

INFORME ANUAL
2018•2019



Modernizando
procesos
para
incentivar el **Progreso**

TRABAJA PARA TI



CENTRO DE RECAUDACIÓN
DE INGRESOS MUNICIPALES



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TRASFONDO



El Centro de Recaudación de Ingresos Municipales (CRIM) es una entidad municipal creada mediante la Ley Núm. 80 del 30 de agosto de 1991, según enmendada, como parte del conjunto de leyes que componen la Reforma Municipal. Las responsabilidades primarias del CRIM son tasar, notificar, recaudar y distribuir los fondos públicos provenientes principalmente de la contribución sobre la propiedad mueble e inmueble.

El CRIM administra la Ley Núm. 83 del 30 de agosto de 1991, según enmendada, conocida como “Ley de Contribución Municipal sobre la Propiedad de 1991”. Bajo esta ley, se transfirieron al CRIM todos los poderes, facultades y funciones relacionados con las contribuciones sobre la propiedad mueble e inmueble en Puerto Rico, que hasta el 1991 había tenido y ejercido el Departamento de Hacienda.

El CRIM nace como parte de la Reforma Municipal. Esta reforma amplía los poderes y facultades de los municipios y le concede por primera vez autonomía fiscal. La Reforma Municipal rompe con la visión centralista que hasta entonces había caracterizado la administración pública del país.

La Junta de Gobierno y la Administración del CRIM están comprometidos con el cumplimiento de las leyes contributivas de forma equitativa, la implementación de sistemas de vanguardia para agilizar el servicio a los contribuyentes y los servicios operacionales de la entidad y el aumentar los recaudos contributivos para el beneficio de los municipios.

VISIÓN

Hacer del Centro de Recaudación de Ingresos Municipales una entidad eficiente y efectiva que sirva a los Municipios y a los contribuyentes de forma justa equitativa, a la vez que provea a los empleados un ambiente laboral del cual todos estén orgullosos, satisfechos y que permita su desarrollo profesional.

MISIÓN

Contribuir al desarrollo de los fundamentos y principios de la autonomía fiscal de los municipios, establecidos por Ley.



MENSAJE DEL DIRECTOR EJECUTIVO

La nueva visión estuvo dirigida a identificar áreas de interés y oportunidades, así como provocar cambios positivos para lograr el progreso y éxito de toda gestión. El resultado de la evaluación de las fortalezas, oportunidades, amenazas y debilidades arrojó la necesidad de implantar una reestructuración de áreas, oficinas y divisiones y una reingeniería de procesos.

La necesidad de cambio se identifica en medio de un período de restricciones presupuestarias y de cambios tecnológicos que nos obligan a explorar nuevas iniciativas y/o buscar soluciones a problemas ya existentes. Los mayores inconvenientes que enfrentamos están relacionados con problemas en los procesos de aprobación, excesiva burocracia en la gestión y ausencia de controles y métricas de desempeño operacional.

Iniciamos la descentralización y reorganización de las funciones de servicio y cobro, con el fin de reducir y eliminar el alto retraso (back-log) en los servicios, que se traducían en quejas diarias de los contribuyentes; y no permitían el cobro ordenado de las contribuciones.



Sr. Reinaldo Paniagua Látimer
Director Ejecutivo

El resultado de la evaluación de las fortalezas, oportunidades, amenazas y debilidades arrojó la necesidad de implantar una reestructuración de áreas...



Todos los cambios que implementamos han sido cuantificados en términos de la expectativa de ingresos a corto, mediano y largo plazo. Esta descentralización de servicios provoca el mejoramiento de nuestra gestión.

También, nos provee la oportunidad de delegar y esparcir la toma de decisiones a través de nuestra organización, permitiendo que la alta gerencia se enfoque en iniciativas medulares.

Estoy seguro de que todas estas iniciativas redundarán en mayor eficiencia administrativa y económica, mayor transparencia de los procesos y la movilización de la función administrativa más cerca del contribuyente.

Espero que este Informe les ayude a entender y visualizar la labor que los empleados están realizando para el progreso de Puerto Rico.

Siempre para servir a nuestro pueblo puertorriqueño,

Reinaldo Paniagua Látimer
Director Ejecutivo del CRIM

MENSAJE DEL PRESIDENTE DE LA JUNTA DE GOBIERNO

Me siento honrado por el apoyo que he recibido en la gestión de presidir la Junta de Gobierno del Centro de Recaudación de Ingresos Municipales.

En los municipios continuamos enfrentando grandes retos fiscales para satisfacer las necesidades básicas de los ciudadanos y fortalecer los servicios en áreas tan importantes como salud, seguridad, educación y empleo, entre otras. A pesar de la situación fiscal que enfrenta el país es a través del CRIM que los municipios reciben la mayor fuente de ingresos para servir a la ciudadanía.

Agradecemos a cada contribuyente que a pesar de las situaciones fiscales individuales que atraviesan, cumplen con su deber del pago de la contribución sobre la propiedad, aportando al desarrollo de nuestro país.

En la Junta de Gobierno estamos comprometidos con los más altos estándares de servicio. Desde el CRIM estamos para servirle.



Hon. Javier Carrasquillo Cruz

Presidente Junta de Gobierno CRIM / Alcalde de Cidra

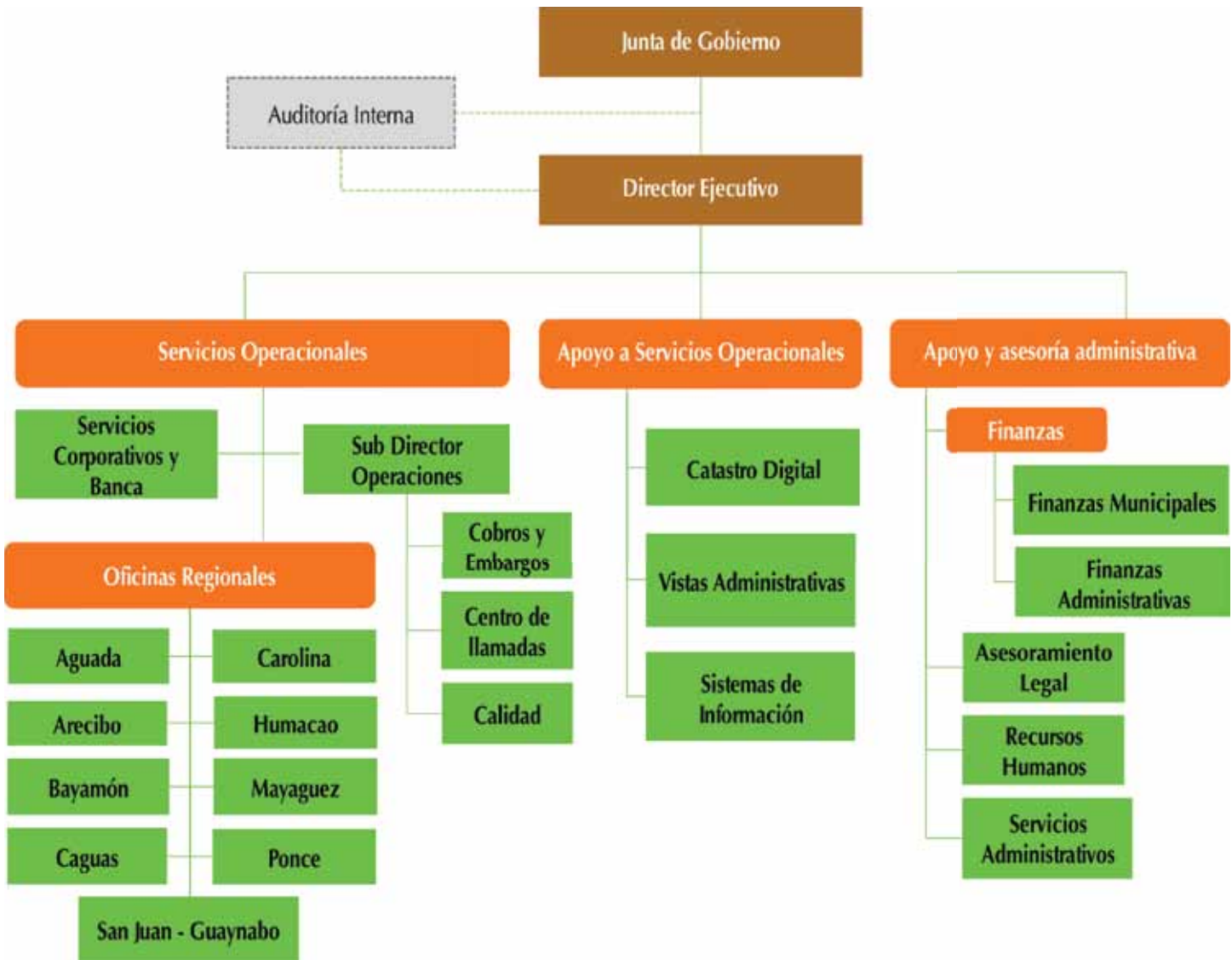


Hon. Javier Carrasquillo Cruz

*Presidente Junta de Gobierno CRIM
Alcalde de Cidra*

*“...continuamos
enfrentando grandes
retos fiscales
para satisfacer las
necesidades básicas
de los ciudadanos y
fortalecer los servicios...”*

ORGANIGRAMA



JUNTA DE GOBIERNO

Hon. Javier Carrasquillo Cruz

Alcalde de Cidra - Presidente

Hon. Enrique Questell Alvarado

Alcalde de Santa Isabel - Vicepresidente

Hon. William Alicea Pérez

Alcalde de Aibonito - Secretario

Hon. Jesús E. Colón Berlingeri

Alcalde de Orocovis - Tesorero

Hon. Ramón L. Rivera Cruz

Alcalde de Bayamón

Hon. Alfredo Alejandro Carrión

Alcalde de Juncos

Hon. Jorge L. Márquez Pérez

Alcalde de Maunabo

Hon. Carmen Yulín Cruz Soto

Alcaldesa de San Juan

Hon. William Miranda Torres

Alcalde de Caguas

Lcdo. Christian Sobrino Vega

Autoridad de Asesoría Financiera y Agencia Fiscal (AAFAF)

Omar Negrón Judice

Asuntos Municipales



APOYO OPERACIONAL

Lcdo. Esdras Vélez Rodríguez
Subdirector Ejecutivo de Operaciones

Marisol Medina García
Directora Catastro Digital

William Arroyo Rivera
Director de Oficina Gerencia de Sistemas de Información (OGSI)



GRUPO EJECUTIVO

Luis Torres Torres
Subdirector Ejecutivo de Administración

Denise Segarra Hernansáiz
Ayudante Ejecutivo

María París Marcano
Ayudante Ejecutivo

Glendaly Russe Meléndez
Ayudante Ejecutivo

ASESORÍA ADMINISTRATIVA

CPA Diana Claudio Sauri
Directora de Finanzas

Pedro Ortiz Pagán
Director de Servicios Administrativos

Lcda. Laura Rechani Ydrach
Directora de Asesoramiento Legal

Omar Rivera Meléndez
Director Recursos Humanos

CPA Carlos García Rosado
Director de Auditoría

Carmen Santos Otero
Secretaria Confidencial del Director

Eliza Fontáñez Fontáñez
Ayudante Administrativo

Arlene Duteil Bibiloni
Ayudante Administrativo

Jailyn Rivera Meléndez
Secretaria de la Junta de Gobierno

OFICINAS REGIONALES

La estructura operacional del CRIM cuenta con una (1) Oficina Central y nueve (9) Oficinas Regionales, ubicadas a través de toda la Isla. Estos centros son Aguadilla, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce y San Juan-Guaynabo. Estas oficinas atienden a los contribuyentes, además de llevar a cabo funciones

técnicas, tales como: tasaciones de propiedades inmuebles, valoración de propiedades muebles e investigaciones, entre otras. Para ofrecer los servicios, las Oficinas Regionales están estructuradas en las siguientes áreas: Servicio y Cobro al Contribuyente, Propiedad Mueble y Propiedad Inmueble.



ADMINISTRADORES REGIONALES

Karina Ronda Carril
Administradora Región Aguadilla

Reynaldo Hernández Santa
Administrador Región Arecibo

Limary Otero Rivera
Administradora Región Bayamón

Virginia Santiago Calderón
Administradora Región Caguas

Norma Maldonado Candelaria
Administradora Región Carolina

Stephanie López Aponte
Administradora Región Humacao

Michelle Oliver Vélez
Administradora Región Mayagüez

María Santiago Collazo
Administradora Interina Región Ponce

Ángel López Díaz
Administrador Región
San Juan/Guaynabo

EL CRIM ATRAVIESA UNA IMPORTANTE TRANSFORMACIÓN OPERATIVA...

...centrada en la sustitución de aplicaciones y sistemas obsoletos; implementación de mejores prácticas administrativas; y descentralización y reingeniería de procesos para mejorar el servicio a los contribuyentes.

Estas iniciativas son la base para implementar con éxito estrategias que redunden en mayor recaudación de las contribuciones

En este año fiscal iniciamos la uniformidad de todos los procesos de cobros, estableciendo métricas que nos permiten evaluar el desempeño de los empleados y la descentralización de las operaciones dirigido a empoderar las nueve (9) regiones para que estas puedan ofrecer un servicio ágil, rápido y eficiente, eliminando el largo tiempo de espera para completar los servicios.

Todos los cambios han sido cuantificados en términos de la expectativa de ingresos a corto, mediano y largo plazo.

INICIATIVAS DE REESTRUCTURACIÓN



Descentralización del área operacional y empoderamiento de las regiones

- ◆ Descentralización de las tareas de evaluación y aprobación de casos de bienes raíces y tasaciones contributiva, así como las evaluaciones y aprobaciones
- ◆ Redefinición del Departamento de Calidad, quedando a cargo del Departamento de Operaciones Central el monitoreo de la calidad de las transacciones aprobadas. Las actividades de reintegro que manejaba el Departamento de Ajustes y Correcciones pasaron a Servicios Operacionales
- ◆ Descentralización de las tareas de Catastro Digital, que incluyeron la aprobación de segregaciones y agrupaciones para que sean realizadas en cada región
- ◆ Reestructuración de los procedimientos de Acuerdos Finales

Unidades especializadas para servicio directo al contribuyente

- ◆ **Departamento de Servicios Corporativos y Banca (SCB)**
Con el propósito de asistir a las instituciones financieras, los administradores de carteras de propiedades, inversionistas, cooperativas, aseguradoras de título de propiedad y bufetes que apoyan la gestión hipotecaria
- ◆ **CRIM al Día**
Con el propósito de trabajar los atrasos de solicitudes de servicio de la Oficinas Regionales. Actualmente, ha realizado un desempeño excelente al completar sobre 28,000 servicios pendientes en la Región de Bayamón
- ◆ **Creación de la Oficina de Revisiones y Vistas Administrativas**



SERVICIOS OPERACIONALES

La Oficina de Servicios Operacionales es responsable de las funciones de tasar y recaudar, deberes principales del CRIM por definición de la ley orgánica. En esta área se desarrollan e implementan proyectos que persiguen la utilización óptima de los recursos existentes en aras de lograr aumentos en los recaudos por concepto de contribución sobre la propiedad mueble e inmueble para cada uno de los municipios de Puerto Rico.

PROPIEDAD INMUEBLE

Las contribuciones sobre la propiedad inmueble se determinan de acuerdo con los valores tributables establecidos por el CRIM al 1 de enero de cada año,...

...la cual se paga por adelantado en la fecha de vencimiento del 1ro de julio y 1ro de enero, con un período de gracia de noventa (90) días después de la fecha de vencimiento.

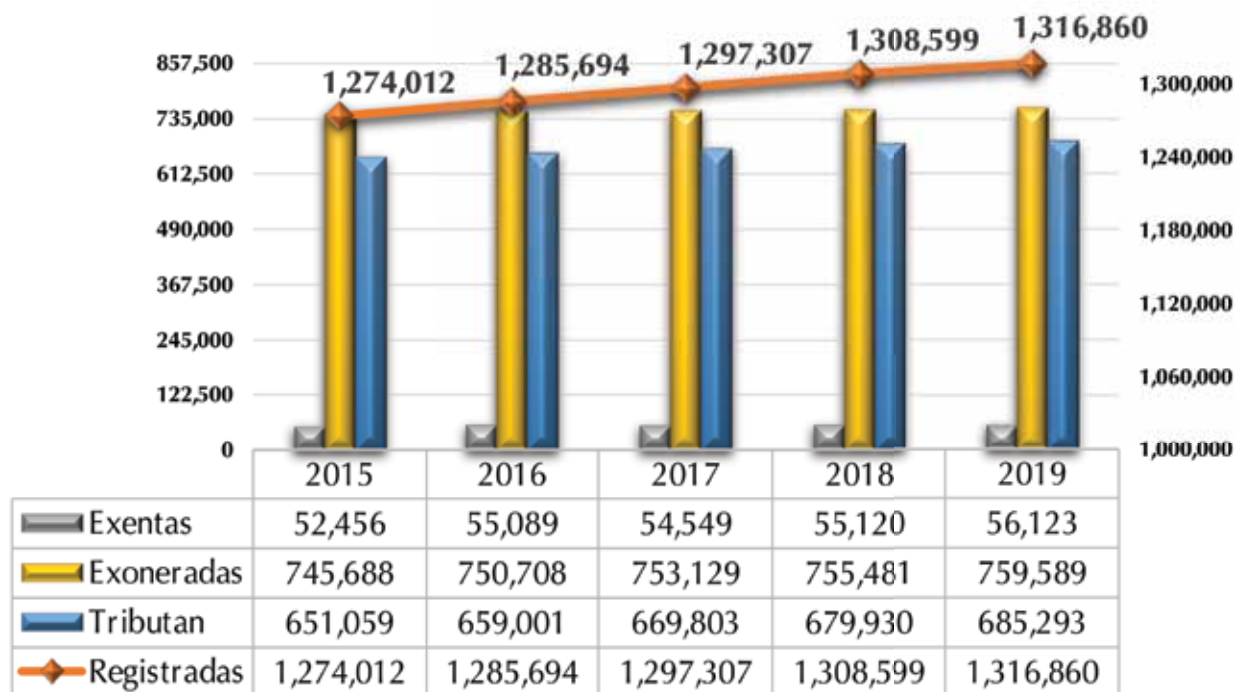
Al finalizar el año fiscal 2018-2019 contamos con un registro de 1,316,860 propiedades inmuebles tasadas para fines contributivos. El valor total tasado de estas propiedades asciende a \$19,276,026,298 al cierre del año fiscal.



Este importe disminuye para efecto contributivo por exenciones parciales o totales concedidas, por la cantidad de \$4,139,070,808; y exoneraciones parciales o totales a contribuciones impuestas, que representan un valor total de \$7,120,740,382. El valor neto tributable de los bienes tasados asciende a \$8,016,215,108, por el cual facturamos contribución sobre la propiedad ascendente a \$824,877,160.

Durante este año fiscal, se añadieron 11,626 tasaciones nuevas de propiedades inmueble y se realizaron 14,226 revisiones. De estas, 23,687 se realizaron por tasadores del CRIM y 2,165 fueron realizadas por tasadores a través de los municipios.

A continuación, se presenta una gráfica de la relación comparativa de base tributaria:



El registro de propiedades continua en aumento constante, reflejando un aumento en los ingresos de la contribución sobre la propiedad inmueble, según se muestra en la siguiente gráfica:



SERVICIOS CORPORATIVOS Y BANCA

Las propiedades inmuebles que poseen hipotecas representaron al cierre del año fiscal 2019 el 38% de los cobros registrados en el CRIM. Por lo tanto, sobre una tercera parte de nuestra cartera requiere de un apoyo constante para así facilitar el cobro de estas contribuciones.

La unidad de Servicios Corporativos y Banca fue creada con el objetivo de ofrecer a las instituciones financieras, inversionistas, desarrolladores, aseguradoras de título de propiedad y bufetes especializados en la gestión hipotecaria, un servicio rápido, ágil y sobre todo personalizado, todo en un mismo lugar.

Al presente sobre setenta (70) instituciones financieras, inversionistas, aseguradoras y bufetes de abogados reciben los servicios de esta unidad administrativa, ahorrando tiempo y dinero.

En el año fiscal 2018-2019 se atendieron y completaron sobre 6,500 solicitudes de servicio, que como resultado hace que las instituciones financieras remitan los pagos más rápido. Esta iniciativa mejoró el servicio de las regiones, que ahora tienen más disponibilidad de tiempo para atender al contribuyente individual.



La unidad fue creada con el objetivo de ofrecer un servicio rápido, ágil y sobre todo personalizado, todo en un mismo lugar



PROYECTO ESPECIAL “CRIM AL DÍA”

“CRIM AL DÍA” forma parte de las iniciativas que tiene como objetivo agilizar el servicio al contribuyente y aumentar los recaudos municipales por concepto de la contribución sobre la propiedad. Esta iniciativa comenzó en septiembre de 2018 para brindar apoyo a las oficinas regionales, con el propósito de eliminar los trabajos en retraso para operar de una manera eficiente. Por otro lado, permite la oportunidad de maximizar los recursos disponibles para la fiscalización de las contribuciones sobre la propiedad.

Iniciamos en la Oficina Regional de Bayamón, donde se analizaron 309 cajas de documentos desglosados entre solicitudes de servicios por exoneraciones retroactiva, segregaciones, cambios de dueño, solicitudes de exoneraciones, solicitudes de tasaciones, entre otros.

Muchas de las solicitudes de servicios que estaban sin trabajar datan de más de diez (10) años, por lo que el personal de CRIM al Día se dio a la tarea de ejecutar el plan de trabajo y contrarrestó el atraso identificado.

Durante este año fiscal, se analizó y trabajó sobre 28,000 solicitudes de servicios, eliminando el atraso que había en la Región, digitalizando las solicitudes impresas y refiriendo las mismas al archivo inactivo. Logramos la meta de eliminar la práctica de trabajar solicitudes de servicios en papel; y que al día de hoy toda solicitud de servicio se trabaje de manera digital. Actualmente, estamos trabajando en la segunda fase del proyecto, que atiende los casos en atraso registrados de forma digital por cada región.



PROPIEDAD MUEBLE

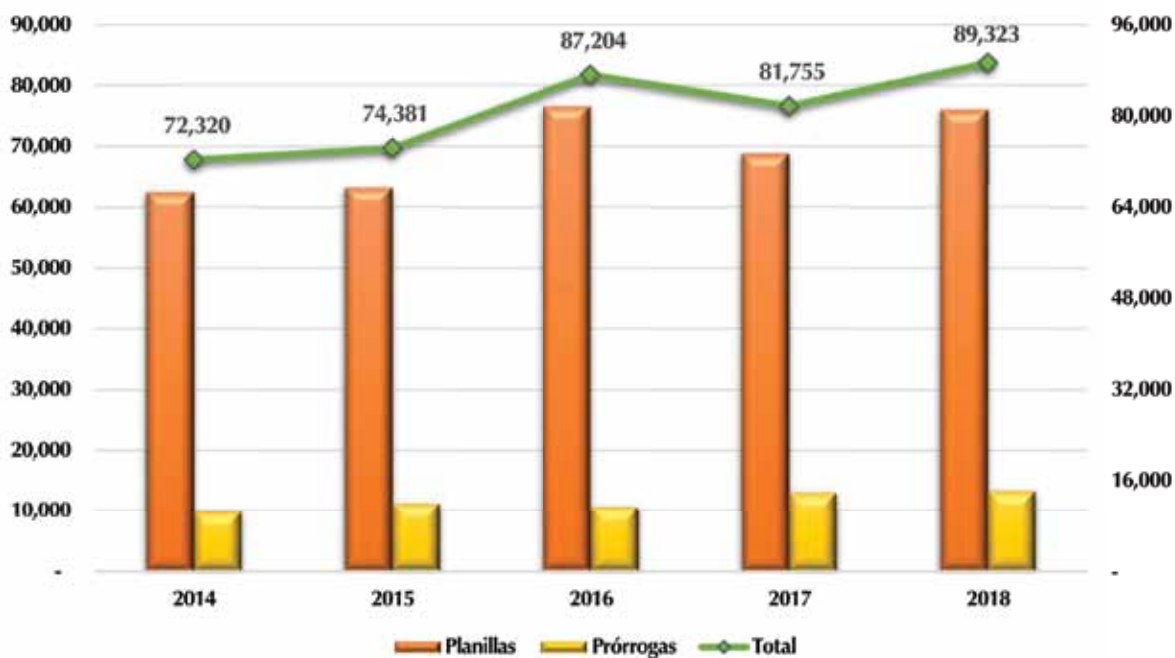
La contribución sobre la propiedad mueble se determina de acuerdo con los valores contributivos autoimpuestos por el contribuyente al 1ro de enero de cada año, informado en la planilla de contribución sobre la propiedad mueble. Dicha propiedad se informa en las planillas que se radican anualmente, el día 15 de mayo.

