June 30, 2016
Contractually Required Contribution (Actuarially Determined)	$ 18,399,666	$ 17,669,648
Contributions in Relation to the Actuarially Required Contributions	16,006,868	16,563,317
Contributions Deficiency (Excess)	$ 2,392,798	$ 1,106,331
Covered - Employee Payroll	$ 5,711,548	$ 5,646,095
Contributions as a Percentage of Covered - Employee Payroll	280.25 %	293.36 %

Notes to the Schedule:

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Assets Valuation Method	Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.55% Net Pension Plan Investment, Including Inflation
Municipal Bond Index	3.80% as per Bond Buyer General Obligation 20 - Bond Municipal Index
Discount Rate	2.85%
Projected Salary increase	3.00% per year. No compensation increases are assumed until July 1, 2017, as a result of Act No. 66 and the current general economy.
Mortality	Pre-Retirement Mortality: for general employees not covered Under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the base year, and projected forward using MP-2016 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2016 from the 2006 base year, and projected forward using MP-2016 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act. No. 127.

PUERTO RICO LAND AUTHORITY
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Schedule of Contributions - Continued
(Unaudited)

For the Fiscal Year Ended June 30, 2017

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

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

(1) Fiscal year 2015 was the first year of implementation, therefore only years 2015 and 2016 are shown. The amounts presented have a measurement date as of June 30, 2014.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

To the Management and
Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of Puerto Rico Land Authority (From now on the Authority), an enterprise fund of the commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which we reported to the Authority's management in a separate letter dated January 24, 2019.

Purpose of this Report

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

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

January 24, 2019

Stamp **#E359291** of the
College of CPA's of
Puerto Rico is affixed
to the original.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

To the clients and users of the financial statements
Reported upon by Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

The partners and staff of Torres, Hernández & Punter, CPA, PSC are pleased to announce the successful completion of the 2016 independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPA's in public practice, industry, government and education. Our participation in the Peer Review Program demonstrates our firm's commitment and desire of maintaining and improving the quality of our practice.

After through study or our policies and procedures, the team conducting the review concluded our firm complies with the quality control standards established by the AICPA and the Puerto Rico Society of CPA's (PRSCPA). Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff, deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC

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To the Stockholders of
Torres, Hernandez & Punter, CPA, CSP
and the Peer Review Committee of the
Puerto Rico Society of Certified Public Accountants

SYSTEM REVIEW REPORT

We have reviewed the system of quality control for the accounting and auditing practice of **Torres, Hernandez & Punter, CPA, CSP** (the firm) in effect for the year ended December 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of Employee Benefit Plan.

In our opinion, the system of quality control for the accounting and auditing practice of **Torres, Hernandez & Punter, CPA, CSP** in effect for the year ended December 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. **Torres, Hernandez & Punter, CPA, CSP** has received a peer review rating of *pass*.

De Angel & Co., CSP

License No. 113
Expires on December 1, 2018

San Juan, Puerto Rico
July 29, 2016
2016-07-40

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original