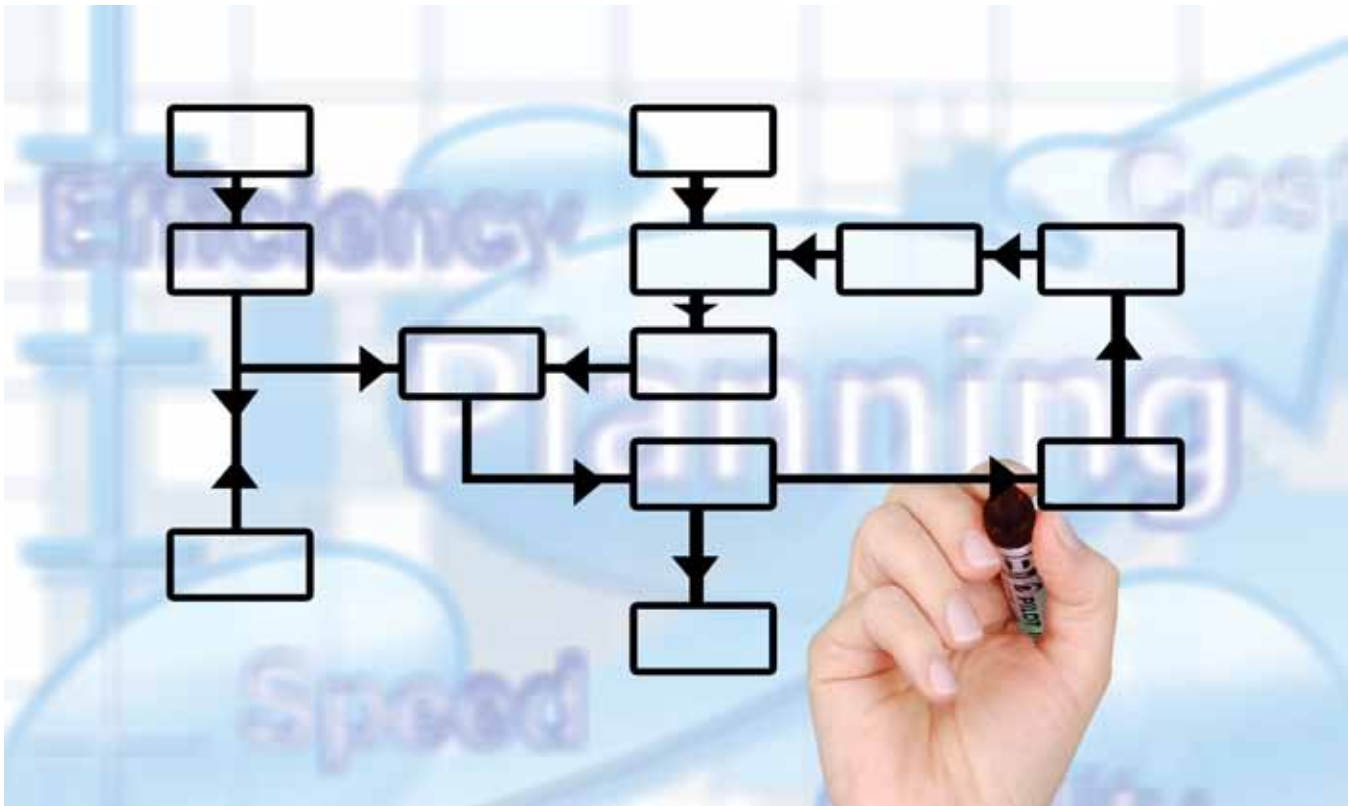
La propiedad mueble se define como propiedad tangible e intangible utilizada en la industria o negocio que no indiquen permanencia y se puede mover fácilmente de un lugar a otro. Es decir, maquinarias, vasijas, instrumentos o implementos no adheridos a un edificio o al suelo que indique permanencia.

En mayo 2018 se estableció una nueva plataforma digital funcional para la radicación de la planilla mueble y durante este año se realizaron las mejoras solicitadas por los usuarios, en su mayoría contadores públicos autorizados (CPA). Se simplificaron los procesos, reduciendo pasos complejos, añadiendo funciones que facilitan el trabajo. Con esto se cumplen dos objetivos importantes: (1) radicar electrónicamente de manera fácil; y (2) eliminar visitas físicas innecesarias a las oficinas, evitando filas y demoras en las ejecutorias.

A mayo de 2019 se recibieron 76,054 planillas de contribución sobre la propiedad mueble. En la siguiente gráfica se muestra el aumento en la radicación de planillas:

TOTAL DE PLANILLAS RADICADAS





Mejoras que realizamos a la aplicación E-mueble, a través del portal www.emueble.crimpr.net:

- ♦ Registro y radicación de planillas para contribuyentes nuevos
- ♦ Visibilidad de la contraseña en la pantalla de autenticación
- ♦ Opción de copiar la información de la radicación del periodo anterior
- ♦ Sección de inventario con opción para eliminar anejo detallado y regresar a inventario promedio
- ♦ Facilidad de compartir usuarios
- ♦ Opción para escoger el tipo de revisión en el estado de situación
- ♦ Versión en idioma inglés de documentos de estado de situación y desglose por municipios
- ♦ Envío de copia del correo de referencia de pago a la persona que lo origina
- ♦ Envío de cupón de pago de estimada al contribuyente

OFICINA DE GERENCIA DE SISTEMAS DE INFORMÁTICA (OGSI)

En el CRIM hemos realizado cambios desde su infraestructura hasta su tecnología

Aumentamos el ancho de banda y velocidad de la Internet en la Oficina Central y las regiones para agilizar los procesos de aplicación de cobros, validación de información y velocidad para acceder las aplicaciones, tales como Catastro Digital utilizado por el público y los municipios y agencias gubernamentales. Optimizamos el rendimiento de los servicios de internet a través de listas de control y filtrado de contenido, que nos permite mejorar la seguridad de la información.

El proyecto de migración de datos a un nuevo ambiente externo en un entorno de nube para asegurar la continuidad y seguridad de la información.

Se realizó la actualización de las bases de datos ORACLE a la versión 12.0 en RedHat Linux para propósitos de estandarización y facilitar su administración.

La nueva aplicación SKALA

Este proyecto se ha desarrollado en un 75% con el propósito de automatizar la tasación de valoración científica de propiedad inmueble. Por primera vez el personal que realiza tasación puede completar la misma sin necesidad de tener que referirse a las tablas de los libros del año 1957 para realizar los cálculos. Esta herramienta provee todas las fórmulas en la nueva aplicación SKALA. Dispone de módulos y funciones de configuraciones y definiciones de valores y parámetros para realizar la tasación de una propiedad inmueble residencial, comercial o industrial.

Adicional, permite acceso a toda información sometida por el contribuyente durante el proceso de tasación de la propiedad.

Entre las varias funciones de SKALA se incluye los siguientes pasos: registro de los datos de los casos incluyendo interfase digital al Catastro Digital, distribución automática de casos, preparación de ruta del tasador, supervisión de casos, módulo de tasaciones, informes y estadísticas y administración.

En la aplicación SKALA tenemos los datos de las sobre 200,000 propiedades tasadas que residían en los sistemas anteriores, haciendo el proceso de evaluación de comparables más rápido y eficaz sin tener que acceder varios sistemas.

Actualmente, continuamos en desarrollo los siguientes proyectos:

- ◆ Mejoras al Catastro Digital que facilita la identificación de propiedades y estructuras
- ◆ Nuevo sistema de facturación con mayor funcionalidad, controles, roles y métricas
- ◆ Nuevo portal digital con facilidad y agilidad para el contribuyente, la banca y los municipios
- ◆ Sistema de almacenamiento de datos que permitirá compartir información entre agencias, generar reportes y medir desempeño
- ◆ Segunda fase de SKALA, que contempla la automatización de la tasación de nuevas propiedades y mejoras



El Catastro Digital de Puerto Rico (CDPR) es el inventario cartográfico de las propiedades inmuebles localizadas dentro de los límites territoriales de Puerto Rico

La información catastral que se comparte a través del Portal incluye las colindancias y la valoración para efectos del CRIM para cada propiedad. Es una herramienta de gran utilidad para el desarrollo de obra pública, la protección del medio ambiente y para la gestión municipal.

A través del Portal del Catastro Digital de Puerto Rico proveemos a todos los ciudadanos acceso gratuito al inventario cartográfico de las propiedades inmuebles localizadas dentro de los límites territoriales de Puerto Rico.

En este año realizamos las siguientes mejoras para mantener el Catastro Digital actualizado:

- ♦ actualización y migración de base de datos del Catastro Digital
- ♦ actualización y migración de base de datos del sistema de tasaciones, Sistema de Automatización de Tasaciones con Apoyo Satelital (“SATAS”)
- ♦ migración de aplicación que provee productos cartográficos
- ♦ migración de aplicación, manejo de casos y edición de parcelas
- ♦ migración de edición para municipios con ArcGIS
- ♦ adiestramientos y apoyo técnico post migración que le dará apoyo a Cartografía en su migración del ambiente de ESRI y ArcGIS

Con esta iniciativa estamos a la par con otras jurisdicciones en los Estados Unidos y de países latinoamericanos y europeos que comparten con el mundo la valiosa información que recopilan en sus respectivos catastros. Se puede acceder desde su computadora o dispositivo móvil a través de la página web del CRIM, www.crimpr.net.

A continuación, presentamos los proyectos realizados en el año fiscal 2018-2019:

PROYECTO DE FOTOGRAMETRÍA Y PLANIMETRÍA DEL CATASTRO DE PUERTO RICO

En noviembre de 2018 se culminó la entrega de la totalidad de las imágenes al CRIM. Estas son imágenes aéreas de zonas urbanas y rurales con sus elementos de planimetría. El producto final comprende de un conjunto de orto imágenes en dos resoluciones e información planimétrica correspondientes al año 2017 incluyendo:

- ♦ huella de los edificios
- ♦ cementerios
- ♦ piscinas
- ♦ tanques de almacenamiento de agua
- ♦ torres de comunicaciones
- ♦ letreros digitales

El Catastro Digital es una herramienta de gran utilidad para el desarrollo de obra pública

Con este esfuerzo se logra obtener información actualizada, teniendo como objetivos principales:

- ♦ visualización del terreno más reciente
- ♦ herramientas con información para toma de decisiones
- ♦ análisis comparativo de cambios entre dos períodos

Esta información le permite al CRIM tener un proceso más eficiente en la imposición de valores contributivos.

UNIDADES DE ASESORÍA Y APOYO ADMINISTRATIVO



FINANZAS

La Oficina de Finanzas ofrece colaboración y apoyo al Director Ejecutivo en la formulación e implementación de la política pública concerniente a las actividades de generación de ingresos, inversión y financiamiento

Asimismo, se ofrece apoyo a los diferentes departamentos operacionales y oficinas administrativas en los procesos de administración de presupuesto, desembolsos de fondos públicos y contabilidad del CRIM.

La Oficina está compuesta por tres áreas funcionales:

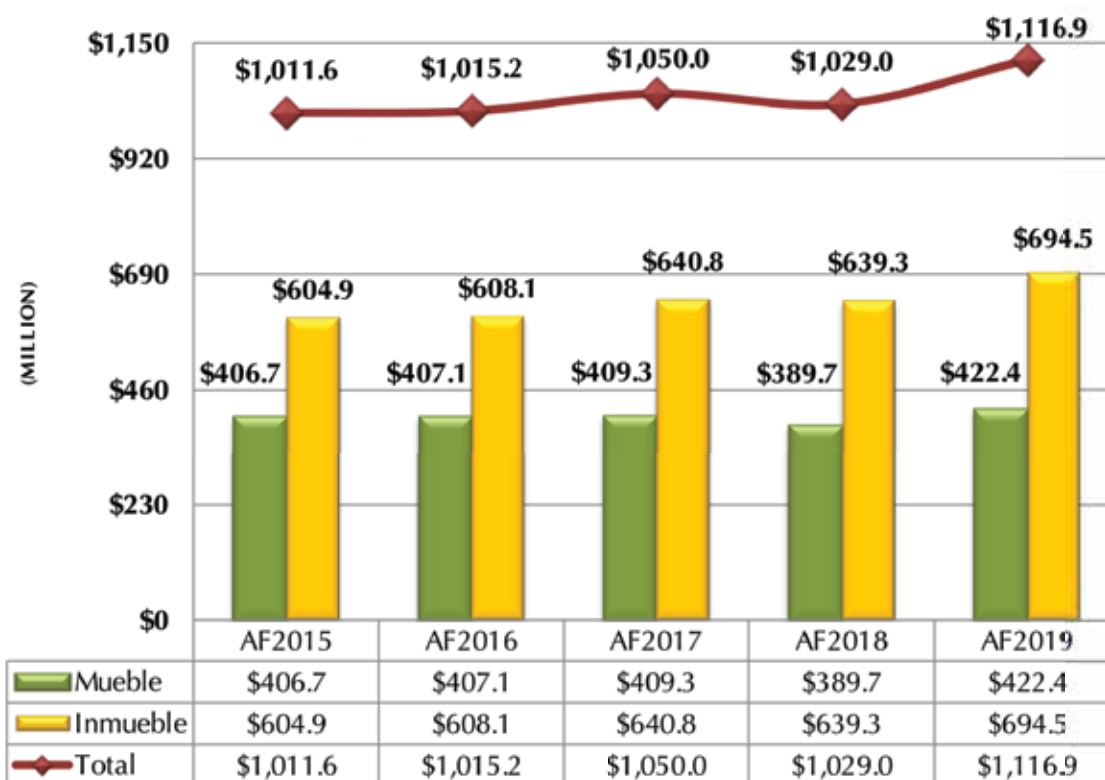
- ◆ Gerencia y Presupuesto
- ◆ Finanzas Administrativas
- ◆ Finanzas Municipales

FINANZAS MUNICIPALES

Hemos contabilizado la contribución sobre la propiedad mueble e inmueble recaudada en este año fiscal, por un total de \$1,116.99 millones, de los cuales \$694.5 millones corresponde a la propiedad inmueble y \$422.4 millones a la propiedad mueble. En total, representa un aumento de \$87.9 millones en cobros de contribución en comparación con el año fiscal anterior. De este aumento, \$55.2 millones corresponde a los recaudos de la propiedad inmueble y \$32.7 millones a la propiedad mueble.

La contribución sobre la propiedad aumentó por \$87.9 millones en comparación con el año fiscal 2017-2018

La siguiente gráfica presenta un comparativo de los recaudos de la contribución sobre la propiedad mueble e inmueble en los pasados cinco (5) años:



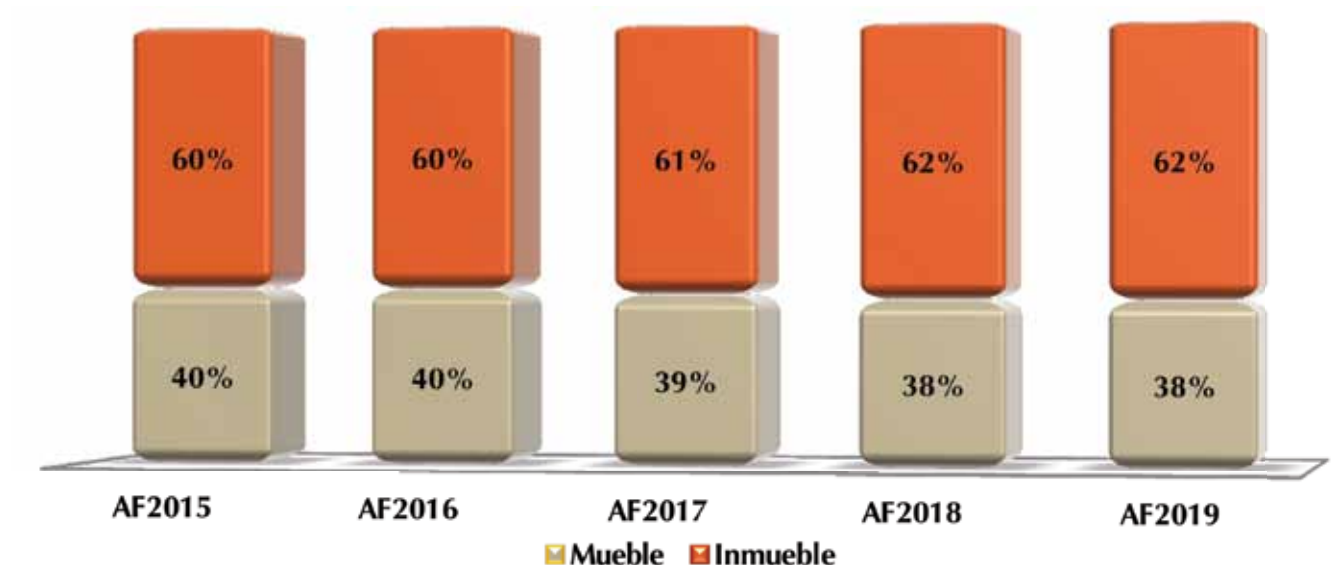


Figura 1. Recaudos por concepto de contribución sobre la propiedad.

En este año fiscal 2018-2019 hubo un incremento en el cobro de la contribución sobre la propiedad, luego de superar el efecto de los huracanes Irma y María, en septiembre de 2017.

En términos porcentuales, los recaudos por concepto de contribución sobre la propiedad inmueble ha incrementado en mayor proporción durante los pasados tres (3) años...

...en relación con el total de recaudos de la contribución, según se muestra en la Figura 1 (arriba).



Realizamos la liquidación anual, distribuyendo a los municipios \$840.2 millones, según se desglosa a continuación:

Contribución Municipal sobre la Propiedad Mueble e Inmueble:

◆ Contribución Básica	\$354,936,453
◆ Contribución del 1% y 3% al Fondo de Equiparación	\$254,495,748

Asignaciones Estatales:

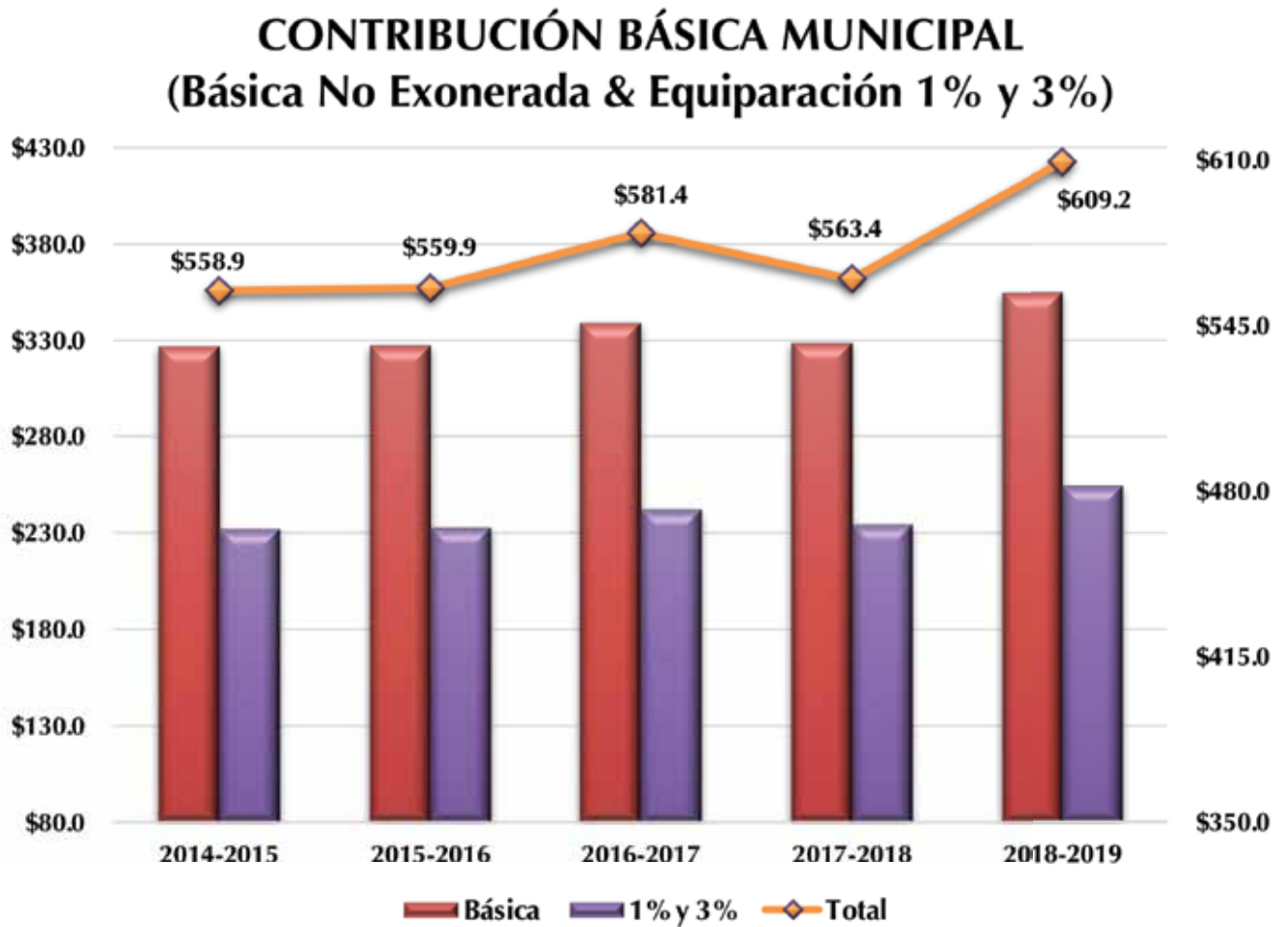
◆ 2.5% de las Rentas Internas Netas (Subsidio) <i>Asignación presupuestaria aprobada por la Asamblea Legislativa en el Presupuesto General</i>	\$175,730,000
◆ 35% de los Ingresos Netos de la Lotería Electrónica	\$55,087,267

Total Ingresos Distribuidos	\$840,249,468
------------------------------------	----------------------

Los fondos de la Contribución Básica Municipal es la porción de la contribución que se distribuye a los municipios. Estos fondos provienen del 6% de la contribución sobre la propiedad inmueble y el 4% de la contribución sobre la propiedad mueble. Este porcentaje forma parte de la tasa contributiva de cada municipio.

La Contribución Básica Municipal se compone de la porción Básica No Exonerada, que se distribuye directamente a los municipios; y Equiparación 1% y 3%, la cual representa el 3% de la contribución básica municipal de la propiedad inmueble y el 1% de la contribución básica municipal de la propiedad mueble. La porción de Equiparación 1% y 3% se distribuye a los municipios a través del Fondo de Equiparación.

Presentamos la gráfica que muestra como ha ido en aumento los ingresos de la contribución que van directo a los municipios, en los pasados cinco (5) años:



Este año fiscal, la Contribución Básica Municipal aumentó por \$45.8 millones en comparación con el año anterior, lo que representa un incremento de 7.5% de los ingresos para los municipios.

La Contribución Adicional Especial (CAE) es un recurso fundamental en los municipios para la realización de obras capitales y mejoras permanentes.

Durante el año 2018-2019 hubo un incremento de \$32.5 millones en comparación con el año anterior, para un total de \$383.9 millones; lo que representa un aumento de un 8.47% comparado con el recaudo del CAE en el año anterior, según se muestra en la Figura 2 (al lado):

Contribución Adicional Especial (CAE)

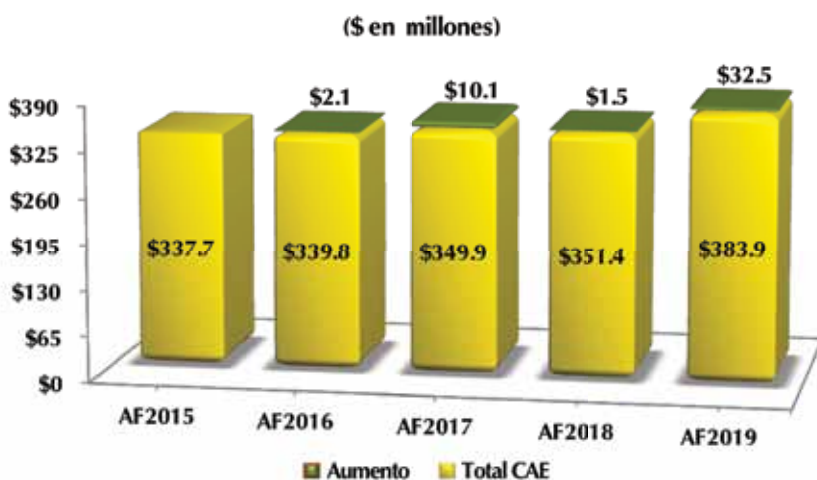


Figura 2.

Fondo Redención de Deuda Estatal

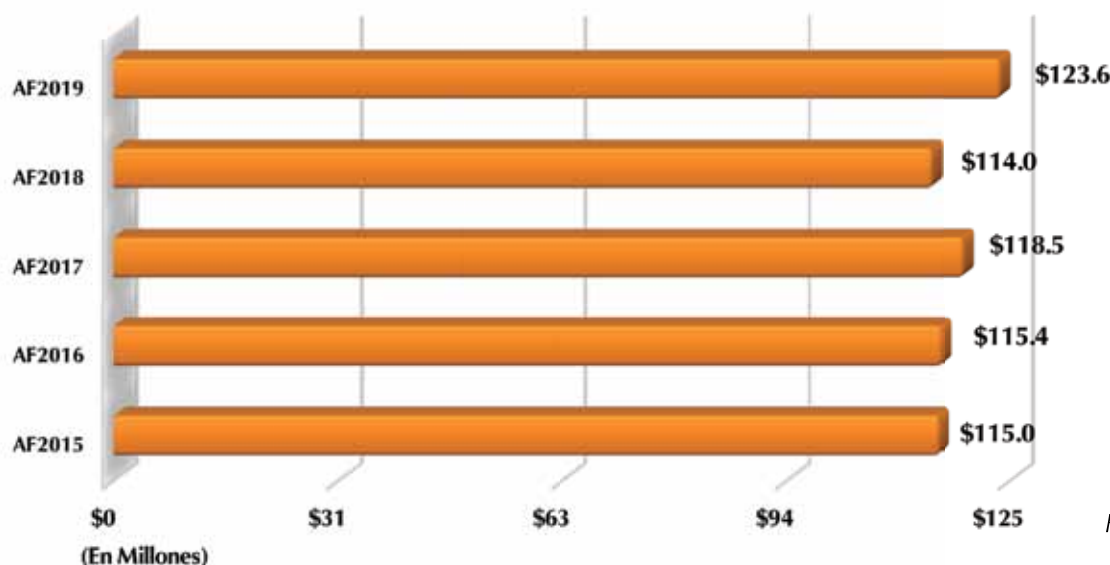


Figura 3.

El Fondo de Redención de la Deuda Estatal (FRDE) es la aportación municipal al gobierno central, equivalente al 1.03% de la tasa contributiva, según establecido en la Ley Núm. 80-1991.

El recaudo de la contribución destinado para el FRDE aumentó por \$9.6 millones, equivalente a un 8% en comparación con el año anterior.

A continuación, presentamos un resumen de las fuentes de ingresos que recibe el CRIM y el desglose de la distribución a municipios y fondos de redención:

FUENTES DE INGRESO MUNICIPAL (\$ MILLONES)

Asignación Gobierno Estatal	2015	2016	2017	2018	2019
Rentas Internas Netas	\$ 227.58	\$ 227.58	\$ 227.58	\$ 219.73	\$ 175.78
Propiedad Exonerada	86.10	86.10	86.10	-	-
CAE Exonerado	30.19	30.19	30.19	-	-
Veinte Centésimas	16.72	16.72	16.72	-	-
Subtotal	\$ 360.59	\$ 360.59	\$ 360.59	\$ 219.73	\$ 175.78
35% de Ingresos Netos de la Lotería Electrónica	50.00	51.19	45.95	36.65	55.09
Subtotal	\$410.59	\$411.78	\$406.54	\$256.38	\$230.87
Contribución Sobre la Propiedad					
Contribución Mueble e Inmueble	\$1,011.60	\$1,015.25	\$1,050.01	\$1,029.08	\$1,116.99
Total de Ingresos	\$1,422.19	\$1,427.03	\$1,456.55	\$1,285.46	\$1,347.86

DISTRIBUCIÓN DE INGRESOS (\$ MILLONES)

Fondos de Redención de la Deuda Pública Estatal y Municipal	2015	2016	2017	2018	2019
Fondo de Redención Deuda Municipal [Contribución Adicional Especial (CAE)]	\$ 367.82	\$ 370.03	\$ 380.17	\$ 351.42	\$ 383.93
Fondo de Redención Deuda Estatal	115.03	115.45	118.56	114.03	123.61
Fondo General	0.08	0.02	0.02	0.02	0.02
Subtotal	\$482.93	\$485.50	\$498.75	\$465.47	\$507.56
Liquidación a Municipios	\$939.26	\$941.53	\$957.80	\$819.99	\$840.30
Distribución Total	\$ 1,422.19	\$1,427.03	\$1,456.55	\$1,285.46	\$1,347.86

FINANZAS ADMINISTRATIVAS: PRESUPUESTO Y CONTABILIDAD

La fuente principal de ingresos del CRIM proviene del 5% de la contribución Básica Municipal que se genera de los cobros de los setenta y ocho (78) municipios. En este año fiscal, esta fuente de ingresos representó el 94% de los ingresos operacionales. Adicional, el CRIM genera ingresos por el cobro de otras actividades, tales como: acceso a entidades bancarias y financieras dedicadas a la industria de bienes raíces a los datos de propiedades de contribuyentes; venta de certificaciones y mapas; e intereses bancarios.

Para el año fiscal 2018-2019 el presupuesto operacional del CRIM ascendió a \$31.5 millones; de los cuales \$21.2 millones se invirtieron en nómina, lo que representa el 67% del ingreso; y \$8.6 millones se utilizaron en gastos operacionales recurrentes, lo que representa el 27% del ingreso.



ASESORAMIENTO LEGAL

La Oficina de Asesoramiento Legal del CRIM brinda servicios especializados, asesorando a la Junta de Gobierno y al Director Ejecutivo con relación a la formulación de la política pública, en los procesos legislativos y en los asuntos legales internos y externos. Además, tiene la función de velar que las transacciones en el CRIM cumplan con la legislación y reglamentación vigente. Es responsable de evaluar proyectos y anteproyectos de ley y asesora al Director Ejecutivo y a la Junta en cuanto a la política pública a adoptar con relación a estos. Asesora e interpone los remedios legales necesarios ante los tribunales y su comparecencia en representación del CRIM. En los procesos administrativos, revisa y redacta reglamentación necesaria para las operaciones del CRIM, emite opiniones legales y memorandos en asuntos en controversia que sean requeridas y prepara, otorga y notifica a la Oficina del Contralor de Puerto Rico los contratos de servicios profesionales.

Esta Oficina cuenta con personal especializado a tiempo completo para atender los casos de quiebras que se radican ante el Tribunal Federal de Distrito de los Estados Unidos.

A través de esta Oficina se logró establecer las siguientes iniciativas:

Embargos y ejecuciones de propiedades mediante el procedimiento de Apremio

Se han finiquitado casos de alta complejidad y se ha continuado el proceso de anotación de embargos en el Registro de la Propiedad, así como otros trámites legales pertinentes para poder realizar la venta en pública subasta de la propiedad.

ACUERDOS FINALES Y COMPROMISOS DE PAGO

Se ha asignado personal a tiempo completo para recibir, cotejar y analizar las solicitudes de acuerdos finales y compromisos de pago para asesorar al Comité de Acuerdo Finales en la aprobación de los casos. Esto ha significado un aumento en recaudos de deudas vencidas, que, de otra manera, posiblemente no se hubieran cobrado.

CÓDIGO MUNICIPAL

Se realizó la revisión del proyecto de ley que propone un Código Municipal para atemperar las leyes aplicables a los municipios. Este proyecto impacta directamente las leyes orgánicas del CRIM, Ley Núm. 80 y 83-1991. Esto conllevó una validación de las disposiciones de cada artículo y aspecto de las leyes vigentes, evaluarlos y discutirlos con diferentes áreas operacionales. El CRIM sometió sus recomendaciones de enmiendas o nuevo texto a la Asamblea Legislativa.

LEYES Y ÓRDENES APROBADAS

A continuación, se hace un desglose de las leyes, reglamentos y órdenes administrativas aprobadas en el año fiscal:

Enmiendas a la Ley Núm. 80-1991, conocida como “Ley del Centro de Recaudación de Ingresos Municipales”

- ♦ **Ley Núm. 125 de 10 de julio de 2018**
Para enmendar el Artículo 10 de la Ley 80-1991, según enmendada, conocida como “Ley del Centro de Recaudación de Ingresos Municipales”; añadir un inciso (13) a la Sección 5.2 del Artículo 5 de la Ley 8-2017, según enmendada, conocida como “Ley para

la Administración y Transformación de los Recursos Humanos del Gobierno de Puerto Rico”; enmendar el Artículo 2.02 de la Ley 26-2017, según enmendada, conocida como “Ley de Cumplimiento con el Plan Fiscal”; enmendar el inciso e, Artículo 3 y el Artículo 4 de la Ley 15-2017, según enmendada, conocida como “Ley del Inspector General de Puerto Rico”, a los fines de excluir al Centro de Recaudaciones de Ingresos Municipales de su aplicabilidad; y para otros fines relacionados.

- ♦ **Ley Núm. 164 de 28 de julio de 2018**
Para enmendar el inciso (i) del Artículo 7 de la Ley 80-1991, según enmendada, conocida como “Ley del Centro de Recaudación de Ingresos Municipales”, a los fines de establecer que la determinación para fijar tarifas para el recogido de desperdicios sólidos en áreas residenciales urbanas y rurales, sea mediante el voto afirmativo de la mayoría del total de los alcaldes miembros de la Junta de Gobierno; y para otros fines relacionados.
- ♦ **Ley Núm. 31 de 17 de mayo de 2019**
Para enmendar el Artículo 18 de la Ley 80-1991, según enmendada, conocida como “Ley del Centro de Recaudación de Ingresos Municipales”, a los fines de otorgarle a la Junta de Gobierno del CRIM la facultad para establecer procesos equitativos de distribución de los fondos municipales ante la

eliminación gradual que ha sufrido el Fondo de Equiparación por parte del Gobierno Central; establecer el año fiscal 2016-2017 como año base; y para establecer la vigencia de la enmienda.

Enmiendas a la Ley Núm. 83-1991, conocida como “Ley de Contribución Municipal sobre la Propiedad de 1991”

♦ Ley Núm. 257 de 10 de diciembre de 2018

Para enmendar las Secciones 1000.02, 1001.01, 1010.01, 1010.04, 1010.05, 1021.01, 1021.02, 1021.03, 1022.01, 1022.03, 1022.04, 1023.04, 1023.06, 1023.08, 1023.09, 1023.21, 1023.22, 1031.01, 1031.02, 1032.05, 1033.02, 1033.07, 1033.10, 1033.14, 1033.15, 1033.17, 1034.01, 1035.01, 1035.02, 1051.01, 1051.04, 1051.05, 1051.06, 1051.07, 1051.09, 1051.10, 1051.11, 1051.12, 1051.13, 1051.14, 1052.01, 1061.01, 1061.02, 1061.03, 1061.04, 1061.06, 1061.07, 1061.15, 1061.16, 1061.17, 1062.01, 1062.02, 1062.03, 1062.08, 1062.09, 1063.01, 1063.03, 1063.07, 1063.09, 1063.12, 1071.02, 1071.04, 1071.08, 1074.03, 1081.01, 1081.02, 1081.05, 1101.01, 1112.01, 1113.04, 1114.06, 1115.01, 2051.01, 3050.02, 3050.10, 3060.08, 4010.01, 4030.14, 4030.19, 4030.20, 4060.01,

4210.01, 5022.01, 5050.06, 6010.01, 6010.02, 6010.05, 6010.06, 6010.07, 6021.02, 6030.10, 6041.09, 6041.10, 6041.11, 6051.02, 6051.07, 6051.08, 6051.11, 6051.12, 6051.17, 6054.03, 6073.01, 6073.02, 6073.05, 6080.01, 6080.05 y 6080.06; derogar las Secciones 1032.06, 6073.03, 6073.04; añadir nuevas Secciones 1021.06, 1022.07, 1033.21, 1035.08, 1051.15, 1063.15, 1101.02, 1116.16, 1116.17, 1116.18, 4030.26, 6010.09, 6030.23, 6030.24, 6030.25, 6051.20, 6051.21, 6051.22 según enmendada, conocida como el “Código de Rentas Internas para un Nuevo Puerto Rico”; enmendar los incisos (a) y (c) del Artículo 6.03 de la Ley 83-1991, según enmendada; enmendar el inciso (B) del Artículo (24) de la Ley 272-2003, según enmendada; derogar la Ley 156-2015; enmendar el Artículo 208 de la Ley 210-2015, según enmendada, y enmendar la Ley Núm. 11 de 22 de agosto de 1933, según enmendada; a los fines de establecer el plan de simplificación del sistema contributivo; y para otros fines relacionados.

♦ Ley Núm. 6 de 12 de febrero de 2019

Para añadir un nuevo Artículo 3.01B y enmendar los Artículos 3.08 y 3.48 de la Ley 83-1991, según enmendada, conocida como “Ley de Contribución Municipal sobre la Propiedad”, a los fines de autorizar la tasación

sobre propiedad inmueble, contratada por el propietario; permitir deducir el monto de los gastos incurridos en la tasación del pago correspondiente de contribución sobre la propiedad inmueble; disponer que los propietarios comiencen a pagar contribuciones sobre la propiedad prospectivamente; y para otros fines relacionados.

♦ **Ley Núm. 19 de 6 de mayo de 2019**

Para enmendar el Artículo 5.01 de la Ley 83-1991, según enmendada, conocida como “Ley de Contribución Municipal sobre la Propiedad de 1991” a los fines de clarificar que la disposición especial que cobija la vivienda de alquiler, según descrita en este artículo, aplicará y se extiende mientras la propiedad elegible se mantenga en el mercado de alquiler y para otros fines relacionados.

Leyes en donde se hace referencia a la Ley Núm. 80-1991 y Núm. 83-1991, al CRIM y/o a alguna exención en la contribución sobre la propiedad:

♦ **Ley Núm. 253 de 6 de diciembre de 2018**

Para enmendar el Artículo VI, Sección 9, inciso (d) de la Ley 72-1993, según enmendada, mejor conocida como “Ley de la Administración de Seguros de Salud de Puerto Rico”, a los fines de dejar sin efecto, desde el 1ro de julio de 2018 al 30 de septiembre de 2019, la asignación presupuestaria requerida

a los gobiernos municipales de Puerto Rico; y para darles un crédito a los municipios por su aportación al “Pay as you Go”, según establecido en Ley Núm. 106-2017.

♦ **Ley Núm. 255 de 6 de diciembre de 2018**

Para enmendar el Artículo 4 de la Ley 203-2007, según enmendada, mejor conocida como “Carta de Derechos del Veterano Puertorriqueño del Siglo XXI”, a los fines de extender la vigencia de los derechos relacionados con las obligaciones contributivas en lo que respecta a la contribución sobre la propiedad; y para otros fines.

♦ **Ley Núm. 270 de 15 de diciembre de 2018**

Para derogar el Artículo 3 y sustituirlo por un nuevo Artículo 3; enmendar los incisos (a), (b), (d) y (e) y añadir un nuevo inciso (l) al Artículo 5; enmendar los incisos (c) y (e) del Artículo 6; enmendar los incisos (c), (e), (f), (h), (i) y añadir un nuevo inciso (j) al Artículo 7; enmendar el Artículo 8; añadir un nuevo Artículo 9; y reenumerar los Artículos 9, 10, 11, 12, 13, 14 y 15 como los Artículos 10, 11, 12, 13, 14, 15 y 16, respectivamente, de la Ley 96-2017, conocida como la “Ley para el Manejo de Estorbos Públicos y la Reconstrucción Urbana de Santurce y Río Piedras”, a los fines de clarificar disposiciones de dicha Ley; establecer que los compradores privados de propiedades susceptibles a ser

declaradas Estorbo Público puedan acogerse de los beneficios establecidos en la Ley 96-2017, sin necesidad de la intervención de la Administración de Terrenos; y para otros fines relacionados.

♦ **Ley Núm. 21 de 14 de mayo de 2019**

Para crear la “Ley de Desarrollo de Zonas de Oportunidad de Desarrollo Económico de Puerto Rico de 2019”, añadir una nueva Sección 1031.06 a la Ley 1-2011, según enmendada, conocida como el “Código de Rentas Internas para un Nuevo Puerto Rico; enmendar la Sección 1035.08 del Código de Rentas Internas para un Nuevo Puerto Rico; enmendar el Artículo 5 de la Ley 22-2012, conocida como la “Ley Para Incentivar el Traslado de Individuos Inversionistas a Puerto Rico”; enmendar los Artículos 3 y 4 de la Ley 185-2014, según enmendada, conocida como la “Ley de Fondo de Capital Privado”; y añadir un nuevo Artículo 84A en la Ley 17-2017, a los fines de promover los incentivos y un ambiente reglamentario favorable para establecer en Puerto Rico Zonas de Oportunidad cualificadas; y para otros fines relacionados.

♦ **Ley Núm. 29 de 23 de mayo de 2019**

Para establecer la “Ley para la Reducción de las Cargas Administrativas de los Municipios”, a los fines de reducir la carga administrativa de los municipios en los cargos que pagan al plan de salud del gobierno y el sistema “Pay as you Go”; para enmendar la Sección 9 del Artículo VI de la “Ley de la Administración de Seguros de Salud de Puerto Rico”, Ley 72-1993, según enmendada y el Artículo 3.5 de la “Ley para Garantizar el Pago a Nuestros Pensionados y Establecer un Nuevo Plan de Aportaciones Definidas para los Servidores Públicos”, Ley 106-2017, según enmendada, para viabilizar la reducción en dichas cargas; y para otros fines relacionados.

REGLAMENTOS

♦ **Reglamento Núm. 9094 del 18 de junio de 2019 con vigencia el 18 de julio de 2019**

Reglamento para facultar a los municipios de Puerto Rico a llevar a cabo todas las gestiones de cobro que realiza el Centro de Recaudación de Ingresos Municipales (CRIM) (Ley Núm. 77-2017)

ÓRDENES ADMINISTRATIVAS

- ♦ **Orden Administrativa Núm. 2018-07 del 19 de julio de 2018**

Conclusión prórroga automática del año contributivo 2017 para la radicación de la planilla de contribución sobre propiedad mueble

- ♦ **Orden Administrativa Núm. 2018-08 del 31 de julio de 2018**

Para extender el término de forma indefinida para solicitar retroactivamente los beneficios de la Ley Núm. 198 del 27 de septiembre de 2011 y la Orden Administrativa Núm. 2011-05, de forma que cualquier urbanizador, acreedor hipotecario o nuevo adquirente de propiedades de nueva construcción dedicadas a fines residenciales y las viviendas de una nueva construcción utilizadas para fines de arrendamiento que no fueron completadas puedan acogerse a dichos beneficios

- ♦ **Orden Administrativa Núm. 2018-09 del 22 de agosto de 2018**

Instrucciones a los contadores públicos autorizados sobre la certificación del estado de situación, la firma de la planilla mueble 2017 y la radicación de los estados financieros auditados con la radicación de la planilla de contribución sobre propiedad mueble para el año contributivo 2017

- ♦ **Orden Administrativa Núm. 2018-10**

Enmienda la Orden Administrativa 2018-09 para extender la radicación de la planilla de contribución sobre propiedad mueble del 2017 hasta el 31 de octubre de 2018

- ♦ **Orden Administrativa Núm. 2019-01 del 25 de enero de 2019**

Moratoria de noventa (90) días al pago de la contribución sobre la propiedad inmueble correspondiente al segundo semestre del año contributivo 2018-2019 a todo empleado del gobierno federal que ha dejado de percibir salario debido al cierre gubernamental

- ♦ **Orden Administrativa Núm. 2019-02 del 28 de enero de 2019**

Para extender el término de forma indefinida para solicitar retroactivamente los beneficios de la Ley Núm. 198 del 27 de septiembre de 2011 y la Orden Administrativa Núm. 2011-05, de forma que cualquier urbanizador, acreedor hipotecario o nuevo adquirente de propiedades de nueva construcción dedicadas a fines residenciales y las viviendas de una nueva construcción utilizadas para fines de arrendamiento que no fueron completadas puedan acogerse a dichos beneficios

- ♦ **Orden Administrativa Núm. 2019-03 del 8 de febrero de 2019**

Para extender el término de forma indefinida para solicitar retroactivamente los beneficios de la Ley Núm. 198 del 27 de septiembre de 2011 y la Orden Administrativa Núm. 2011-05, de forma que cualquier urbanizador o nuevo adquirente de propiedades de nueva construcción dedicadas a fines residenciales y las viviendas de una nueva construcción utilizadas para fines de arrendamiento que no fueron completadas puedan acogerse a dichos beneficios; y para otros fines.



SERVICIOS ADMINISTRATIVOS

Esta unidad administrativa es responsable de la planificación, dirección, coordinación, supervisión y evaluación de las actividades relacionadas con el funcionamiento y administración en el CRIM. Su rol principal es identificar nuevos proyectos, estrategias y programas dirigidos a promover procesos administrativos efectivos y eficientes, así como mejorar todos los procesos administrativos. Para esto, esta a cargo de los procesos de adquisición de bienes y servicios, control y custodia de activos fijos, flota vehicular, mensajería interna y externa, archivo inactivo y de la seguridad y mantenimiento de planta física. Adicional, se le ha delegado la identificación, evaluación, desarrollo y manejo de proyectos especiales.

Tiene como función identificar, evaluar y desarrollar nuevos proyectos, estrategias y programas...

Con el propósito de fomentar un ambiente seguro y adecuado, que permita ser efectivos en la práctica del recaudo de la contribución, donde se cumpla con la visión del CRIM, comenzamos la relocalización de las regiones de Bayamón y Ponce.

Con estos proyectos obtendremos los siguientes resultados:

- ♦ Mas accesibilidad para los contribuyentes
- ♦ Ahorros por más de \$55,000 anuales en comparación al arrendamiento de las facilidades anteriores
- ♦ Seguridad electrónica para el beneficio de los empleados y contribuyentes
- ♦ Facilidades disponibles sin costo adicional para horarios extendidos y fines de semana

Hemos completado un acuerdo de arrendamiento con el Municipio de Carolina para la relocalización de la región. Este nuevo acuerdo le genera al CRIM ahorros de \$144,000 anual en comparación a la facilidad donde ubica la Región actual; además de los beneficios de seguridad y accesibilidad. Asimismo iniciamos la relocalización de Arecibo y Mayagüez.

Los contribuyentes serán atendidos en estas nuevas instalaciones con todas las herramientas tecnológicas y de conectividad necesarias para ofrecer un mejor servicio, en un lugar accesible, con cómodo estacionamiento y en unas facilidades amplias y modernas.



En la Oficina Central establecimos proyecto de modernización de espacios según indicamos:

- ♦ Archivo Inactivo – Transferencia del archivo inactivo a almacenes exteriores y se implementó una plataforma de búsqueda para los mismos, permitiendo tener espacios para alquiler
- ♦ Alquiler y Administración de 14,000 pies cuadrados en áreas no utilizadas del edificio logrando un ingreso de \$196,000 anual
- ♦ Pintura, impermeabilización y sellado del edificio que ubica la Oficina Central
- ♦ Reparación y remodelación de pisos frontales y traseros en cumplimiento con la Ley ADA
- ♦ Mantenimiento de la subestación 38 KVA
- ♦ Remodelación de las facilidades del “Call Center”
- ♦ Relocalización de almacenes de suministros y propiedad
- ♦ Modificación y reprogramación de generadores de emergencia

En relación con los reglamentos administrativos del CRIM, hemos culminado la recopilación y revisiones de los reglamentos de Compras, Propiedad y Manejo de Flota Vehicular.

Además, iniciamos proyectos de modernización en las regiones, optimizando el sistema de turnos a un sistema de turnos “self-service”. Iniciamos el piloto en la región de Bayamón, resultando en un aumento considerable en la visibilidad de métricas del servicio al cliente.

Iniciamos proyectos de modernización en las regiones, optimizando el sistema de turnos a un sistema de turnos “self-service”



RECURSOS HUMANOS

En el CRIM servimos a una sociedad que enfrenta grandes cambios económicos, tecnológicos y sociales

Es por lo que consideramos al capital humano como el elemento esencial para mantener y mejorar la eficiencia de todos los procesos del CRIM.

La Oficina de Recursos Humanos es una fundamental en llevar a cabo la responsabilidad de guiar a los empleados a optimizar su rendimiento y maximizar su aportación para el logro de nuestros objetivos.

En este año fiscal se llevó a cabo la Academia de Supervisión y Liderazgo del CRIM. La misma se enfocó en dos objetivos principales:

1. Reforzar destrezas de supervisión y liderazgo del personal gerencial; y
2. alinear a los líderes con la estrategia de la organización

Este fue un evento de aprendizaje compulsorio, con la participación de 67 líderes, entre supervisores, gerentes y directores.

Se capacitaron en ocho (8) módulos, cubriendo los siguientes temas:

- ◆ El Rol del Supervisor en el CRIM
- ◆ SWOT Análisis y Metas SMART
- ◆ Toma de Decisiones en las Organizaciones
- ◆ Manejo Efectivo de Conflictos en el Lugar de Trabajo
- ◆ Manejo Efectivo del Cambio en las Organizaciones
- ◆ El Supervisor y el Manejo de la Disciplina
- ◆ Nuevo Proceso Evaluaciones de Desempeño 2019

Adicional, el programa de capacitación y desarrollo ofrecimos capacitación en los siguientes temas:

- ◆ Relevancia e importancia de la motivación en el ambiente laboral
- ◆ Manejo adecuado del tiempo
- ◆ Charla -Detox Optimista
- ◆ Campaña de Orientación sobre Sospecha Razonable Individualizada

En su rol administrativo, en la Oficina de Recursos Humanos se desarrolló varios proyectos con el objetivo de mantener una sana administración laboral en cumplimiento con los requerimientos administrativos y en beneficio del servicio público.

A continuación, se detallan los proyectos significativos:

- ◆ Emitimos doce (12) boletines en temas relacionados a auto ayuda, prevención y cuidado de salud física y emocional

- ◆ Realizamos ochenta y tres (83) visitas a las diferentes oficinas con el propósito de determinar y evaluar las necesidades de los empleados en cuanto a los deberes y obligaciones, beneficios, adiestramientos y cualquier otro aspecto
- ◆ Continuamos con el proyecto anual “Programa de Verano” contando con la participación de 56 jóvenes, hijos de los empleados del CRIM. Con este proyecto damos la oportunidad de tener una experiencia laboral

Participamos en varios eventos benéficos como:

- ◆ Realizamos el sueño “Make a Wish” de dos niños junto a sus familias
- ◆ Evento Alfombra de los Deseos celebrado en Ponce

AUDITORÍA INTERNA

La Oficina de Auditoría Interna (OAI) se rige por las normas establecidas en su carta constitutiva,...

...aprobada por el Comité de Auditoría de la Junta de Gobierno del CRIM, y de conformidad con las disposiciones contenidas en la Ley Núm. 80-1991.

La OAI es responsable de fiscalizar las transacciones de los fondos públicos y la propiedad, con independencia y objetividad, para determinar si se han realizado de acuerdo con la Ley y las reglamentaciones del CRIM. Esto se realiza a través de las auditorías regulares planificadas, investigaciones especiales, cumplimiento de las notificaciones de pérdida de propiedad y fondos públicos a la OCPR, asesoramiento a la Alta Gerencia y la Junta de Gobierno sobre procedimientos y reglamentación y los informes de planes de acciones de las auditorías internas y externas.



Además, la OAI da apoyo a la Gerencia en el cumplimiento de sus objetivos proporcionando un enfoque disciplinado y sistemático para evaluar y mejorar la efectividad de los procesos, gestión de riesgo, control y dirección.

En el año fiscal 2018-2019 la Oficina de Auditoría Interna realizó las siguientes intervenciones:

- ♦ Se realizaron cinco (5) auditorías regulares y especiales
- ♦ Se investigaron quince (15) querellas relacionadas a propiedad y fondos públicos
- ♦ Se atendieron sesenta y cuatro (64) requerimientos de las oficinas de Ética Gubernamental, Contralor de Puerto Rico, Área de Integridad Pública del Departamento de Justicia y el Departamento de Seguridad Pública

La OAI es responsable de fiscalizar las transacciones de los fondos públicos y la propiedad...

El personal de esta Oficina cumplió con mantener su desarrollo profesional, tomando 124.5 horas de educación continua a nivel grupal.

Los temas atendidos fueron en las siguientes materias:

- ◆ Técnicas de Auditoría Interna
- ◆ Recursos Humanos
- ◆ Ética Profesional
- ◆ Evaluaciones de Riesgo
- ◆ Investigaciones de Fraude
- ◆ Gerencia Organizacional



**COMMONWEALTH OF PUERTO RICO
MUNICIPAL REVENUE COLLECTION CENTER**

BASIC FINANCIAL STATEMENTS

**For The Fiscal Year Ended June 30, 2019
(With The Additional Report Required By
The *Government Auditing Standards*)**



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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Governing Board Municipal Revenue Collection Center San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Municipal Revenue Collection Center (the Center)** as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Tax Amnesty Fund	Unmodified
Special Revenue Fund	Unmodified
Agency Fund	Unmodified

Basis for Qualified Opinion on the Governmental Activities

Noncompliance with GASB Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No.68”* and GASB Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2018. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center’s governmental activities has not been determined. Also, the Center’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Center’s pension plan administrator has not provided the Center with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (Center’s measurement date), necessary to comply with the requirements of GASB No. 75 *“Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions”*, as of June 30, 2018. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Center, as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Center, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 5-16 and 76, respectively, be presented to supplement the basic financial statements. Such information, although is not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the Center's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards (Continued)

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2019

Stamp No. 2758864 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Municipal Revenue Collection Center (the Center) provides an overview of the Center's operational as well as financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Center's performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding.

The MD&A is an element of the reporting model adapted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

ORGANIZATION STRUCTURE

The Center is a municipal entity with legal personality, separate and independent from the Commonwealth of Puerto Rico, created in 1991 as part of the Municipal Reform. The Center is led by an Executive Director, who is appointed by the Governing Board. The Executive Director of the Center exercises the functions and powers provided by law, as well as those delegated to it by the Governing Board.

The Governing Board is comprised of eleven (11) members, from which nine (9) are mayors, the Governor's Advisor on Municipal Affairs, and the President of the Government Development Bank for Puerto Rico ("GDB"). Act No. 109-2017, known as Law for the Restructuring of the Debt of the Government Development Bank for Puerto Rico, amended Act No. 80-1991 for define that GDB will act as a designated trustee until AAFAF assume these functions or appoint a financial institution to assume these functions, which must occur on or before the closing date (as such term is defined in the Act). Effective on August 2017 the Executive Director of AAFAF assumed representation on CRIM's Governing Board.

CENTER'S SERVICES

The Center has one (1) Central Office and nine (9) Regional Offices located throughout the Island. The offices are located in Aguada, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce and San Juan. These offices serve taxpayers, in addition to carrying out technical functions, such as real estate appraisals, machinery and property valuation, among others.

The Center provides fiscal services to all the municipalities including but not limited to notification, assessment and collection of both personal and real property taxes. To offer the service it renders, its principal source of revenue is derived from up to five percent (5%) of the municipal property tax collections.

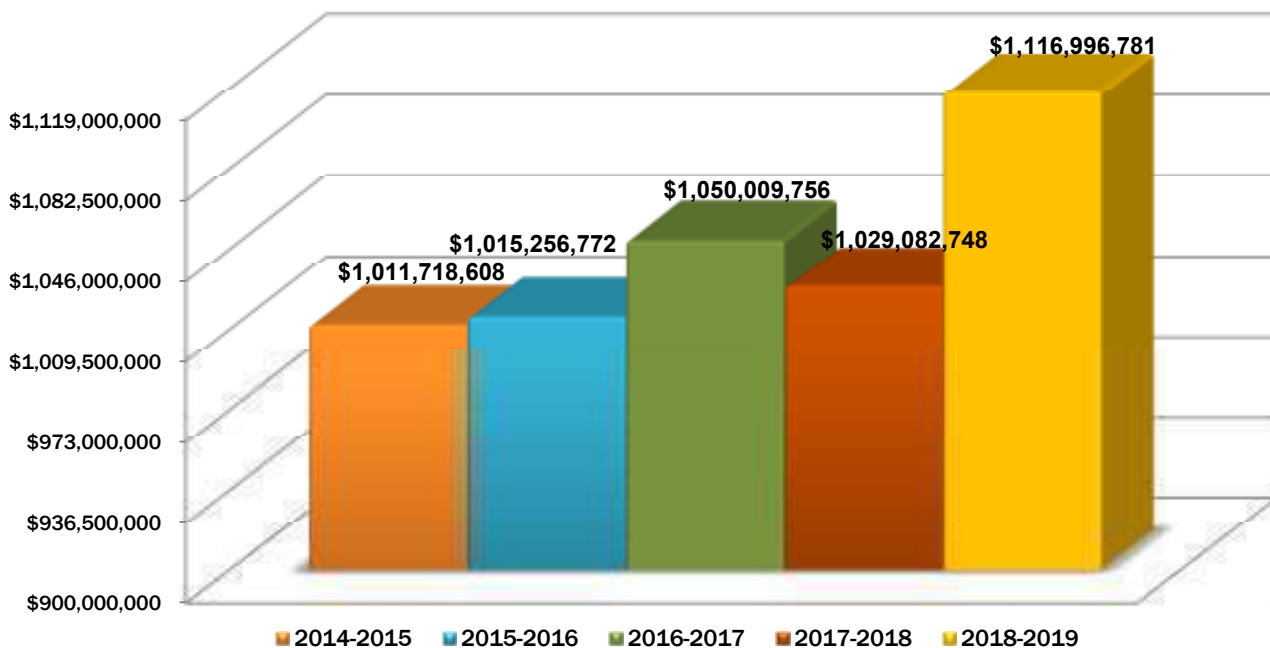
OPERATIONAL HIGHLIGHTS

The Center experienced an increase on its tax collections from \$1,029.0 million in the fiscal year 2017-2018 to \$1,116.9 million in the current fiscal year, representing an increase of \$87.9 million. This increase in collections was caused by the effect of several initiatives and projects that management began during current fiscal year, such as:

- 1) Decentralization of the operational areas and empowerment of the regions:
 - a. Redefinition of the Quality Department: Central Operations Department monitoring quality of approved transactions
 - b. Restructuring Final Agreement Procedures
- 2) Establishment of units for taxpayer services:
 - a. Corporate Services and Banking (SCB) unit - to assist financial institutions, property portfolio managers, investors, cooperatives, property title insurers and law firms that support mortgage management.
 - b. "CRIM Al Día" program for the purpose of working service requests arrears in the regional offices. During current fiscal year, the staff in charge was able to complete 28,000 services requests.

The efforts of these initiatives were reflected in the increased collections of the real property tax. The amounts do not include assignments from the Commonwealth of Puerto Rico and revenues awarded from the Puerto Rico Additional Lottery System.

The following chart show how the Center has increased its revenue collections during the last five (5) fiscal years:



OPERATIONAL HIGHLIGHTS (CONTINUED)

During the fiscal year 2018-2019 the Collections and Executions Department continued their effort of collecting delinquent balances by mailing collection letters and bank executions. The following table shows the actions' results and trend of collections:

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Notifications, Bank Executions and Annotations on the Property Registry	7,215	27,235	6,202	2,441	1,321
Collections	\$6,995,818	\$8,347,741	\$7,859,505	\$5,115,267	\$2,252,418

In order to be more efficient and provide a faster and more reliable service to our taxpayers, many of the Center's services were provided through the Center's customer service phone line and through its website. With these tools the Center resolve thirty-three thousand one hundred forty-three (33,143) questions and consultations. In addition, a total of two hundred sixty thousand sixty-seven (2,667) taxpayer's questions were received and resolved through the use of electronic mail. The phone calls and email consultations were primarily to online system access, owners or address changes, certifications, account balance, payments and general orientation. These services resulted on collections of approximately \$693.7 million during the fiscal year 2018-2019.

The following table shows a summary of transactions and the amount collected:

COLLECTIONS	TRANSACTIONS	AMOUNT
Website	212,791	\$678,541,869
IVR	10,642	6,404,420
Phone Line	6,952	6,246,419
Collections and Executions	161	2,252,418
Certifications	120,867	300,575
TOTAL	351,413	\$693,745,701

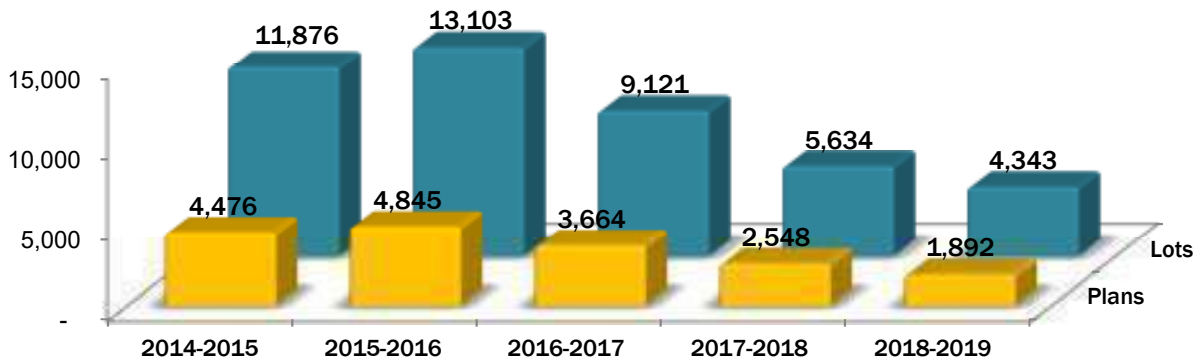
During the fiscal year 2017-2018, the Center updated electronic filing program of the Personal Property Tax Return, requiring all taxpayer filled Tax Return through Personal Property Portal. During fiscal year 2018-2019 there were approximately eighty-one thousand one hundred and seventy-three (89,173) returns electronically filed and the related collections amounted to \$422.4 million.

Other efforts have been made to increase property assessment. The Center continued to incorporate all the outstanding land parcels in the system known as the Digital Cadastre of Puerto Rico (the Cadastre). The Cadastre is a mechanism by which the productivity and effectiveness of the Center were improved. The inclusion of new parcels to the Cadastre had the effect of expanding the tax base, thus creating the opportunity to increase collections.

OPERATIONAL HIGHLIGHTS (CONTINUED)

The following chart depicts the segregations and parcels completed during the last five (5) years:

Segregations and Parcels Created



During the fiscal year 2018-2019, the Cadastre is kept up to date, registering the cases in the same year that taxpayer fill the request for segregations or record of plots.

FINANCIAL HIGHLIGHTS

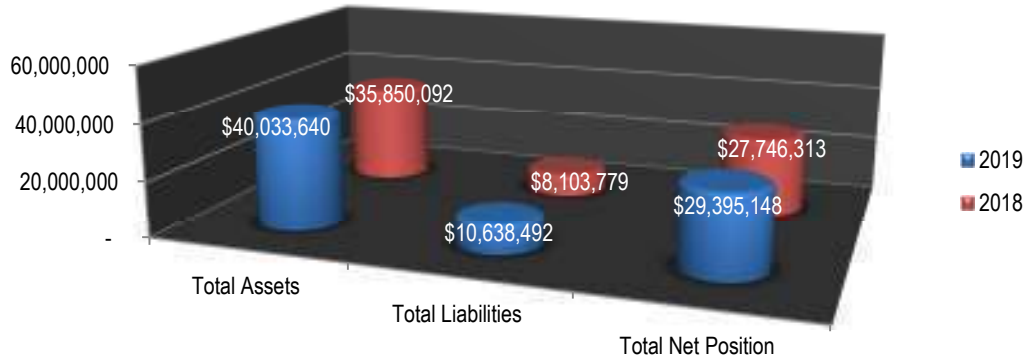
Government-wide highlights

Net Position – The total assets of the Center exceeded its total liabilities for fiscal year ended June 30, 2019 by \$29,395,148 as presented in “total net position”. Of this amount, the unrestricted portion amounted to \$12,034,725 and \$17,360,423 is related to the net investment in capital assets. The Center’s total net position increased by \$1,648,835 in comparison with the prior fiscal year balance.

Condensed Statements of Net Position	2019	2018	Change	%
Current and other assets	\$ 22,673,217	\$ 18,715,543	\$ 3,957,674	21.15%
Capital assets	17,360,423	17,134,549	225,874	1.32%
Total assets	40,033,640	35,850,092	4,183,548	11.67%
Current and other liabilities	5,081,749	3,259,071	1,822,678	55.93%
Long-term liabilities	5,556,743	4,844,708	712,035	14.70%
Total liabilities	10,638,492	8,103,779	2,534,713	31.28%
Total net position	\$ 29,395,148	\$ 27,746,313	\$ 1,648,835	5.94%

FINANCIAL HIGHLIGHTS (CONTINUED)

The following chart presents a comparison of total assets, total liabilities and total position of the Center for the fiscal years ended June 30, 2019 and 2018.



Governmental Fund highlights

Government Funds – Fund Balances - As of June 30, 2019, the Center's Governmental Funds reported a combined ending fund balance of \$18,009,035, representing an increase of \$2,124,030 in comparison with the prior year balance. Of this total amounts, \$7,626,508 represents unassigned fund balance; \$4,281,152 are committed to specific purposes as established by the Governing Board, such as improvement to the telecommunications system, computer servers virtualization, migration to internet protocol, relocation of the San Juan-Guaynabo office and general maintenance and painting; and \$6,101,375 are assigned for payment of contracts and obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements, which include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Basic Financial Statements

The basic financial statements include two (2) kinds of financial statements that present different views of the Center: the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements which provide more details about the information reported in the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements

The Government-Wide Financial Statements provide a broad view of the Center's operations in a manner similar to a private sector business. The statements provide both short and long-term information about the Center's financial position, which assists the Center's in assessing the Center's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-Wide Financial Statements include two (2) statements:

- **Statement of Net Position** – presents all the Center's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the Center's net position may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.
- **Statement of Activities** – presents information showing how the Center's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave).

Governmental Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Center, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. The Fund Financial Statements focus on individual parts of the Center's governmental funds, reporting the Center's operations in more detail than the Government-Wide Statements. All of the funds of the Center can be divided into two (2) categories. It is important to note that these fund categories use different accounting approaches and will be interpreted differently. The two (2) categories of funds are the following:

- **Governmental Funds Financial Statements** – Governmental Funds are used to account for essentially the same activities reported in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements focus on near-term inflows and outflows of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified-accrual basis of accounting.

These statements provide a detailed short-term view of the Center's finances that assists in determining whether there will be adequate resources available to meet the current needs of the Center. Because the focus of the Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Fund Financial Statements (Continued)

Both, the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities. These reconciliations are presented on the page immediately following each Governmental Fund Financial Statement.

The Center has three (3) Governmental Funds: 1) the General Fund, 2) the Tax Amnesty Fund and 3) the Special Revenue Fund. The Basic Governmental Funds Financial Statements can be found immediately following the Government-Wide Financial Statements.

- **Fiduciary Funds** – These funds are used to account for resources held for the benefit of the municipalities. Fiduciary Funds are not reflected in the Government-Wide Financial Statements because the resources of these funds are not available to support the Center's own activities. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds. They use the accrual basis of accounting. The Center's Fiduciary Funds record the assets held for distribution by the Center as an agent for the municipalities. The Statement of Fiduciary Net Position-Agency Fund can be found immediately following the Governmental Funds Financial Statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The notes to the financial statements can be found immediately following funds financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS–VARIANCES

The following summarizes the main variances in the Government-Wide Financial Statements totals:

Statement of Net Position

Total assets increased by \$4,183,548 (11.67%) in comparison with the prior fiscal year. This increase was caused mainly by an increase of current and other assets amounting to \$3,957,674 and an increase in capital assets of \$225,874.

Total liabilities increased by \$2,534,713 (31.28%) in comparison with the prior fiscal year. This is the net effect of: (a) an increase in current liabilities of approximately \$1,822,678; and (b) an increase in long-term debt by \$712,035 during the year ended June 30, 2019.

Total net position increased by \$1,648,835 (from \$27,746,313 in 2018 to \$29,395,148 in 2019), mainly as a result of the change in net position in the Statement of Activities. Below, we summarize the main reasons for such increase.

GOVERNMENT-WIDE FINANCIAL ANALYSIS–VARIANCES (CONTINUED)

Statement of Activities

Total revenues increased by \$2,858,372 (9.60%) in comparison with prior fiscal year. This effect was caused by the increase in revenues related to property tax administrative fees amounting to \$2,778,368 and a net increase in other revenues of \$80,004.

Total expenses increased by approximately \$4,771,303 (17.18%) in comparison with the prior fiscal year. The main reason for the increase in expenses was the increase salaries and fringe benefits of \$1,339,885, the increase in professional and consulting services by \$2,615,194, and the net increase in other expenses of \$816,224.

Also, transfers from other funds increased by \$1,560,914 compared with the prior year. There were no transfers during 2018.

As a result of the variances discussed above, the total change in net position decreased by \$352,017 (from \$2,000,852 in 2018 to \$1,648,835 in 2019).

The following table shows the condensed statements of activities of the Center for the fiscal years ended June 30, 2019 and 2018.

Condensed Statements of Activities	2019	2018	Change	%
General revenues:				
Property tax administrative fees	\$ 30,576,370	\$ 27,798,002	\$ 2,778,368	9.99%
Sales of certifications and maps	760,957	591,157	169,800	28.72%
Interest and miscellaneous income	209,881	61,272	148,609	242.54%
Service charges to banks	1,069,058	975,950	93,108	9.54%
Federal grant	12,596	344,109	(331,513)	(96.34)%
Total revenues	32,628,862	29,770,490	2,858,372	9.60%
Expenses:				
Taxpayers' and technical services	17,588,912	15,296,214	2,292,698	14.99%
Administration	14,952,029	12,473,424	2,478,605	19.87%
Total expenses	32,540,941	27,769,638	4,771,303	(17.18)%
Transfers from other funds	1,560,914	-	1,560,914	100.00%
Change in net position	1,648,835	2,000,852	(352,017)	(17.59)%
Net position, beginning of year	27,746,313	25,745,461	2,000,852	7.77%
Net position, end of year	\$ 29,395,148	\$ 27,746,313	\$ 1,648,835	5.94%

GOVERNMENT-WIDE FINANCIAL ANALYSIS—VARIANCES (CONTINUED)**Statement of Activities (Continued)**

The following table shows the Center's expenses by type for the years ended June 30, 2019 and 2018.

<u>Expenses by type</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Salaries and fringe benefits	\$ 22,371,495	\$ 21,031,610	\$ 1,339,885	6.37%
Professional and consulting services	3,992,473	1,377,279	2,615,194	189.88%
Travel and representation	382,413	297,933	84,480	28.36%
Depreciation	859,894	930,083	(70,189)	(7.55)%
Supplies	189,064	70,136	118,928	169.57%
Rent	1,454,159	1,348,453	105,706	7.84%
Repairs and maintenance	1,224,278	815,346	408,932	50.15%
Utilities	876,445	780,183	96,262	12.34%
Printed forms	212,954	185,422	27,532	14.85%
Postage	451,222	484,028	(32,806)	(6.78)%
Insurance	181,963	195,848	(13,885)	(7.09)%
Trainings	34,560	5,592	28,968	518.03%
Interest	128,894	168,878	(39,984)	(23.68)%
Loss on retirement of assets	137,002	-	137,002	100.00%
Other	44,125	78,847	(34,722)	(44.04)%
Total expenses	<u>\$ 32,540,941</u>	<u>\$ 27,769,638</u>	<u>\$ 4,771,303</u>	17.18%

FINANCIAL ANALYSIS OF THE CENTER'S GOVERNMENTAL FUND

The focus of the Center's Governmental Funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Center's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. There are \$4,281,152 of fund balance committed to indicate that it is not available for new spending because it has already been committed to cover special projects according to the resolutions of the Governing Board, and there are \$6,101,375 assigned to liquidate contracts and purchase orders.

The General Fund is the operating fund of the Center. At the end of the current fiscal year, unassigned fund balance was \$6,929,186 while the total fund balance reached \$17,311,129. The Center's General Fund balance increased by \$2,732,607 million during the fiscal year ended June 30, 2019.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Center's General Fund final budget amounted to \$33,808,819, an increase of \$4,603,031 when compared with the original budget. For the fiscal year 2019, the general fund actual expenditures amounted to \$29,852,658, which represents \$3,956,161 less than the final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Center's capital assets for its government activities as of June 30, 2019 amounted to \$36,863,872 with an accumulated depreciation of \$19,503,449, resulting in a book value of \$17,360,423. This investment in capital assets includes land, construction in progress, building, building improvements, office equipment, computer hardware and software and vehicles.

Debt administration

The Center's long-term debt obligations consist of accrued compensated absences. Information of these debts can be found in Note 7 to the Basic Financial Statements.

ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75

The GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68", requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 73. The Center's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not provided to the Center the financial and technical information necessary for the proper recognition and reporting of its net pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the Center could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the Center's financial statements do not report or disclose the required information for its pension plan.

In addition, the Center's pension plan administrator has not provided the Center with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (Center's measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

ECONOMIC FACTORS

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is 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.

Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

ECONOMIC FACTORS (CONTINUED)

As more fully explained in **Notes 2** and **14** to the financial statements, the Governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measures implemented to this end:

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

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2, known as “*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors’ agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the FAFAA shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every board, committee, commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5, known as “*Puerto Rico Financial Emergency and Fiscal Responsibility Act*” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.

This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico.

- ***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico***

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico (“the Board”) provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor’s request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board’s members, economists, consultants, attorneys and Governor’s representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA’s requirements. On March 11, 2017, the Governor submitted to the Board a revised fiscal plan. On March 13, 2017, the Board approved and certified this final plan.

ECONOMIC FACTORS (CONTINUED)

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

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017, another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA") and, on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

- ***Restructuring Support Agreement ("RSA") under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico***

On May 15, 2017, the FAFAA and the Government Development Bank of Puerto Rico announced a Restructuring Support Agreement ("RSA") 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 RSA terms are to be consummated pursuant to a consensual restructuring of the GDB's liabilities using a Title VI Qualifying Modification. Once approved by the requisite financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB's stakeholders a recovery based on the claim type.

As described on **Note 2**, on March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

CONTACTING CRIM FINANCIAL MANAGEMENT

The Center's financial statements are designed to present users with a general overview of its finances. Questions concerning any of the information provided in this report or requests or additional information should be addressed to the Municipal Revenue Collection Center at PO Box 195387, San Juan, PR 00919-5387.

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 13,016,264
Accounts receivable	416,736
Due from other funds	<u>9,240,217</u>
Total current assets	<u>22,673,217</u>
Noncurrent assets:	
Nondepreciable assets	6,940,980
Depreciable assets	<u>10,419,443</u>
Capital assets, net of accumulated depreciation	<u>17,360,423</u>
 Total assets	 <u>\$ 40,033,640</u>
 Liabilities:	
Current portion of:	
Capital lease obligations	\$ 94,497
Accrued compensated absences	323,070
Accounts payable and accrued expenses	<u>4,664,182</u>
Total current liabilities	<u>5,081,749</u>
Noncurrent liabilities:	
Capital lease obligations, net of current portion	348,603
Accrued compensated absences, net of current portion	5,120,640
Claims and judgments	<u>87,500</u>
Total noncurrent liabilities	<u>5,556,743</u>
 Total liabilities	 <u>10,638,492</u>
 Net position:	
Net investment in capital assets	17,360,423
Restricted	-
Unrestricted	<u>12,034,725</u>
 Total net position	 <u>29,395,148</u>
 Total liabilities and net position	 <u>\$ 40,033,640</u>

	Governmental Activities
Expenses:	
Taxpayers' and technical services	\$ 17,588,912
Administration	14,952,029
Total expenses	<u>32,540,941</u>
General revenues:	
Property tax administrative fees	30,576,370
Sales of certifications and maps	760,957
Service charges to banks	1,069,058
Interest and miscellaneous income	209,881
Federal grant	12,596
Total general revenues	<u>32,628,862</u>
Excess of revenues over expenses	87,921
Other financing sources	
Transfer from other funds	1,560,914
Total other financing sources	<u>1,560,914</u>
Change in net position	1,648,835
Net position, beginning of fiscal year	<u>27,746,313</u>
Net position, ending of fiscal year	<u>\$ 29,395,148</u>

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 12,053,749	\$ 682,598	\$ 279,917	\$ 13,016,264
Accounts receivable	339,947	-	76,789	416,736
Due from other funds	9,669,856	15,486	-	9,685,342
Total assets	\$ 22,063,552	\$ 698,084	\$ 356,706	\$ 23,118,342
Liabilities and fund balances				
Liabilities				
Accounts payable and accrued liabilities	4,664,004	\$ 178	\$ -	\$ 4,664,182
Due to other funds	88,419	-	356,706	445,125
Total liabilities	4,752,423	178	356,706	5,109,307
Fund balances				
Restricted	-	-	-	-
Committed	4,281,152	-	-	4,281,152
Assigned	6,100,791	584	-	6,101,375
Unassigned	6,929,186	697,322	-	7,626,508
Total fund balances	17,311,129	697,906	-	18,009,035
Total liabilities and fund balances	\$ 22,063,552	\$ 698,084	\$ 356,706	\$ 23,118,342

Total Fund Balances-Governmental Funds \$ 18,009,035

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not financial resources and, therefore,
are not reported in the funds. In the current period, these amounts are:

Non-depreciable assets	\$ 6,940,980	
Depreciable capital assets	29,922,892	
Accumulated depreciation	<u>(19,503,449)</u>	
Total capital assets		17,360,423

Some liabilities are not due and payable in the current period and therefore, are not
reported in the funds. Those liabilities consist of:

Capital leases	443,100	
Reserve for claims and judgments	87,500	
Accrued compensated absences	<u>5,443,710</u>	
Total long-term liabilities		<u>(5,974,310)</u>

Total Net Position of Governmental Activities \$ 29,395,148

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
Revenues:				
Property taxes administrative fees	\$ 30,576,370	\$ -	\$ -	\$ 30,576,370
Sales of certifications and maps	760,957	-	-	760,957
Service charges to banks	1,069,058	-	-	1,069,058
Interest and miscellaneous income	194,395	15,486	-	209,881
Federal grant	-	-	12,596	12,596
Total revenues	32,600,780	15,486	12,596	32,628,862
Expenditures:				
Taxpayers' and technical services	17,472,006	624,063	-	18,096,069
Administration	13,957,081	-	12,596	13,969,677
Total expenditures	31,429,087	624,063	12,596	32,065,746
Excess of revenues over expenditures	1,171,693	(608,577)	-	563,116
Other financing sources (uses):				
Transfers in	1,560,914	-	-	1,560,914
Total other financing sources (uses)	1,560,914	-	-	1,560,914
Net change in fund balances	2,732,607	(608,577)	-	2,124,030
Fund balances, beginning	14,578,522	1,306,483	-	15,885,005
Fund balances, ending	\$ 17,311,129	\$ 697,906	\$ -	\$ 18,009,035

Net Change in Fund Balances - Total Governmental Funds \$ 2,124,030

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets additions recorded in the current period. 740,427

Depreciation expense on capital assets is reported in the government-wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds. (859,894)

Loss on retirement of capital assets is reported in the government-wide Statement of Activities, but it does not require the use of current financial resources. Therefore, it is not reported as an expenditure in the governmental funds. (137,002)

Long-term accrued compensated absences are reported in the government-wide Statement of Activities, but they do not require the use of current financial resources. Therefore, long-term accrued compensated absences were amounts not reported as expenditures in the governmental funds. The following amount represents the net change in the long-term accrued compensated absences from prior year. (257,969)

Repayment of the principal balance of the obligation under capital lease is recorded as expenditure in the governmental funds, but reduces long term-debt balance of the obligation under capital lease in the government-wide Statement of Net Position. 39,243

Change in Net Position of Governmental Activities \$ 1,648,835

	Citizen's Participation	Property Taxes	Municipal Redemption
Assets			
Cash and cash equivalents	\$ -	\$ 197,132,300	\$ 388,172,214
Due from:			
Taxpayers-real property, net of allowance for uncollectables of \$3,014,433,609	-	660,156,777	-
Taxpayers-personal property, net of allowance for uncollectables of \$370,036,631	-	94,555,364	-
Municipalities, net of allowance for uncollectables of \$41,088,095	-	185,488,516	-
Commonwealth, net of allowance for uncollectables of \$8,313,077	-	26,436,139	-
Others	4,000	-	-
Total assets	\$ 4,000	\$ 1,163,769,096	\$ 388,172,214
Liabilities			
Due to:			
Commonwealth Government	\$ -	\$ 306,518,136	\$ -
Municipalities-real property	-	660,156,777	-
Municipalities-personal property	-	94,555,364	-
Municipalities-restricted for debt service	-	-	388,172,214
Municipalities-other	4,000	93,294,603	-
Other funds	-	9,244,216	-
Total liabilities	\$ 4,000	\$ 1,163,769,096	\$ 388,172,214

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Municipal Revenue Collection Center (the Center) was created by Act No. 80 of August 30, 1991, as amended, as part of the Municipal Reform Legislation. The Center was created for the purpose of establishing a separate and independent municipal entity from the Commonwealth of Puerto Rico (the Commonwealth), to collect, receive and distribute the property tax revenues of the Municipalities. Prior to the enactment of this Act, the Commonwealth, through the Department of Treasury, accounted for these revenues. The Center is exempt from the payment of taxes on its revenues and properties.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 has been considered and there are no agencies or entities which should be presented together with the Center's Financial Statements.

B. Basis of Accounting

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and/or expenditures during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Center has defined cash and cash equivalents to include cash on hand, demand, deposits, and short-term investments with original maturities of three (3) months or less from the date of acquisition.

Capital assets

Capital assets include land, construction in progress, building, building improvements, and equipment, and are reported in the government-wide financial statements.

The Center defines capital assets as assets, which have an initial individual cost of more than \$500 at date of acquisition and an estimated useful life of five (5) or more years. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their acquisition value / entry price (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date).

Additions, improvements and other capital outlays that significantly extend the useful life of capital assets are capitalized. The costs of normal maintenance and repairs that do not add value to the assets or materially extend assets lives are not capitalized; instead, they are expensed as incurred.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Capital assets (Continued)***

Capital assets accounted for in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements. Also, capital assets are depreciated using the straight-line method over the assets estimated life. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization expense amounts reported in the financial statements. Land and construction in progress are non-depreciable assets. The estimated useful lives of capital assets are as follows:

<u>Types of Capital Assets</u>	<u>Years</u>
Building/Infrastructures	40
Building/Infrastructure improvements	40
Office equipment	5
Computer hardware and software	5
Vehicles	5
Office equipment under capital lease	5

Deferred outflows/inflows of resources

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

In the government-wide Statement of Net Position, the Municipality reports deferred outflows/inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred outflows/inflows of resources (Continued)

2. **Implementation of GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68” and GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”** – Amounts reported for changes in the calculation of the total pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality’s contributions and proportionate share of contributions; and e) Municipality’s contributions subsequent to the measurement date.

In the governmental funds Balance Sheet, the Municipality reports deferred inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts are recognized as unavailable revenue from the following sources: property taxes, sales and use taxes and intergovernmental revenues collected or to be collected after the availability period. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the FFS.

Long-term obligations

In the Government-Wide Financial Statements, special and other long-term obligations are reported as noncurrent liabilities in the Statement of Net Position. The liabilities reported in this statement include the Center’s long-term liabilities for the acquisition of office equipment, and the long-term accrued compensated absences.

Compensated absences

Compensated absences are those absences for which employees will be paid, such as a vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Center and its employees is accrued as employees earn its rights to benefits. Until February 3, 2017, employees earned their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated absences (Continued)

The excess was payable, if not used by the employee, by June 30 of the next fiscal year. Employees earned sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the excess is payable if not used by employee by March 31 of the next fiscal year.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. This Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

On July 10, 2018, the Law No. 125 was enacted in order to recognize the CRIM as a municipal entity. In accordance with this Law, the CRIM's employees are not subject to Law No. 8 described before. Based on the Law No. 125, the CRIM established that all employees will earn their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees. The days in excess will not be paid, and will be lost if not used by the employees.

Also, employees will earn sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the days in excess will not be paid, and will be lost if not used by the employees.

The Center accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the Government-Wide and the Governmental Funds' Financial Statement presentations.

Claims and judgments

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

Those cases that, as a result of the settlement a property tax credit is awarded, such a credit is recorded by management as a contra-account in the property tax receivable balance.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for pension costs

The Center's employees are covered by the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The Commonwealth of Puerto Rico is considered to be the sponsor of the ERS, a multi-employer defined contribution plan.

Effective on July 1, 2017, the Center and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Paygo payments are recorded as expenditures\expenses in the financial statements. Accordingly, at that date, the Center shall implement the requirements set forth by GASB Statement No. 73 "*Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68*"

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Center starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided to the Center with the required information to implement the referred accounting pronouncement. The Center's contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). Paygo payments are recorded as expenditures\expenses in the financial statements.

C. Measurement Focus

The Center's basic financial statements include both Government-Wide (Statement of Net Position and Statement of Activities) and Governmental Funds Financial Statements (Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balances).

Government-Wide Financial Statements

The Government-Wide Financial Statements report information of all the non-fiduciary activities of the Center. For the most part, the effect of inter-fund activity has been removed from these Government-Wide Financial Statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and, 2) contributions that are restricted to meeting the operational or capital requirements of a specific function. Management fees and other items not properly included among program revenues are reported instead as general revenues.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the Fiduciary Fund Financial Statement. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenue to be available if it is collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. Separate Fund Financial Statements are provided for Governmental Funds and Fiduciary Funds, even though the later are excluded from the Government-Wide Financial Statements. Major individual government funds are reported as separate columns in the fund financial statements.

D. Basic Financial Statements Presentation

Financial reporting presentation

Financial information of the Center is presented in this report as follows:

1. Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the Center's financial activities.
2. The Government-Wide Financial Statements report information of all of the non-fiduciary activities of the Center. The Statement of Net Position presents the Center's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:
 - a. ***Net investment in capital assets*** – Consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basic Financial Statements Presentation (Continued)

Financial reporting presentation (Continued)

- b. **Restricted net position** – The restricted component of net position consists of restricted assets (subject to restrictions beyond the Center’s control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
- c. **Unrestricted net position** – Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

The Government-Wide Statement of Activities was prepared following the option available for single-program governments using a single column reporting expenses (by functions) first followed by revenues (by major sources). The difference between these amounts is the change in net position and followed by beginning and ending net position.

d. **Net position flow assumption**

Sometimes, the Center will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Center’s policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

- 3. Governmental Funds Financial Statements focus on information about the Center’s General Fund, Tax Amnesty Fund and Special Revenue Fund.
 - a. **General Fund:** The General Fund is the operating fund of the Center and it is used to account for all financial resources except those required to be accounted for in another fund.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**D. Basic Financial Statements Presentation (Continued)*****Financial reporting presentation (Continued)***

b. **Tax Amnesty Fund:** During the fiscal year ended June 30, 2014, the Legislature of the Commonwealth enacted Act No. 145 of December 9, 2013 (Act No.145), as amended, which established a Tax Incentive Plan, effective for 100 days. The Plan consisted of an exemption from payment of certain interest, penalties and surcharges accumulated over real property taxes imposed before the fiscal year 2013-2014, over personal property taxes imposed before 2013, and the requirement made to the Center of eliminating from its accounting books certain tax debts. Also, the Act No. 145 established that the Center will create a special fund in which the collections under the above mentioned plan will be deposited. Ninety five percent (95%) of such collections were assigned and distributed to the municipalities during the fiscal years ended June 30, 2014, 2015 and 2016. Also, five percent (5%) of such collections were assigned to the Center during those years up to \$5,000,000. Since the fiscal year ended June 30, 2017, one hundred percent (100%) of the collections were assigned and distributed to the municipalities. The transactions and balances of the five percent (5%) assigned to the Center are reported in the Tax Amnesty Fund.

On May 16, 2014, the Legislature of the Commonwealth enacted the Act No. 55 of 2014, as an amendment to the Act No. 145. This Act stated that the Center shall distribute collections under Tax Amnesty Act no later than ninety (90) days after the tax amnesty expiration date.

c. **Special Revenue Fund:** This fund accounts for the proceeds of specific revenue source, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provide funds, or by outside parties. This fund accounts for substantially all federal monies received by the Center.

4. The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund. The Schedule of the Center's Proportionate Share of the Net Pension Liability and the Schedule of Center's Contributions are also required supplementary information required by GASB, but are not presented as further explained in Note 12 of the financial statements.

5. The Statement of Fiduciary Net Position is reported using the economic measurement focus and the accrual basis of accounting, similar to the Government-Wide Financial Statements described above. The Center reports the following fiduciary funds:

a. **Agency fund:** This fund reports resources held by the reporting government in a purely custodial capacity. There are three major agency funds reported by the Center as follows:

i. **Property Tax Fund:** Pursuant to Act No. 80 of August 30, 1991, as amended, the Center is empowered to bill and collect property taxes in order to distribute property tax collections to the municipalities.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ii. **Municipal Redemption Fund:** This fund is used to service the debt of the municipalities.
- iii. **Citizens' Participation Fund:** The Center is responsible for receiving and distributing funds assigned by the Commonwealth for citizens' participation in the municipality development program, (the Program). The Program was established by Act No. 2 of July 9, 1973, as amended, and is funded through legislative appropriations. The funds of the Program are distributed to the municipalities based on some specific criteria established by the Act.

6. Notes to the financial statements

The emphasis in the fund financial statements is on major funds. The model defined in GASB No. 34 establishes criteria for determination of a major fund. In summary, the Center reports as major funds, the General Fund, the Tax Amnesty Fund and the Special Revenue Fund.

E. Fund Balances –Governmental Funds

The Governmental Funds Financial Statements present fund balances classifications that comprise a hierarchy that is based primarily on the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the Governmental Fund Financial Statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either: a) not in spendable form or b) are legally or contractually required to be maintained intact. The Center has currently no funds under this classification as there are no items that are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either: (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Center's Governing Board (the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Center's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Center's Executive Director through the budgetary process.

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances –Governmental Funds (Continued)

- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

Fund balance flow assumptions

The Center would typically use restricted balance first, followed by committed resources, and the assigned resources, as appropriate opportunities arose, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

F. Financial Risk

The Center carries commercial insurance to cover casualty, theft, tort claims and other losses. The cost of insurance for the year ended June 30, 2019 amounted to \$181,963. The current insurance policies have not been cancelled or terminated.

G. Reconciliation of Government-Wide and Fund Financial Statements

The basic financial statements of the governmental funds includes a reconciliation between the total fund balances of the governmental funds and the total net position of governmental activities as reported in the Government-Wide Statement of Net Position. The two (2) elements of the reconciliation are:

- long-term liabilities, including compensated absences, loans and notes payable, that are not due and payable in the current period, and therefore, are not reported in the governmental funds, and
- capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.

Likewise, the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds includes a reconciliation between the excess (deficiency) of revenues over (under) expenditures and the change in net position as reported in the Government-Wide Statement of Activities.

The reconciliation explains, among other things, that the governmental funds report capital outlays as expenditures, but are capitalized and their costs allocated over their estimated useful life in the Government-Wide Financial Statements.

2-CASH AND CASH EQUIVALENTS**A. Deposits**

The Center is authorized to deposit only in bank institutions approved by the Department of Treasury of the Commonwealth. Such deposits should be kept in separate accounts in the name of the Center. It is the Center's policy to have all bank account openings approved by the Board. During the year ended June 30, 2019, the Center invested its funds in interest-bearing accounts.

B. Custodial Credit Risk

Custodial credit risk – deposits: is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center maintains cash deposits in two (2) commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided (up to \$250,000) by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Center are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Center's name. Total deposits in these commercial banks, at June 30, 2019, amounted to \$597,122,347.

Deposits in commercial banks

The Center has the following depository accounts in two (2) commercial banks. All deposits are carried at cost plus accrued interest, if any.

<u>Depository Account</u>	<u>Bank Balance at June 30, 2019</u>
Deposits insured by the FDIC	\$ 500,000
Deposits subject to the collateral requirements	<u>596,622,347</u>
Total deposits	<u><u>\$ 597,122,347</u></u>

Deposits in Governmental Bank

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2, known as "*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*" in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA) and to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico. Among other things, it shall be the only entity authorized to enter into creditors' agreements, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision. In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended.

2-CASH AND CASH EQUIVALENTS (CONTINUED)**B. Custodial Credit Risk (Continued)****Deposits in Governmental Bank (Continued)**

It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5, known as "*Puerto Rico Financial Emergency and Fiscal Responsibility Act*" to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the "Moratorium Act") and of certain Executive Orders issued by the Governor of Puerto Rico that provided for emergency periods and a temporary stay of litigation.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures. If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth [other than those listed in point three (3)]; 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services.

2-CASH AND CASH EQUIVALENTS (CONTINUED)

B. Custodial Credit Risk (Continued)

Deposits in Governmental Bank (Continued)

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

On March 13, 2017, the GDB submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021). The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be "nonperforming" (i.e. Commonwealth's appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans. However, no mechanism by which the projected excess cash flows should be allocated to the GDB depositors and other creditors has been established. This situation puts at risk the collection and accessibility of municipal funds deposited at the GDB, including certificates of deposit and investment funds, "CAE" and "IVU" Municipal Administration Fund deposits and federal programs funds.

GDB Restructuring support agreement

On May 15, 2017, FAFAA and the GDB announced a Restructuring Support Agreement ("RSA") with a significant portion of the Bank'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).

2-CASH AND CASH EQUIVALENTS (CONTINUED)**B. Custodial Credit Risk (Continued)****GDB Restructuring support agreement (Continued)**

The RSA terms are to be consummated pursuant to a consensual restructuring of the GDB's liabilities using a Title VI Qualifying Modification. Once approved by the requisite number of financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB's stakeholders a recovery based on the claim type.

On June 30, 2017, the GDB submitted a revised Fiscal Plan to the Financial Oversight and Management Board incorporating the RSA framework and was approved by the entity on July 12, 2017. On July 14, 2017, the Board authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement ("RSA") under the relevant provisions of Title VI. As indicated earlier, the RSA provides for the organized and consensual restructuring of a substantial portion of the 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"). Following the certification of GDB's fiscal plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which provides for the restructuring of a significant portion of GDB's financial obligations ("Participating Bond Claims" as defined by the RSA), through a Qualifying Modification pursuant to Title VI of PROMESA. As a result of the impact of Hurricanes Irma and Maria over Puerto Rico in September 2017, the Oversight Board requested to the covered instrumentalities to submit a proposed amendment of its fiscal plans. In addition, on March 27, 2018 AAFAF announced certain amendments to the RSA after reaching an agreement with a significant portion of the RSA parties.

The amended RSA became effective pursuant to its terms on April 6, 2018, after obtaining the signature of the requisite number of holders of GDB's Participating Bond Claims (as defined in the RSA). The Commonwealth's Legislature approved the Act No. 109 of August 24, 2017 in order to establish the legislative framework for the restructuring transaction. Pursuant to this Act, as amended by Act No. 147 of July 18, 2018, the GDB Debt Recovery Authority was created as a statutory public trust and a governmental public instrumentality of the Commonwealth of Puerto Rico for the purpose of (1) issuing Restructuring Bonds in order to (a) implement the Restructuring Transaction, (b) facilitate compliance with the GDB Fiscal Plan, and (c) facilitate the funding of essential government or public services by the Government of Puerto Rico and (2) owning and managing the Restructuring Property.

On August 9, 2018 GDB and AAFAF used the solicitation statement to commence the solicitation of votes seeking creditor approval of the Qualifying Modification, which was concluded in September 2018 with the approval of eligible voters. The U.S. District Court for the District of Puerto Rico approved the Qualifying Modification on November 7, 2018, which was finally closed and executed on November 29, 2018 ("closing date"). In general, the holders of the Participating Bond Claims undertake a financial restructuring through a Qualifying Modification by receiving on closing date New Bonds having a face amount equal to \$550 for each \$1,000 claim (exchange rate of 55%), paying semiannual interest of 7.5% and maturing on 2040.

2-CASH AND CASH EQUIVALENTS (CONTINUED)

B. Custodial Credit Risk (Continued)

GDB Restructuring support agreement (Continued)

GDB will transfer to the new Issuer as New Bond Collateral the Recovery Authority Assets which includes its Municipal, Commonwealth and Public Corporation's loan portfolio, the beneficial interest on certain GDB retained assets, real estate owned assets and cash. As part of the amended RSA the following transactions, applicable to the municipalities, were executed:

Excess CAE settlement

GDB paid, in cash, to each municipality that has Excess CAE, an amount equal to 55% of the undisbursed Excess CAE for fiscal years 2015, 2016 and 2017 corresponding to such municipality. The remaining portion of 45% of such undisbursed Excess CAE shall be discharged and no such municipality shall have any further rights or claims with respect thereto and GDB shall have no further liability or obligation thereunder.

Recalculation of certain municipal obligations

- (a) The principal amount of any bond, note and/or loan held by GDB as of closing date was reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB on the Closing Date. Such application shall be effected by reducing any remaining installments of principal in inverse order of maturity and shall not otherwise affect the repayment schedule of the corresponding bond, note or loan.
- (b) Any remaining municipal deposits held at GDB as of the Closing Date were reduced, on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan relative to the type of corresponding deposit (CAE deposits against CAE loans, IVU deposits against IVU loans, and all undesignated deposits against outstanding principal balance of other loans in the following order: operational loans, revenue loans, IVU loans, then CAE loans).

Such application was effected in ascending order of outstanding loan balances. In cases where deposits are not enough to pay a loan in full, the application shall be effected by reducing installments of principal in inverse order of maturity without affecting the repayment schedule of the bond, note or loan. At November 29, 2018 (the closing date), GDB applied \$245,191,444 of CAE deposits to off-set the Municipalities' outstanding debt balances..

3-RECEIVABLES

The accounts receivable consist of an amount of \$339,947 due for services charged to financial institutions for access through the web to the Center's tax system and sale of maps. It also includes a portion of a claim submitted to the Federal Emergency Management Agency (FEMA) amounted to \$76,789 to mitigate the impact of the expenditures incurred due to the damages caused by the Hurricane Maria.

4-ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2019 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Tax Amnesty Fund</u>	<u>Total Governmental Funds</u>
Accounts payable	\$ 4,550,007	\$ 178	\$ 4,550,185
Accrued liabilities	113,997	-	113,997
Total	<u>\$ 4,664,004</u>	<u>\$ 178</u>	<u>\$ 4,664,182</u>

5-INTERFUND TRANSACTIONS

A. Due from/to other funds

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 356,706
	Fiduciary Fund – Property Tax Fund	9,313,150
		<u>\$ 9,669,856</u>
Tax Amnesty fund	General Fund	<u>\$ 15,486</u>
Fiduciary Fund:		
Citizens' Participation Fund	General Fund	\$ 4,000
Property Tax Fund	General Fund	84,419
		<u>\$ 88,419</u>

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
Fiduciary Fund	General Fund	Transfer of cash balance	\$ 1,560,914
Total			<u>\$ 1,560,914</u>

6 CAPITAL ASSETS

The Center's capital assets activity for the year ended June 30, 2019 is as follows:

Governmental Activities:	Balance at July 1, 2018	Additions	Retirements	Reclassifications	Balance at June 30, 2019
Capital assets, not being depreciated					
Land	\$ 6,715,000	\$ -	\$ -	\$ -	\$ 6,715,000
Construction in progress	8,658	223,683	-	(6,361)	225,980
Total capital assets, not being depreciated	\$ 6,723,658	\$ 223,683	\$ -	\$ (6,361)	\$ 6,940,980
Capital assets, being depreciated:					
Building/infrastructure	9,785,000	-	-	-	9,785,000
Building/infrastructure improvements	4,161,462	61,219	-	19,666	4,242,347
Office equipment	3,039,487	52,655	(149,544)	(538,146)	2,404,452
Capital lease	-	482,343	-	-	482,343
Computers hardware and software	5,025,457	402,870	(473,110)	524,841	5,480,058
Vehicles	208,144	-	-	-	208,144
Other equipment	7,320,548	-	-	-	7,320,548
Total capital assets, being depreciated	29,540,098	999,087	(622,654)	6,361	29,922,892
Less accumulated depreciation for:					
Building/infrastructure	(3,669,375)	(244,625)	-	-	(3,914,000)
Building/infrastructure improvements	(1,248,919)	(95,976)	26,211	(1,374)	(1,320,058)
Office equipment	(2,369,037)	(63,317)	1,032	131,956	(2,299,366)
Capital lease	-	(89,561)	-	-	(89,561)
Computers hardware and software	(4,398,407)	(340,705)	458,409	(130,582)	(4,411,285)
Vehicles	(122,921)	(25,710)	-	-	(148,631)
Other equipment	(7,320,548)	-	-	-	(7,320,548)
Total accumulated depreciation	(19,129,207)	(859,894)	485,652	-	(19,503,449)
Total capital assets, being depreciated, net	10,410,891	139,193	(137,002)	6,361	10,419,443
Governmental activities capital assets, net	\$ 17,134,549	\$ 362,876	\$ (137,002)	\$ -	\$ 17,360,423

The Center follows the provisions of GASBS Statement No. 42, Accounting and Financial Reporting for impairment of Capital Assets and for Insurance Recoveries, an amendment of GASBS Statement No. 34. State Statute establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The Center did not recognize any impairment losses during the fiscal year ended June 30, 2019.

7-LONG-TERM LIABILITIES

Long term liability activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Claims and judgments	\$ 87,500	\$ -	\$ 87,500	\$ -
Capital lease	-	443,100	443,100	94,497
Accrued compensated absences	5,185,741	257,969	5,443,710	323,070
Total long-term liabilities	<u>\$ 5,273,241</u>	<u>\$ 701,069</u>	<u>\$ 5,974,310</u>	<u>\$ 417,567</u>

The long-term liabilities are described as follows:

- 1. Claims and judgments** - Represents the estimated loss of legal cases to be paid subsequent to June 30, 2019. The awarded amount, if any, will be paid with unrestricted funds.
- 2. Accrued compensated absences** - The Government-Wide Statement of Net Position includes \$3,146,128 of accrued sick leave benefits, \$2,165,384 of accrued vacation benefits, and \$132,198 of accrued compensatory time, representing the Center's commitment to fund such costs from future operations.
- 3. Capital lease obligations** - The Center leases office equipment under a non-cancellable capital lease. The lease requires monthly payments of \$8,694 including interest at 4.60%.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 for the next five (5) years are as follows:

Year ending June 30,	Principal Amount	Interest Amount	Total
2020	\$ 94,497	\$ 18,881	\$ 113,378
2021	91,155	13,502	104,657
2022	95,106	9,551	104,657
2023	99,243	5,414	104,657
2024	63,099	989	64,088
Total	<u>\$ 443,100</u>	<u>\$ 48,337</u>	<u>\$ 491,437</u>

8-FUND BALANCES

Fund balances are classified as follow:

Fund Balance Classifications	General Fund	Tax Amnesty Fund	Total Governmental Funds
Committed			
Relocation of Ponce Office	\$ 231,500	\$ -	\$ 231,500
Relocation of Bayamón Office	413,844	-	413,844
General maintenance and painting	294,000	-	294,000
Information system program solution	144,000	-	144,000
Disaster recovery back-up plan	288,000	-	288,000
Image actualization – digital cadaster	2,909,808	-	2,909,808
Total committed	<u>4,281,152</u>	<u>-</u>	<u>4,281,152</u>
Assigned			
General, administrative and operational Expenditures	<u>6,100,791</u>	<u>584</u>	<u>6,101,375</u>
Unassigned	<u>6,929,186</u>	<u>697,322</u>	<u>7,626,508</u>
Total fund balances	<u>\$ 17,311,129</u>	<u>\$ 697,906</u>	<u>\$ 18,009,035</u>

General Fund

The General Fund has unassigned fund balance of \$6,929,186 at June 30, 2019. Also, the General Fund and the Tax Amnesty Fund have assigned funds consisting of balances reserved for outstanding contracts of \$6,100,791 and \$584, respectively. In addition, the General Fund has \$4,281,152 committed for special projects as determined by the Board's Resolutions.

9-AGENCY FIDUCIARY FUND

A. Agency Funds

Agency funds report resources held by the Center in a purely custodial capacity. The Center received resources from grants or other legally sources that are transferred to the Municipalities. The Center serves only as a cash conduit, that is, it has not administrative or direct financial involvement in the program, therefore these resources were reported in an agency fund as required by GASB Statements No. 34, and neither revenue nor expenditures are recorded, and no fund balance is required.

9-AGENCY FIDUCIARY FUND (CONTINUED)

A. Agency Funds (Continued)

The agency fiduciary fund is used to account for the: (a) citizens' participation fund, (b) municipal redemption fund and (c) property taxes fund, which are custodial in nature and do not involve measurement of results of operations. These agency funds are described below:

I. Citizens' Participation Fund

The Center is responsible for the receiving and distribution of funds assigned by the Commonwealth for Citizens' Participation in the Municipal Development Program (the Program). The Program was established by Act No. 81 of August 30, 1991, as amended by Act No. 84 of October 29, 1992 and is funded through legislative appropriations. Programs funds are distributed to the Municipalities based in certain specific criteria established by the Act.

II. Municipal Redemption Fund

The Municipal Redemption Fund is used to service the debt of the Municipalities. As described on **Note 11**, on November 29, 2018, the Center, FAFAA and GDB provided an amendment and full reformulation of the Center's deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee. Also, on November 29, 2018, the Center (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant to the provisions of the amended and restated "Deed of Trust No. 58". The FAFAA bank maintains records of outstanding municipal bonds and notes, makes principal and interest payments on their due dates, and notifies the Center of the amounts paid. The fund increases by the collections of the designated portions of real and personal property taxes. During the fiscal year 2018-2019, the Center collected for the Municipal Redemption Fund the amount of \$383,932,347. Total debt service payments amounted to \$312,328,507. Of such amount, principal and interest amounted to \$179,484,159 and \$132,844,348, respectively.

Outstanding notes and bonds of all Municipalities as of June 30, 2019 amounted to \$1,876,370,807. On July 1, 2019, the Center made a payment amounting to \$197,085,731, including principal of \$140,610,552 and interest of \$56,475,179.

III. Property Tax Fund

Real property taxes are assessed every July based on the taxable values as of January 1, using the estimated values of 1957. Assessed values of personal property are based on the book value at January 1 of each year. Property taxes are assessed for all properties located at the Commonwealth. Real property taxes are billed by the Center and are due in two (2) equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the related property tax return is required to be filed. Personal property tax payers are required to make four (4) quarterly estimated payments to pay the self-assess contribution on or before May 15.

9-AGENCY FIDUCIARY FUND (CONTINUED)

A. Agency Funds (Continued)

The property tax rates per annum vary among municipalities. For the fiscal year 2018-2019, the rates were comprised as follows:

	<u>Personal Property</u>		<u>Real Property</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
Basic	3.00%	4.00%	5.72%	6.00%
Contribution to debt redemption funds:				
State	1.03%	1.03%	1.03%	1.03%
Municipal	1.00%	5.50%	1.20%	5.50%

Total property tax rates varied from 5.80% to 10.33% for personal property and 8.03% to 12.33% for real property.

The property tax fund includes a total of approximately \$4.13 billion in gross receivables. Of these, approximately \$3.67 billion and \$464 million are included in the accounts of real and personal property taxes, respectively. Management has performed an in-depth analysis of the aged receivables and has determined to establish an allowance for uncollectible accounts of 82%.

The following table summarizes the accounts receivable from real and property taxes of the Center's Agency Fiduciary Fund.

<u>Account Type</u>	<u>Principal</u>	<u>Discounts</u>	<u>Interest</u>	<u>Penalties and Others</u>	<u>Total</u>	<u>Reserve</u>
Governmental agencies	\$ 8,532,220	\$ (3,005)	\$ 13,117,102	\$ 841,621	\$ 22,487,938	\$ 22,487,938
Bankruptcy	98,380,225	(4,369)	53,869,043	13,545,360	165,790,259	160,943,605
Remaining accounts receivable balance	<u>1,802,159,077</u>	<u>(675,105)</u>	<u>1,962,264,331</u>	<u>187,155,880</u>	<u>3,950,904,183</u>	<u>3,201,038,696</u>
Total	<u>\$ 1,909,071,522</u>	<u>\$ (682,479)</u>	<u>\$ 2,029,250,476</u>	<u>\$ 201,542,861</u>	<u>\$4,139,182,380</u>	<u>\$3,384,470,239</u>

B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

9-AGENCY FIDUCIARY FUND (CONTINUED)**B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico**

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2018-2019, the Center shall experience a reduction of revenues of \$41,126,340. This reduction represents a decrease of 16.04% in revenues compared to the prior fiscal year, as presented below.

<u>Revenue Source</u>	<u>2018-19 Budget</u>	<u>2017-18 Budget</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
2.5% NIR General Fund	\$ 175,730,000	\$ 219,730,000	\$ (44,000,000)	-20.02%
35% of Puerto Rico Additional Lottery System	39,520,000	36,646,340	2,873,660	7.84%
Total	<u>\$ 215,520,000</u>	<u>\$ 256,376,340</u>	<u>\$ (41,126,340)</u>	<u>-16.04%</u>

However, during the fiscal year 2018-2019, total actual revenues from the General Fund and the lottery amounted to \$230,871,267, representing a reduction of \$25,505,703, compared with prior year. Also, during fiscal year 2018-2019, basic property taxes increase by \$20,004,785 or 8.53% compared to prior fiscal year. Accordingly, during fiscal year 2018-19, total revenues experience a reduction of \$5,500,218 or 1.12%, as shown in the following table:

<u>Revenue Source</u>	<u>2018-19</u>	<u>2017-18</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
35% of Puerto Rico Additional Lottery System	\$ 55,087,267	\$ 36,646,340	\$ 18,440,927	50.32%
2.5% NIR General Fund	175,784,000	219,730,000	(43,946,000)	-20.00%
Sub-total	230,871,267	256,376,340	(25,505,073)	-9.95%
1% and 3% basic property taxes	254,495,748	234,490,963	20,004,785	8.53%
Total	<u>\$ 485,367,015</u>	<u>\$ 490,867,303</u>	<u>\$ (5,500,288)</u>	<u>-1.12%</u>

9-AGENCY FIDUCIARY FUND (CONTINUED)

C. Equalization Process

Act No. 80 establishes a fund known as the Equalization Fund (“Fondo de Equiparación”) for the purpose of ensuring that all municipalities receive at least the same amount of funds they received under prior Acts. The Equalization Fund includes the following:

- a) All funds derived from basic property taxes assessed by the Commonwealth prior to the 1991 Municipal Reform corresponding to a tax rate of 1% for personal property and a tax rate of 3% over the assessed value of all real property in Puerto Rico, not otherwise exempt. For the fiscal year ended June 30, 2018, this amount totaled \$254,495,748.
- b) 2.50% for the fiscal years after 2002-2003 of the net internal revenue of the Commonwealth General Fund. For the fiscal year ended June 30, 2019, this amount totaled \$175,784,000. As shown in the previous table, this amount was reduced by \$43,946,000 during fiscal year 2018-2019.
- c) An amount equal to 35% of the Puerto Rico Additional Lottery System net operational income as of June 30, 2019. For the fiscal year ended June 30, 2019, the funds certified to be received by the Center from the Treasury Department amounted to \$55,087,267.
- d) An amount equal to 2% of the state imposed penalties described under Secs. 5001 of Title 9, known as “Ley de Vehículos y Tránsito de Puerto Rico” to be distributed to municipalities by the Center. Funds under this item shall be collected and distributed to the corresponding municipalities directly by the Puerto Rico Treasury Department; therefore such amounts are not part of the Schedule of Property Tax Fund Liquidation for the fiscal year ended June 30, 2019.

Funds received under items (a) above are distributed to the corresponding municipalities. Funds received under items (b) and (c) above are distributed to the municipalities up to the amounts required to make each municipality’s revenues equal its revenues from these sources for the prior fiscal year (i.e., equalize the municipalities). Any excess funds received under items (b) and (c) above are distributed to the municipalities using the four (4) factors provided by Act No. 80 of 1991.

However, during the year certain provisions of Act No. 80 related to the distribution of funds to the municipalities were amended. Accordingly, the Center’s Governing Board has the authority to establish the formula to determine the bases for the equalization and distribution of funds.

As described before, during the fiscal year 2018-2019, the Center’s funds received from the General Fund and the lottery experience a reduction of \$25,505,073. Therefore, the funds collected during the fiscal year were not sufficient to provide an equalization of revenues for all the municipalities.

9-AGENCY FIDUCIARY FUND (CONTINUED)**C. Equalization Process (Continued)**

Accordingly, a deficiency of funds for the equalization of revenues resulted in the amount of \$32,161,806, as shown in the following table:

Funds required for the Equalization of revenues	\$ 515,528,920
1% and 3% basic property taxes	(254,495,748)
Excess of revenues over the equalization Requirements	1,999,901
2.5% NIR General Fund	(175,784,000)
35% of Puerto Rico Additional Lottery System	<u>(55,087,267)</u>
Deficiency of funds for equalization of revenues	<u>\$ 32,161,806</u>

Taking into consideration the deficiency of funds, the liquidation schedule for the fiscal year 2019 was prepared based on the following assumptions:

1. Computation of the equalization of funds for all municipalities using the results obtained during fiscal year 2016-2017 as base year.
2. Four (4) Municipalities which resulted with an excess of revenues over the equalization requirements of \$1,999,901, will receive such excess and were excluded from the distribution of the deficiency of funds for equalization of revenues.
3. The deficiency of funds for equalization of revenues of \$32,161,806 was distributed to the remaining seventy four (74) Municipalities based on the proportioned share of revenues of each municipality, using the results obtained during fiscal year 2017-2018.

9-AGENCY FIDUCIARY FUND (CONTINUED)

C. Equalization Process (Continued)

The Center distributed to the municipalities \$609,432,201, \$55,087,267, and \$175,784,000 during the fiscal year 2019, related to the basic municipal property tax, to the Electronic Lottery System and the Net Internal Revenues of the General Fund, respectively. As of June 30, 2019, the balance due from the Commonwealth of Puerto Rico related to the Electronic Lottery System amounted to \$26,436,139, which is related to the funds liquidation for fiscal year ended June 30, 2016, 2017 and 2018.

As described on **Note 17**, one of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the subsidies given to the Municipalities. Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2019-2020, the estimated reduction of revenues will be \$36,102,000. Accordingly, during fiscal year 2019-2020, the municipality's income will experience a reduction of 16.77%

D. Debt service provided by the Property Tax Fund

The property tax fund provides debt services to the municipal governments for the repayments of the following debts:

- **Line of credit agreements:** In accordance with Act No. 42 of January 29, 2000, the Board approved a line of credit with GDB amounting to \$166,449,961 to finance the accumulated debt due from municipalities up to June 30, 2000 for the excess of remittances received by the municipalities. The line of credit proceeds was used to pay off statutory and fiduciary obligations. This line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the municipalities. In accordance with Act No. 146 of October 11, 2011, the Center approved a line of credit amounting \$105,000,000 to repurchase the tax liens sold to Puerto Rico Public Finance Corporation on June 30, 1998. The line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the municipalities. The amount collected from the delinquent tax debt would be applied to principal. The Center cannot determine the amount to be collected from the delinquent tax debts. For these lines of credit, the Center has received the signed resolutions and notes payable from municipalities. Once the municipalities completed such documents, each individual note became part of the Municipal Redemption Fund.
- **Insurance and other withholdings:** As part of the monthly remittances distributed by the Center, the municipalities authorize the Center to withhold funds for the payment of the following obligations:
 - (1) **Municipal insurance policies:** The Municipalities carry commercial liability insurance to cover casualty, theft, tort claims, and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department. Since 2012, the municipalities were allowed to negotiate their insurance policies directly with the insurance providers. As of June 30, 2019, all the municipalities negotiate their insurance policies with private insurance providers.

9-AGENCY FIDUCIARY FUND (CONTINUED)

D. Debt service provided by the Property Tax Fund (Continued)

- (2) **Loans:** The Center also withholds all amounts due by municipalities on their loans payable to the GDB and commercial banks.
- (3) **Payments due to governmental entities:** Certain amounts due to other governmental entities under payment plans subscribed by the municipalities or by statutory acts.
- (4) **Center's administrative expenses:** An amount equal to 5% of collections of the property taxes is set aside to cover for the Center's administrative expenses.

10-TAX ABATEMENTS

The government of the Commonwealth of Puerto Rico has enacted various laws in order to provide economic incentives to the industries performing business in the Island. Under these laws, the government promotes the creation of new employments, the investment in the acquisition of equipment, the investment in the modernization and improvement of existing facilities and the construction of new infrastructure. In order to assess the economic development expected, the government entered into agreements granting to eligible businesses and companies, tax exemptions on income taxes, property taxes (real and personal). Also, exemptions are granted on municipal licenses taxes, construction excise taxes and other municipal income taxes levied by municipal ordinances.

The following is a summary of the purpose and tax benefits provided to business and companies by most significant laws enacted by the Commonwealth of Puerto Rico to assess economic development.

ACT 362 of 1999 - Film Industry and other related activities.

Purpose: To promote the film industry and other related activities; to create incentives for private investments and to attract foreign capital; to create an adequate infrastructure for the maximum development of this industry; to define the areas and scope of this Act and to install the operational mechanisms that shall allow its maximum development in the shortest term possible for the benefit of Puerto Rico.

Tax Benefits (Exemptions):

- A tax credit equivalent to forty percent (40%) of those items of the Budget paid to Residents of Puerto Rico, as certified in writing by Company's accountant.
- A tax credit equal to the lesser amount of: forty percent (40%) of the amount of the investment in cash paid to the Film Entity engaged in an Infrastructure Project, in exchange for primary-issue stock or shares, or twenty percent (20%) of the Budget of the Infrastructure Project.
- Subject to a fixed income tax of seven percent (7%).
- The property devoted to a Film Project or Infrastructure Project that is otherwise subject to taxation, shall be entitled to a ninety percent (90%) exemption from all municipal and Commonwealth taxes on real or personal property, for a ten (10)-year period.
- No Film Entity shall be subject to municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance.

10-TAX ABATEMENTS (CONTINUED)

ACT 73 of 2008 - "Economic Incentives Act for the Development of Puerto Rico"

Purpose: Provide the adequate environment and opportunities to continue developing a local industry; to offer an attractive tax proposal to attract direct foreign investment and to promote economic development and social betterment in Puerto Rico. (See Note 17 for subsequent Incentive Code approved).

Tax Benefits (Exemptions):

- The tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income, with other provisions that would lower the tax rate. Also, 100% exemption on the income earned from eligible investments.
- A Special Deduction for Investment in Buildings, Structures, Machinery, and Equipment in the taxable year during which these were incurred, in lieu of any capitalization of expenses.
- A Tax Credit for purchasing products manufactured in Puerto Rico equal to twenty-five percent (25%) of the purchases of such products.
- A Tax Credit to reduce the cost of electric Power of up to 10% of the payments made to the Electric Power Authority for net electric power consumption.
- Sixty-percent (60%) exemption on municipal license fees, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

ACT 74 of 2010 - "Puerto Rico Tourism Development Act of 2010"

Purposes: (See Note 17 for subsequent Incentive Code approved).

- To make Puerto Rico a world-class tourist destination.
- To ensure adequate conditions for the continuous development and worldwide competitiveness of Puerto Rico's hotel industry.
- To provide the environment to continuously raise local and foreign capital for investment in tourism projects.
- To improve the incentives offered to the Puerto Rican tourist industry according to the evolution of the best tourist products offered, the challenges faced, and the opportunities offered by today's world.
- To reduce the high costs of construction and operation of tourism-related businesses in Puerto Rico.
- To take action to reduce energy costs through the various renewable source alternatives.

Tax Benefits (Exemptions):

- Tourism development income shall be exempt from income taxes pursuant to the following terms and conditions: (i) For all tourist activities not established in Vieques or Culebra, the exemption percentage on said income shall be of up to ninety percent (90%). (ii) For all tourist activities established in Vieques and Culebra, the exemption percentage on said income shall be of up to one hundred percent (100%).

10-TAX ABATEMENTS (CONTINUED)

ACT 74 of 2010 - "Puerto Rico Tourism Development Act of 2010" (Continued)

Tax Benefits (Exemptions) (Continued):

- Any property devoted to a tourist activity shall enjoy up to a ninety percent (90%) exemption on all municipal and state taxes on real and personal property for a period of ten (10) years.
- A new business shall not be subject to the payment of license fees, construction excise taxes, and other municipal taxes. An existing business shall enjoy up to a ninety percent (90%) exemption.
- Shall enjoy up to a one hundred percent (100%) exemption from the payment of the taxes on Use and Consumption items.
- All exempt businesses and their contractors or subcontractors shall enjoy up to a one hundred percent (100%) exemption on any tax, levy, fee, license, excise tax, rate, or charge for the construction of works to be devoted to a tourist activity within a municipality, imposed by any ordinance of any municipality.

ACT 118 of 2010 - "Municipal Economic and Tourist Development Incentives Act"

Purpose: Foster the economic development of municipalities. (See **Note 17** for subsequent Incentive Code approved).

Tax Benefits:

- A Gradual Tax Rate Schedule for the net income generated at a tourist facility from 8% to 25%, depending on the total amount of private capital investment of the Grantee.
- The income from the operation of games of chance at a tourist facility shall not be subject to any sales tax and that the Facility shall enjoy an exemption of ninety percent (90%) of the preferential tax on real and personal property used.

ACT 27 of 2011 - "Puerto Rico Film Industry Economic Incentives Act"

Purpose: Provide an adequate framework for the continued development of our film industry and other related activities; providing tax incentives to attract foreign capital and foster the economic development and social wellbeing of Puerto Rico. (See **Note 17** for subsequent Incentive Code approved).

Tax Benefits (Exemptions):

- Tax Credit amounting to forty percent (40%) of those amounts certified by the Auditor as disbursed in connection with all Puerto Rico Production Expenditures, except for payments made to Nonresident Talent; and twenty percent (20%) of those amounts certified by the Auditor as disbursed in connection with Puerto Rico Production Expenditures consisting of payments to Nonresident Talent.
- In the case of infrastructure projects, the credit granted shall be equal to twenty-five percent (25%) of those amounts certified by the Auditor to have been disbursed in connection with the development and/or expansion of the infrastructure project.

10-TAX ABATEMENTS (CONTINUED)

ACT 27 of 2011 - "Puerto Rico Film Industry Economic Incentives Act" (Continued)

Tax Benefits (Exemptions) (Continued):

- Grantee's net income directly derived from the exploitation of activities covered under a Grant shall be subject to a fixed income tax rate of four percent (4%), in lieu of any other tax, if any, provided in the Code or any other Puerto Rico law.
- The real or personal property devoted to activities covered by a Grant that is otherwise subject to taxation, shall be entitled to a ninety percent (90%) exemption from all municipal and Puerto Rico taxes on real or personal property.
- No Grantee shall be subject to municipal license taxes, construction excise taxes, and other municipal income taxes imposed by a municipal ordinance.
- A special tax shall be imposed, collected and paid in lieu of any other taxes and regardless of any exemption provided in the Code, of twenty percent (20%) on the total amount received by any Nonresident Talent.

ACT 20 of 2012 - "Act to Promote the Export of Services"

Purpose: Provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital. (See **Note 17** for subsequent Incentive Code approved).

Tax Benefits:

- Eligible businesses shall be subject to a fixed income tax rate of four percent (4%) on income. However, the fixed income tax rate for a taxable year shall be reduced by one percent (1%) when certain conditions are met.
- Personal or real property used in the operation of the activity covered by a decree, shall enjoy ninety percent (90%) of the exemption on municipal and state taxes.

ACT 168 of 1968, as amended - "Act to Grant Tax Exemption to Hospitals"

Purpose: To grant tax incentives to Hospitals and other applicable health provider's facilities in order to promote its development by providing the ability to raise funds to invest on its operations needs

Tax Benefits (Exemptions):

- Tax Credit up to fifteen percent (15%) of the total eligible payroll expense to be used to reduce up to fifty percent (50%) of income taxes over eligible health service revenues.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used to provide health services.

10-TAX ABATEMENTS (CONTINUED)

ACT 168 of 1968, as amended - "Act to Grant Tax Exemption to Hospitals" (Continued)

Tax Benefits (Exemptions) (Continued):

- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical treatment or diagnostics.
- No Hospital or eligible health service facility shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

ACT 225 of 1995, as amended - "Agricultural Tax Incentive Act"

Purpose: To establish public policy in the agricultural sector and other related economic sectors. Also to establish the requirements to qualify "bona fide farmers" and to provide them with all kind of exemptions for the payment of income taxes, property taxes (real and personal), municipal licenses, construction excise taxes and any other state or municipal taxes or rights. (See **Note 17** for subsequent Incentive Code approved).

Tax Benefits (Exemptions):

- Exemption of ninety percent (90%) of income taxes for revenues earned from agricultural business.
- Tax Credit up to fifty percent (50%) of the total eligible investment.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used intensively for agricultural businesses and purposes.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used in the agricultural business.
- No "bona fide farmer" shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

ACT 83 of 2010 - "Green Energy Incentive Act"

Purpose: To further renewable energy generation, in accordance with short, medium and long-term mandatory goals; to empower the Energy Affairs Administration to incentivize compliance with compulsory goals and development of sustainable renewable energy and alternative renewable energy; to establish measures aimed at fostering the development of sustainable energy systems that further energy use savings and efficiency through the establishment of a fund denominated "Green Energy Fund"; to organize and standardize the existing incentive and create new incentive that stimulate the proliferation of these energy sources, and to amend certain existing laws. (See **Note 17** for subsequent Incentive Code approved).

10-TAX ABATEMENTS (CONTINUED)

ACT 83 of 2010 - "Green Energy Incentive Act" (Continued)

Tax Benefits (Exemptions):

- Fixed income tax rate of four percent (4%) on revenues derived from eligible businesses and companies.
- Exemption of ninety percent (90%) for the payment of real and personal property over assets used in eligible businesses or companies.
- Exemption of sixty percent (60%) on municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

Other Acts Enacted by the Commonwealth of Puerto Rico

The following are other Acts enacted by the Commonwealth of Puerto Rico, which may grant tax incentive and benefits to eligible participants.

- Act 148 – 1988 "Act for the Rehabilitation of Santurce"
- Act 75 – 1995 "Special Act for the Rehabilitation of Río Piedras"
- Act 14 – 1996 "Special Act for the Rehabilitation of Castañer"
- Act 178 – 2000 "Special Act for the Creation of the Theatrical Distric"

These enacted laws only applied to tax payers which businesses or companies are located in certain Municipalities or sectors of Puerto Rico.

Municipal Ordinances and Agreements

Purpose:

In order to promote economic development behind the boundaries of the Municipality, most of the seventy eight (78) Municipal Legislatures has approved and issued ordinances in other to grant exemption to businesses and companies from the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance.

Tax Benefits (Exemptions):

The percentages of exemptions granted by each of the seventy eight (78) Municipalities for the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance may vary in accordance with the agreement established with each eligible business or company.

10-TAX ABATEMENTS (CONTINUED)

The following table shows the amount of real property tax abatement during the fiscal year ended June 30, 2019.

Industry / Business	Real Property Tax Abatement	% of total Abatement
Buildings used for warehouses	\$ 63,559,421	16.92%
Pharmaceutical companies	90,381,811	24.06%
Hotels and related businesses	20,620,979	5.49%
Industrial companies and businesses	151,634,033	40.36%
Other industries and businesses	49,493,737	13.17%
Total	\$ 375,689,981	100.00%

As derived from the previous table, the industries with the highest tax abatement of real property tax during the fiscal year ended June 30, 2019 are the industrial companies and businesses and the pharmaceutical companies, which represented 40.36% and 24.06% of total tax abatement, respectively.

The following table shows the amount of personal property tax abatement during the fiscal year ended June 30, 2019.

Industry / Business	Personal Property Tax Abatement	% of total Abatement
Pharmaceutical companies	\$ 79,980,948	14.81%
Industrial companies and businesses	212,272,140	39.30%
Professional services	72,231,722	13.37%
Commercial companies and businesses	20,635,790	3.82%
Other industries and businesses	155,039,000	28.70%
Total	\$ 540,159,600	100.00%

As derived from the previous table, the industries with the highest tax abatement of personal property tax during the fiscal year ended June 30, 2019 are the industrial companies and businesses and other industries and businesses, which represented 39.30% and 28.70% of total tax abatement, respectively.

11-DEED OF TRUST

On November 2, 2015, the Center (the Trustor) and the GDB (the Trustee) signed a deed of trust to create a Trust Fund pursuant the requirement and provisions of Article 4 of Act No. 80 of August 30 1991, as amended. The Trust shall receive: 1) all property taxes revenues collected by the Center pursuant the provisions of Articles 2.01 and 2.02 of Act No. 83 of August 30, 1991, as amended; 2) revenues derived from the “Additional Lottery System”; 3) and a percent of internal revenues corresponding to the municipalities; and 4) any other revenue established by law corresponding to the municipalities. The Trustee shall make payments to the beneficiaries (the municipalities) of the Trust based on the criteria and priorities established by the Center pursuant the provisions of Article 17 of Act No. 80 of August 30, 1991, as amended.

The Trust Fund’s beginning capital balance amounted to \$291,103,470, based on the deposits held by the Trustee as October 31, 2015. There are three (3) funds within the Trust:

Municipal Redemption Fund –These are funds to pay bonds and loans payable from the Special Additional Tax (CAE). There are three (3) main creditors: private banks, the Puerto Rico Municipal Financial Agency (MFA) and the GDB. The Trust consists of two (2) sub-funds: 1) MFA/private banks sub-fund and 2) GDB sub-fund. Funds to the MFA and the private banks shall be deposited into the MFA/private banking sub-fund and are invested outside the GDB. Funds owed to the GDB shall be deposited into the GDB sub-fund, and will remain invested in bank deposits. The CAE funds will be distributed monthly prorata (based on debt service owed) among the two (2) sub-funds.

Once in January and once in July, the GDB, as Trustee will pay the creditors from the respective sub-funds. However, the municipalities have the right to request once a year any excess funds. GDB determines the excess of each municipality, and to which sub-fund corresponds.

Matching Fund – These are the General Fund contributions to the municipalities. These funds will be invested outside the GDB. There is no material impact on the GDB because these funds are deposited for a few days before being transferred to the municipalities.

State Redemption Fund –This is comprised of the 1.03% of the property tax that is destined to the payment of the Commonwealth’s General Obligations. Before the Trust was established, the Center transferred these funds directly to the Puerto Rico Department of Treasury. These funds shall be deposited in a bank account for the benefit of the State Redemption Fund.

As described on **Note 2**, on January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 “*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA) and to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico. Under the provisions of this Act, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended.

11-DEED OF TRUST (CONTINUED)

Amendment and Restatement to Deed of Trust

On November 29, 2018, the Center, FAFAA and GDB provided an amendment and full reformulation of the Center's deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee or one or more private banking institutions that FAFAA might designate, replacing GDB. The funds deposited on the trust fund amounting to \$363,617,079 at November 29, 2018 (excluding the funds deposited on the GDB which will be subject and used on the GDB restructuring transaction) represents the trust's available capital at that date. Under the provisions of the deed, the Trust shall receive: 1) All property taxes revenues collected by the Center pursuant to the provisions of Article 2.01 (basic property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the Equalization Fund; 2) All property taxes revenues collected by the Center pursuant to the provisions of Article 2.02 (special property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the State Fund; 3) All collections by the Center related to additional special municipal tax subject to the requirements of Law No. 64 and Law No. 83 to be credited to Public Debt Redemption Fund; 4) Any other future enacted tax that might be established by Law, to be credited under the provisions required by the Law.

Also, on November 29, 2018, the Center (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant to the provisions of the amended and restated "Deed of Trust No. 58".

In addition, at that date, the GDB completed a restructuring of certain indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA.

12-PENSION PLAN

Plan General Description and Retirement System Reform

The Center is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

12-PENSION PLAN (CONTINUED)

Plan General Description and Retirement System Reform (Continued)

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a “covered instrumentality” pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth’s fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS’s severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the “District Court”).

Act No. 106 of August 23, 2017 (“Act 106”) was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS’s governance, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made.

12-PENSION PLAN (CONTINUED)

Plan General Description and Retirement System Reform (Continued)

Determination of accrued pension benefits as of June 30, 2017 and payments (Continued)

All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the Center) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2018-2019 the Center was billed and recognized as PayGo charges expenditures for \$5,040,473. As of June 30, 2019, the balance due by the Center to the ERS amounted to \$2,521,643.

12-PENSION PLAN (CONTINUED)

Plan General Description and Retirement System Reform (Continued)

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account.

The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2019, employees' contributions amounted to \$1,134,001.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.

12-PENSION PLAN (CONTINUED)**Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73**

As discussed above, pursuant to Act No. 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition benefit payments are made through a "PayGo" funding administered by the PRDT. As a result the plans operated by ERS, under various benefit structures prior to July 1, 2017, are administered through a trust that do not meet the requirements of GASB Statement No. 68. Instead, since that date, the employers are subject to the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. However, the ERS have not provided the Center with the audited actuarial and financial information necessary to comply with the requirements of GASB Statement No. 73 as of June 30, 2019. As a result, amounts that shall be reported as deferred outflows \inflows of resources related to pensions and pension liability in the government-wide financial statements had not been accounted for by the Center.

In addition, applicable disclosures and required supplementary information under the provisions of GASB Statement No. 73 have been omitted.

13-OTHER POSTEMPLOYMENT BENEFITS (OPEB)**Plan description**

The Center is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. 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, are 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.

Benefits provided

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. 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.

13-OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions (Continued)

The Center's contribution is financed through the monthly PayGo charge. 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. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2018 nor has it provided the Center with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (Center's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2019.

As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

14-CONTINGENCIES AND COMMITMENTS

Claims and Lawsuits

The Center is defendant in various lawsuits arising from its operations; management and legal counsels are of the opinion that a liability of \$87,500 should be accrued in the Government-Wide Financial Statements to cover awarded or anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

Operating Leases

The Center is obligated under various lease agreements, which expire on August 31, 2029. Operating leases do not give rise to property rights or lease obligations, and accordingly, no long-term liability is reflected in the Center's financial statements for these lease agreements.

Therefore, installments of the operating leases are presented as rent expenditures. The rent expenditures for the fiscal year ended June 30, 2019 amounted to \$1,454,159.

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)**Operating Leases (Continued)**

The following is a schedule of minimum rent payments required under operating leases that have initial or remaining non-cancellable lease term in excess of one year as of June 30, 2019:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 1,692,874
2021	1,130,452
2022	1,130,452
2023	583,586
2024	367,999
Thereafter	<u>1,082,859</u>
Total	<u>\$ 5,988,222</u>

As of June 30, 2019, the Center recognized and recorded a debt with the Puerto Rico Public Buildings Authority (PRBA) amounting to \$640,555. In addition, at that date the Center has certain balances in dispute with the PRBA amounting to \$3,100,590 related to the lease of various office spaces located in the municipalities of Aguadilla, Arecibo, Caguas, Carolina, Mayaguez and Ponce.

Federal Award

The Center participates in a federal assistance program funded by the Federal Government. Expenditures financed by this program are subject to financial and compliance audit by the appropriate grantor.

Other Potential Liability – Additional Uniform Contribution (AUC)

For fiscal year 2016-2017, the ERS sent to the Center a bill dated July 12, 2016 of \$2,457,864 related to the AUC. The Center alleged that the ERS do not comply with the terms of the Law No. 32 of 2013 related to the time established for the ERS to provide the amount to be paid during the fiscal year (120 days before the beginning of the fiscal year) Accordingly, it is the understanding of the Center, that the amount to be paid to the ERS related to the AUC during fiscal year 2017 is the same amount paid during the previous fiscal year (2016). Based on this understanding, on January 27, 2017, the Center paid \$455,678 to the ERS. The ERS disagree with the Center's position and is claiming the full payment of the amount billed.

The Center plans to defend its position vigorously. However, due to the uncertainty of the outcome of this claim by the ERS, as of June 30, 2017, the Center made an obligation of \$2,002,186. At that date, this amount is presented as assigned funds in the Center's General Fund.

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)***Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017***

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 “*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors’ agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

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

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

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

As described on **Note 11**, on November 29, 2018, the Center, FAFAA and GDB provided and amendment and full reformulation of the Center’s deed of trust under the “Deed of Trust No. 58”. Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust’s designated trustee or one or more private banking institutions that FAFAA might designate, replacing GDB. The funds deposited on the trust fund amounting to \$363,617,079 at November 29, 2018 (excluding the funds deposited on the GDB which will be subject and used on the GDB restructuring transaction) represents the trust’s available capital at that date.

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017***

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

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

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

In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services.

To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c).

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)***Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017 (Continued)***

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

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

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options.

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)***Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)***

On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made. On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government's proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.
- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2017 of Act 29 "Compliance with the Fiscal Plan Act". These measures are focused on four (4) major areas:

- Increase revenues by \$1,380 million through tax and fees increases and better tax fiscalization procedures.
- Reduce expenditures by \$1,623 million through: 1) \$434 million in payroll expenditure savings through the implementation of the "Single Employer Program" (an employee mobility plan), "freezing" of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) \$439 million in efficiency savings through agencies consolidations, expenditure reductions and public-private alliances; 3) \$750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of \$299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (Continued)

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021). To efficiently effectuate this process, the GDB's management has created a Project Management Office ("PMO") for the smooth transition of the Bank's current operations. The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be "nonperforming" (i.e. Commonwealth's appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans. However, no mechanism by which the projected excess cash flows should be allocated to the GDB depositors and other creditors has been established.

This situation puts at risk the collection and accessibility of municipal funds deposited at the GDB, including certificates of deposit and investment funds, "CAE" and "IVU" Municipal Administration Fund ("FAM") deposits and federal programs funds. As described on Note 2, on March 23, 2018, GDB ceased its operations and on November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification).

14-CONTINGENCIES AND COMMITMENTS (CONTINUED)***Fiscal Plan Submissions and Certifications – the Center and Municipalities***

During 2016, the Center was designated as a Covered Territorial Instrumentality pursuant to Section 101 of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). In Accordance with Section 101 (d)(1)(E) of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board determined that the Governor must provide the Oversight Board with an Instrumentality Fiscal Plan and an Instrumentality Budget for the Center.

In Addition, pursuant to Section 101 of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board designated all seventy eight (78) municipalities as Covered Territorial Instrumentalities subject to the requirements of PROMESA. In terms of the submission of the Instrumentality Fiscal Plans and an Instrumentality Budgets required by Section 101 (d)(1)(E) of PROMESA, the Oversight Board determined in the resolution adopted at its May 9, 2019 meeting, to apply this provision to an initial group of ten (10) municipalities as a pilot plan for assessing and enhancing municipal financial and budgetary practices, and for create new economic development strategies to address municipal fiscal challenges. As a part of the pilot plan, the ten (10) municipalities will receive technical assistance from the Oversight Board. These initial actions should serve to begin achieving fiscally sustainable local units of government and to help pave the way for a broader municipal fiscal strengthening.

The ten (10) municipalities selected were Aibonito, Barranquitas, Camuy, Cidra, Comerio, Isabela, Orocovis, Quebradillas, San Sebastian and Villalba. These municipalities were selected considering a combination of factors such as fiscal challenges, impact of the reduction of transfers from the Central Government, and their experience implementing innovative and creative initiatives and collaborating with other municipalities.

The Governor must provide to the Oversight Board must provide the Oversight Board with an Instrumentality Fiscal Plan (Municipal Fiscal Plan) and an Instrumentality Budget (Municipal Budget) for each of the selected municipalities under the pilot plan.

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

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation (“COFINA”), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority (“HTA”) and the Government of Puerto Rico Employees Retirement System (“ERS”).

15-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2018, the Center adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, “Certain Asset Retirement Obligations”:** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- **GASB Statement No. 88, “Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements”:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified 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 debt.

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

16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- **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. 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. 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 liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

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

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period”:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- **GASB Statement No. 89, “Accounting for Interest Costs Incurred Before the End of a Construction Period” (Continued):**

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 90, “Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61”:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

16-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- GASB Statement No. 91, “Conduit Debt Obligations”** - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

The impact of the implementation of these pronouncements on the Center’s financial statements, if any, has not been determined.

17-SUBSEQUENT EVENTS

Subsequent events were evaluated through December 18, 2019, the date financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico on the Budget for Fiscal Year 2019-2020

The Financial Oversight and Management Board approved a fiscal plan which included the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2019-2020, the estimated reduction of revenues will be \$36,102,000. Accordingly, during fiscal year 2019-20, the revenues will experience a reduction of 16.77% distributed as follows:

Revenue Source	2019-20 Budget	2018-19 Budget	Increase (Decrease)	Percentage
2.5% NIR General Fund	\$ 131,838,000	\$ 175,730,000	\$ (43,892,000)	(24.98)%
35% of Puerto Rico Additional Lottery System	47,310,000	39,520,000	7,790,000	19.71%
Total	\$ 179,148,000	\$ 215,250,000	\$ (36,102,000)	(16.77)%

17-SUBSEQUENT EVENTS (CONTINUED)

Act 60 -2019 of July 1, 2019 “Puerto Rico Incentive Code” (Continued)

On July 1, 2019, Act 60 was enacted to adopt the "Puerto Rico Incentives Code" (the Code); consolidate the dozens of decrees, incentives, subsidies, refunds, or existing tax or financial benefits; promote the right environment, opportunities and tools to promote the sustainable economic development of Puerto Rico; establish the legal and administrative framework that will govern the request, evaluation, grant or denial of incentives by the Government of Puerto Rico; promote the effective and continuous measurement of the costs and benefits of the incentives granted to maximize the impact of the investment of public funds; give stability, certainty and credibility to the Government of Puerto Rico in everything related to private investment; improve the economic competitiveness of Puerto Rico. Accordingly, the following Laws, among others, will be consolidated under the Code:

Prior incentive Laws	Dispositions under the Incentive Code
Act 73 of 2008 - “Economic Incentives Act for the Development of Puerto Rico”	Subtitle B – Chapter 6 Subtitle C – Chapter 2
Act 74 of 2010 - “Puerto Rico Tourism Development Act of 2010”	Subtitle B – Chapters 5 and 11 Subtitle C – Chapter 1 Subtitle E – Chapter 1
Act 83 of 2010 - “Green Energy Incentive Act”	Subtitle B – Chapter 7 Subtitle E – Chapter 1
Act 118 of 2010 - “Municipal Economic and Tourist Development Incentives Act”	Subtitle B – Chapter 5
Act 27 of 2011 - “Puerto Rico Film Industry Economic Incentives Act”	Subtitle B – Chapters 9 Subtitle C – Chapter 5 Subtitle E – Chapter 1
Act 20 of 2012 - “Act to Promote the Export of Services”	Subtitle B – Chapter 3 Subtitle E – Chapter 1
Act 225 of 1995, as amended - “Agricultural Tax Incentive Act”	Subtitle B – Chapter 8

The Incentives Code will allow the types of incentives that are now granted to be standardized, and that risky incentives that have historically resulted in losses or that have adversely impacted Puerto Rico's economy be minimized.

17-SUBSEQUENT EVENTS (CONTINUED)

Act 60 -2019 of July 1, 2019 “Puerto Rico Incentive Code”

The Incentives Code recognizes that it is essential to promote the effective and continuous measurement of the costs and benefits of the incentives granted, in order to determine the cash that is invested *vis a vis* what the treasury receives. Therefore, the new Incentive Code will also incorporate provisions to measure the return on investment (ROI) and keep updated data on that return by economic sector.

The Incentives Code will facilitate the analysis of our incentives to determine the desirability of maintaining, modifying or discontinuing any incentive that proves to be obsolete, or consequently, that has resulted in negative performance. The analysis, in addition, will allow to determine which incentives can provide positive performance based on specific data, if government resources should be redirected to other industries to maximize performance and stimulate productivity, and even, will identify the need to create New incentive mechanisms. New incentives will be evaluated and approved through mechanisms and processes established in the regulation adopted by the DDEC, based on complete analyzes that allow informed decisions. This structure will allow processes to be improved, incentives based on ROI, and economic priorities to be analyzed, and the desirability of continuing to grant the incentive to be determined within a reasonable time.

In line with the above, an incentive evaluation model will also be created, in accordance with the needs of the Puerto Rican economy, to measure the effectiveness of the program based on the annual reports submitted by the beneficiaries. The analysis of the reports will allow stimulus programs to be improved, and will ensure that incentives are allocated and used to maximize the economic impact on the island. Likewise, the evaluation will facilitate compliance with the terms and conditions of the incentives granted, including the measurement of risk and return on investment of such stimuli, in line with the public policy of economic development.

As an important element to ensure rigor in the application of standards and transparency, a single office will be designated to monitor compliance aspects. For these purposes, the Tax Exemption Office, now the Incentive Office will become part of the DDEC and assume other responsibilities in accordance with the new Incentive Code.

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
OPERATING REVENUES:				
Property taxes administrative fees	\$ 27,258,004	\$ 30,049,070	\$ 29,576,370	\$ (472,700)
Service charges to banks	1,236,220	1,303,325	1,069,058	(234,267)
Sales of certifications and maps	658,527	863,505	760,957	(102,548)
Interest income	53,037	212,213	190,491	(21,722)
Other income	-	1,380,706	1,380,706	-
Total revenues	29,205,788	33,808,819	32,977,582	(831,237)
OPERATING EXPENDITURES:				
Current:				
Salaries and fringe benefits	22,600,253	22,626,575	21,218,530	1,408,045
Professional and consulting services	1,435,298	3,235,973	3,027,572	208,401
Travel and representation	587,800	636,385	596,838	39,547
Capital outlays and supplies	255,500	794,565	728,551	66,014
Rent	1,529,110	1,546,123	1,535,712	10,411
Repairs and maintenance	1,011,486	1,045,722	912,166	133,556
Utilities	923,340	1,006,842	1,005,807	1,035
Printed forms	53,000	48,606	24,950	23,656
Postage	494,000	508,607	500,032	8,575
Interest and bank charges	28,000	34,109	34,079	30
Trainings	64,500	48,900	36,605	12,295
Insurance and premiums	130,000	214,334	214,334	-
Other	93,501	2,062,078	17,482	2,044,596
Total expenditures and encumbrances	29,205,788	33,808,819	29,852,658	3,956,161
EXCESS OF REVENUES OVER EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES	\$ -	\$ -	\$3,124,924	\$ 3,124,924
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 32,977,582
Differences-budget to GAAP:				
Non-budgeted transfer in				1,184,112
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 34,161,694</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 29,852,658
Differences-budget to GAAP:				
Prior year encumbrances paid during current year				1,587,158
Current year encumbrances recorded as expenditures for budgetary purposes				(1,832,932)
Expenditures considered for budget but not for GAAP				1,822,203
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$31,429,087</u>

1. BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Center's budget is prepared for the General Fund following the requirements of the Law No. 80 of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuring fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Governing Board. Certain budget transfers within the limitations and restrictions of the Governing Board can be approved by the Executive Director. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.



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

To the Governing Board
Municipal Revenue Collection Center
San Juan Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the **Municipal Revenue Collection Center (“the Center”)** as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Center’s basic financial statements and have issued our report thereon dated December 18, 2019. The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, pension plan liability, pension expense, and related note disclosures required for the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosure required for the implementation of GASB Statement No. 75.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item **2019-001** that we consider to be a significant deficiency.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

Center's Response to Findings

Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2019

Stamp No. 2758865 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.



Section II – Financial Statements Findings

Finding Reference **2019-001**

Requirement: **Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75**

Type of Finding: **Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)**

This finding is similar to prior year finding 2018-001.

Statement of Condition Management has not implemented the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*”. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center’s governmental activities has not been determined.

In addition, the Center’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 to comply with the requirements of GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center’s governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Criteria GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the Center report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II – Financial Statements Findings

Finding Reference 2019-001 (Continued)

Criteria (continued) Also, GASB Statement No. 75 states 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. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

Cause of Condition The Center's pension plan administrator has not provided the financial and technical information necessary for the properly implement the requirements set forth in of the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2019.

Effect of Condition The Center's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Center for the fiscal year ended June 30, 2019. Also, the required supplementary information has been omitted.

Recommendation We recommend the Center maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Cost None

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards

Audit Period: July 1, 2018 – June 30, 2019

Fiscal Year: 2018-2019

Principal Executive: Mr. Reinaldo Paniagua Látimer

Contact Person: Mr. Reinaldo Paniagua Latimer, Executive Director

Phone: (787) 625-2746 (x 2160)

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-001	We concur with the finding.	<p>We concur with the auditors' recommendations. The Center is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards.</p> <p>Implementation Date: During the 2019-2020 fiscal year</p> <p>Responsible Persons: CPA Diana M. Claudio Sauri Finance Director</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Mr. Reinaldo Paniagua Látimer

12/18/2019
DATE

Finding Reference: 2018-01

Finding Type: Financial Reporting

Statement of Condition:

The Center's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2018.

Accordingly, the Center has not been able to comply with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Center's governmental activities has not been determined.

In addition, the Center's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Status:

Still prevails. A similar situation was identified during the audit of the fiscal year ended on June 30, 2019.

COMMONWEALTH OF PUERTO RICO
MUNICIPAL REVENUE COLLECTION CENTER

SCHEDULE OF PROPERTY TAX FUND
LIQUIDATION (IN ACCORDANCE WITH ACT NO. 80
OF AUGUST 30, 1991, AS AMENDED)

Year Ended June 30, 2019



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INDEPENDENT AUDITORS' REPORT

To the Governing Board
Municipal Revenue Collection Center
San Juan, Puerto Rico

Report on the Schedule of Property Tax Fund Liquidation

We have audited the accompanying Schedule of Property Tax Fund Liquidation (the Schedule) of the Municipal Revenue Collection Center (the Center) for the year ended June 30, 2019, and the related notes to the Schedule.

Management's Responsibility for the Schedule of Property Tax Fund Liquidation

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the provisions of Act No. 80 of August 30, 1991, as amended; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the Schedule 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 Center'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 Schedule.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion

In accordance with the provisions of Act No. 80 of August 30, 1991, as amended, the municipalities of Puerto Rico should receive 35% of the annual net income of a lottery created under Act No. 10 of May 24, 1989, as amended. Those funds should be part of this Schedule. As of the date of issuance of the Schedule, the Puerto Rico Treasury Department (PRTD) does not have available audited financial information for its lottery operations; also, the PRTD has not provided the Center a preliminary estimate of the lottery's net income for the year ended June 30, 2019. The amount of \$55,087,267 reported by the Center in the accompanying Schedule consisted of funds assigned and confirmed by the PRTD during the fiscal year ended June 30, 2019. The Center's management considers that the amount of funds of the lottery operations received from the PRTD will be subject to change once the audited financial statements are issued and available. Since the audited financial statements of the lottery operations are not available, we were unable to determine whether any adjustments to the amounts included in the Schedule were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Schedule referred to above presents fairly, in all material respects, the Property Tax Fund Liquidation of the Center for the year ended June 30, 2019, in accordance with the provisions of Act No. 80 of August 30, 1991, as amended.

Other Matters

Act No. 80 of August 30, 1991, as amended, provides for the distribution of the Municipal Public Works Fund, a fund that accounts for 2% of the collections from fines imposed under Act No. 22 of January 7, 2000, as amended, known as the Vehicle and Traffic Act of Puerto Rico. Such distribution is not included in the accompanying Schedule.

Act No. 162 of August 8, 2012 provides for certain additional funds to be distributed annually to the municipalities of Puerto Rico commencing with the fiscal year ended June 30, 2014. The additional funds amounting to \$25,000,000 per annum or the amount determined as a result of an independent audit to be annually performed by the Government Development Bank for Puerto Rico shall be distributed before the end of each fiscal year commencing with the fiscal year ended June 30, 2014. On June 29, 2018 the Center filed a Proof of Claim in the sum of \$75 million in the PROMESA Title III Bankruptcy Case filed by the Commonwealth of Puerto Rico on May 3, 2017. Such distribution is not included in the accompanying Schedule.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Use of this Report

This report is intended solely for the information and use of the Governing Board and management of the Center and the mayors and management of the municipalities of Puerto Rico, and is not intended to be and should not be, used by anyone other than these specified parties.



LÓPEZ- VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2019

Stamp No. 2758866 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
TOTAL	\$ 840,303,473	\$ (747,655,481)	\$ (29,576,370)	\$ (3,277,827)	\$ (15,550,907)	\$ 44,242,888
Adjuntas	5,727,949	(5,365,968)	(45,629)	(22,343)	(232,689)	61,320
Aguada	7,372,555	(6,619,138)	(160,869)	(28,759)	(300,191)	263,598
Aguadilla	9,330,448	(7,961,092)	(419,551)	(36,396)	(127,400)	786,009
Aguas Buenas	6,461,354	(5,934,387)	(78,881)	(25,204)	(186,833)	236,049
Aibonito	6,099,572	(5,482,395)	(105,056)	(23,793)	(192,030)	296,298
Añasco	6,243,707	(5,495,178)	(149,328)	(24,355)	(188,966)	385,880
Arecibo	10,278,716	(8,880,924)	(483,562)	(40,095)	53,294	927,429
Arroyo	5,752,769	(5,160,474)	(76,545)	(22,440)	(83,162)	410,148
Barceloneta	7,966,935	(7,630,648)	(271,247)	(31,077)	(265,744)	(231,781)
Barranquitas	7,470,954	(6,855,726)	(77,026)	(29,142)	(351,567)	157,493
Bayamón	44,894,058	(39,476,656)	(2,199,544)	(175,121)	(274,086)	2,768,651
Cabo Rojo	8,394,890	(7,097,050)	(410,662)	(32,747)	(254,769)	599,662
Caguas	28,917,824	(25,551,467)	(1,412,655)	(112,802)	(483,415)	1,357,485
Camuy	6,950,359	(6,271,938)	(111,937)	(27,112)	(138,674)	400,698
Canóvanas	8,221,963	(7,763,770)	(256,500)	(32,072)	(298,036)	(128,415)
Carolina	42,960,919	(36,515,300)	(2,085,210)	(167,581)	(673,770)	3,519,058

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Cataño	16,573,539	(14,101,463)	(584,430)	(64,650)	(230,050)	1,592,946
Cayey	8,965,702	(7,456,167)	(419,718)	(34,973)	(77,116)	977,728
Ceiba	5,154,793	(4,609,547)	(77,033)	(20,108)	(138,444)	309,661
Ciales	5,132,871	(4,800,174)	(46,133)	(20,022)	(182,260)	84,282
Cidra	7,359,273	(6,349,815)	(245,292)	(28,707)	(23,988)	711,471
Coamo	6,669,757	(6,063,551)	(121,897)	(26,017)	(183,001)	275,291
Comerio	7,077,483	(6,638,812)	(39,857)	(27,608)	(279,535)	91,671
Corozal	7,504,049	(6,864,492)	(98,937)	(29,272)	(278,304)	233,044
Culebra	2,330,677	(2,159,588)	(29,489)	(9,091)	(37,589)	94,920
Dorado	11,500,998	(8,928,689)	(567,514)	(44,863)	(139,184)	1,820,748
Fajardo	8,928,507	(7,957,853)	(390,182)	(34,828)	(29,172)	516,472
Florida	5,276,004	(4,953,900)	(28,324)	(20,580)	(149,836)	123,364
Guánica	5,564,380	(5,185,204)	(58,627)	(21,705)	(51,906)	246,938
Guayama	7,823,094	(7,076,056)	(367,809)	(30,516)	(338,597)	10,116
Guayanilla	5,033,227	(4,673,188)	(50,238)	(19,633)	(221,716)	68,452
Guaynabo	44,209,438	(41,074,631)	(2,167,113)	(172,451)	(452,053)	343,190
Gurabo	7,896,381	(7,045,426)	(307,721)	(30,802)	(12,150)	500,282
Hatillo	8,161,043	(7,270,951)	(312,731)	(31,834)	(19,122)	526,405

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Hormigueros	4,886,330	(4,380,796)	(110,436)	(19,060)	(275,092)	100,946
Humacao	13,580,375	(11,791,563)	(668,955)	(52,974)	(178,090)	888,793
Isabela	7,970,521	(6,856,522)	(259,471)	(31,091)	(315,239)	508,198
Jayuya	5,094,867	(4,743,304)	(45,873)	(19,874)	(237,047)	48,769
Juana Díaz	6,456,521	(5,527,234)	(166,552)	(25,185)	(69,316)	668,234
Juncos	7,348,305	(6,303,660)	(216,213)	(28,664)	(106,724)	693,044
Lajas	5,807,561	(5,233,675)	(102,604)	(22,654)	(79,304)	369,324
Lares	6,974,965	(6,359,410)	(89,397)	(27,208)	(327,985)	170,965
Las Marías	4,976,757	(4,651,520)	(26,291)	(19,413)	(144,137)	135,396
Las Piedras	5,981,486	(5,374,168)	(177,944)	(23,332)	(113,199)	292,843
Loíza	7,313,101	(6,703,081)	(87,856)	(28,527)	(252,147)	241,490
Luquillo	5,521,359	(4,926,886)	(157,859)	(21,538)	(13,987)	401,089
Manatí	8,758,419	(7,728,435)	(336,551)	(34,165)	(123,693)	535,575
Maricao	3,944,271	(3,653,681)	(21,855)	(15,386)	(125,883)	127,466
Maunabo	5,404,457	(5,049,789)	(34,517)	(21,082)	(164,706)	134,363
Mayagüez	17,275,619	(16,155,657)	(831,748)	(67,388)	(305,245)	(84,419)
Moca	6,987,931	(6,369,014)	(123,428)	(27,258)	(184,787)	283,444
Morovis	7,245,493	(6,700,952)	(80,016)	(28,263)	(14,452)	421,810

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Naguabo	5,859,150	(5,335,650)	(100,102)	(22,855)	(53,129)	347,414
Naranjito	7,623,312	(7,037,505)	(92,192)	(29,737)	(283,622)	180,256
Orocovis	7,354,282	(6,819,868)	(63,895)	(28,687)	(216,295)	225,537
Patillas	5,428,271	(5,059,972)	(49,729)	(21,174)	(4,190)	293,206
Peñuelas	5,961,016	(5,424,115)	(146,511)	(23,253)	(172,713)	194,424
Ponce	26,621,962	(24,274,162)	(1,275,206)	(103,846)	(410,621)	558,127
Quebradillas	5,942,177	(5,387,334)	(90,092)	(23,179)	(218,502)	223,070
Rincón	5,652,631	(5,093,454)	(120,811)	(22,050)	(58,605)	357,711
Río Grande	8,136,386	(6,810,202)	(397,822)	(31,738)	(210,589)	686,035
Sabana Grande	5,539,373	(5,039,757)	(75,306)	(21,608)	(99,108)	303,594
Salinas	6,074,470	(5,554,427)	(96,090)	(23,695)	(131,471)	268,787
San Germán	6,531,617	(5,773,887)	(174,012)	(25,478)	(289,134)	269,106
San Juan	128,061,832	(115,034,063)	(6,251,090)	(499,539)	(1,439,536)	4,837,604
San Lorenzo	7,112,455	(6,520,353)	(144,494)	(27,744)	(94,458)	325,406
San Sebastián	7,554,158	(6,381,300)	(205,282)	(29,467)	(187,116)	750,993
Santa Isabel	5,408,453	(4,943,060)	(111,107)	(21,097)	(42,338)	290,851
Toa Alta	8,617,624	(7,237,102)	(277,251)	(33,615)	(59,520)	1,010,136
Toa Baja	13,538,108	(9,360,866)	(654,505)	(52,809)	(714,236)	2,755,692

MUNICIPALITY	Revenues after the Approval of Act 80 of August 30, 1991, as amended	Advances to Municipalities	Funds Assigned to CRIM	Interest Charges	Other Deductions and Adjustments	Due to (from) Municipalities
Trujillo Alto	10,159,685	(8,539,317)	(403,639)	(39,631)	(92,564)	1,084,534
Utua	7,097,656	(6,570,479)	(85,662)	(27,686)	(303,436)	110,393
Vega Alta	7,591,196	(6,753,807)	(251,706)	(29,611)	(65,192)	490,880
Vega Baja	7,583,318	(6,369,672)	(287,268)	(29,581)	(138,248)	758,549
Vieques	4,222,095	(3,924,232)	(56,740)	(16,469)	1,599	226,253
Villalba	6,862,509	(6,329,644)	(56,800)	(26,769)	(167,744)	281,552
Yabucoa	6,639,244	(5,978,270)	(107,992)	(25,898)	(27,581)	499,503
Yauco	7,395,967	(6,322,018)	(206,253)	(28,850)	(199,464)	639,382

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipal Revenue Collection Center (the Center) was created by Act No. 80 of August 30, 1991, as amended, (the Act) as part of the Municipal Reform Legislation. The Center was created for the purpose of establishing a separate and independent municipal entity from the Commonwealth of Puerto Rico (the Commonwealth) to collect, receive and distribute the property tax revenue of the municipalities. Prior to the enactment of this Act, the Commonwealth, through the Department of Treasury, accounted for these revenues. The Center is exempt from the payment of taxes on its revenues and properties.

The Schedule of Property Tax Fund Liquidation (in accordance with the Act) has been prepared on the cash basis of accounting. Property tax revenues are recorded when collected and deducted when distributed to the municipalities. Advances to the municipalities are made on a monthly basis based on estimates of revenues in accordance with the Act.

B. PROPERTY TAX FUND

Pursuant to the Act, the Center is empowered to bill and collect property taxes, and to distribute property tax collections to the municipalities.

The Center must advance to the municipalities, on a monthly basis, one-twelfth of the estimate of annual revenues. The Center is required to provide a preliminary certification on the liquidation on or before September 30 of each given year and to distribute such certification on or before three (3) business days once it is made.

A final liquidation of due to or from each municipality is required within the six-month period following the close of the fiscal year.

Property Taxes

Real property taxes are assessed on July based on the taxable values as of January 1, using the estimated values of 1957. Assessed values of personal property are based on the book value at January 1 of each year. Property taxes are assessed for all properties located within the Commonwealth of Puerto Rico.

Real property taxes are billed by the Center and are due in two equal installments, in July and January following the assessment date. Personal property taxes are self-assessed and are due on May 15, when the related property tax return is required to be filed.

The property tax rates per annum vary among municipalities. For the fiscal year 2018-2019, the rates were comprised as follows:

	<u>Personal Property</u>		<u>Real Property</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
Basic	3.00%	4.00%	5.72%	6.00%
Contribution to debt redemption funds:				
State	1.03%	1.03%	1.03%	1.03%
Municipal	1.00%	5.50%	1.20%	5.50%

Total property tax rates varied from 5.80% to 10.33% for personal property and 8.03% to 12.33% for real property.

B. PROPERTY TAX FUND (CONTINUED)

Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2018-2019, the Center shall experience a reduction of revenues of \$41,126,340. This reduction represents a decrease of 16.04% in revenues compared to the prior fiscal year, as presented below.

<u>Revenue Source</u>	<u>2018-19 Budget</u>	<u>2017-18 Budget</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
2.5% NIR General Fund	\$ 175,730,000	\$ 219,730,000	\$ (44,000,000)	(20.02)%
35% of Puerto Rico Additional Lottery System	39,520,000	36,646,340	2,873,660	7.84%
Total	\$ 215,520,000	\$ 256,376,340	\$ (41,126,340)	(16.04)%

However, during the fiscal year 2018-2019, total actual revenues from the General Fund and the lottery amounted to \$230,871,267, representing a reduction of \$25,505,703, compared with prior year. Also, during fiscal year 2018-2019, basic property taxes increase by \$20,004,785 or 8.53% compared to prior fiscal year. Accordingly, during fiscal year 2018-19, total revenues experience a reduction of \$5,500,218 or 1.12%, as shown in the following table:

<u>Revenue Source</u>	<u>2018-19</u>	<u>2017-18</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
35% of Puerto Rico Additional Lottery System	\$ 55,087,267	\$ 36,646,340	\$ 18,440,927	50.32%
2.5% NIR General Fund	175,784,000	219,730,000	(43,946,000)	(20.00)%
Sub-total	230,871,267	256,376,340	(25,505,073)	(9.95)%
1% and 3% basic property taxes	254,495,748	234,490,963	20,004,785	8.53%
Total	\$ 485,367,015	\$ 490,867,303	\$ (5,500,288)	(1.12)%

B. PROPERTY TAX FUND (CONTINUED)

Equalization Fund

Act No. 80 of August 30, 1991, as amended, established a special fund known as the Equalization Fund (“Fondo de Equiparación”) for the purpose of ensuring that all municipalities receive at least the same amount of revenues as they received on the prior year from these sources.

The Equalization Fund includes the following:

- (a) All funds derived from basic property taxes assessed by the Commonwealth of Puerto Rico prior to the 1991 Municipal Reform corresponding to a tax rate of 1% for personal property tax and a tax rate of 3% over the assessed value of all real estate property in Puerto Rico, not otherwise exempt. For the fiscal year ended June 30, 2019, these funds amounted to \$254,495,748.
- (b) 2.50% for the fiscal years after 2002-2003 of the net internal revenue of the Commonwealth of Puerto Rico. For the fiscal year ended June 30, 2019, this amount totaled \$175,784,000.
- (c) An amount equal to 35% of the Puerto Rico Additional Lottery System net operational income. For the fiscal year ended June 30, 2019, the funds received by the Center, which are included in the schedule, amounted to \$55,087,267.
- (d) An amount equal to 2% of the state imposed penalties described under Sec. 5001 of Title 9, known as the Puerto Rico Vehicles and Transit Law (“Ley de Vehículos y Tránsito de Puerto Rico”) to be distributed by municipalities by the Center. Funds under this item shall be collected and distributed to the corresponding municipalities directly by Puerto Rico Treasury Department; therefore such amounts are not part of the Schedule.

Funds received under items (a) above are distributed to the corresponding municipalities. Funds received under items (b) and (c) above are distributed to the municipalities up to the amounts required to make each municipality’s revenue equal its revenue from these sources for the prior fiscal year (i.e., equalize the municipalities). Any excess funds received under items (b) and (c) above are distributed to the municipalities using the four (4) factors provided by Act No. 80.

During the year certain provisions of Act No. 80 related to the distribution of funds to the municipalities were amended. Accordingly, the Center’s Governing Board has the authority to establish the formula to determine the bases for the equalization and distribution of funds.

B. PROPERTY TAX FUND (CONTINUED)

Equalization Fund (Continued)

As described before, during the fiscal year 2018-2019, the Center's funds received from the General Fund and the lottery experience a reduction of \$25,505,073. Therefore, the funds collected during the fiscal year were not sufficient to provide an equalization of revenues for all the municipalities. Accordingly, a deficiency of funds for the equalization of revenues resulted in the amount of \$32,161,806, as shown in the following table:

Funds required for the Equalization of revenues	\$ 515,528,920
1% and 3% basic property taxes	(254,495,748)
Excess of revenues over the equalization Requirements	1,999,901
2.5% NIR General Fund	(175,784,000)
35% of Puerto Rico Additional Lottery System	<u>(55,087,267)</u>
Deficiency of funds for equalization of revenues	<u>\$ 32,161,806</u>

Taking into consideration the deficiency of funds, the liquidation schedule for the fiscal year 2019 was prepared based on the following assumptions:

1. Computation of the equalization of funds for all municipalities using the results obtained during fiscal year 2016-2017 as base year.
2. Four (4) Municipalities which resulted with an excess of revenues over the equalization requirements of \$1,999,901, will receive such excess and were excluded from the distribution of the deficiency of funds for equalization of revenues.
3. The deficiency of funds for equalization of revenues of \$32,161,806 was distributed to the remaining seventy four (74) Municipalities based on the proportioned share of revenues of each municipality, using the results obtained during fiscal year 2017-2018.

B. PROPERTY TAX FUND (CONTINUED)

Insurance and Other Withholdings

As part of the municipalities' monthly remittances distributed by the Center, withholdings are made in order to cover the municipalities' obligations, and include the following:

- **Municipal insurance policies:** The Municipalities carry commercial insurance to cover casualty, theft, tort claims, and other losses. Originally, insurance policies were negotiated by the Puerto Rico Treasury Department. Since 2012, the Municipalities were allowed to negotiate their insurance policies directly with insurance providers. As of June 30, 2019, all the municipalities of Puerto Rico negotiated their insurance policies with private insurance providers. All costs associated with the insurances are withheld from the property tax collections.
- **Loans:** The Center also withholds all amounts due by municipalities on their loans payable to the Government Development Bank for Puerto Rico and commercial banks.
- **Payments due to governmental entities:** Certain amounts due to other governmental entities under payment plans subscribed by the municipalities or by statutory acts.
- **Center's administrative expenses:** In addition, the Center withholds from property tax advances up to 5% of the collections of the property tax to cover for the Center's administrative expenses.

Advances and Final Liquidation

On September 20, 2019, the Center's Governing Board approved the Preliminary Liquidation and the advance of the estimated funds to be distributed to the Municipalities. This Preliminary Liquidation shows municipalities with superavits of \$43,829,101 and municipalities with deficit of funds of \$401,831. The total funds distributed to those municipalities with a superavit amounted to \$35,063,281, which represents an advance of funds of 80%.

On December 18, 2019, the Center's Governing Board approved the Final Liquidation. The Final Liquidation shows municipalities with superavits of \$44,687,495 (\$9,706,217 net of the funds advances with the Preliminary Liquidation mentioned before) and municipalities with deficit of funds of \$526,618.

C. LIQUIDATION AND CLAIMS

There are various municipalities that had filed administrative and legal actions against the Center, challenging the final liquidations for certain prior years. The final determination of these actions cannot be determined at the date of this report. The Center plans to defend its position vigorously in order to prevail.

Act No. 80 of August 30, 1991, as amended, provides for the distribution of the Municipal Public Works Fund, a fund that accounts for 2% of the collections from fines imposed under Act No. 22 of January 7, 2000, as amended, known as the Vehicle and Traffic Act of Puerto Rico. The Department of the Treasury has not established a mechanism to identify those funds in order to be distributed to the municipalities. Accordingly, such distribution is not included in the accompanying Schedule.

C. LIQUIDATION AND CLAIMS (CONTINUED)

Act No. 162 of August 8, 2012 provides for certain additional funds to be distributed annually to the municipalities of Puerto Rico commencing with the fiscal year ended June 30, 2014. The additional funds amounting to \$25,000,000 per annum or the amount determined as a result of an independent audit to be annually performed by the Government Development Bank for Puerto Rico shall be distributed before the end of each fiscal year commencing with the fiscal year ended June 30, 2014. Such distribution is not included in the accompanying Schedule.

On June 29, 2018, the Center filed a Proof of Claim (Claim 77843) in the sum of \$75 million in the PROMESA Title III Bankruptcy Case filed by the Commonwealth of Puerto Rico on May 3, 2017. This Proof of Claim was filed pursuant to the provisions of Act No. 162 of August 8, 2012, involving government mandated appropriations to the Center in the yearly sums of \$25 million. Claim 77843 involves the unpaid appropriations for the three (3) years preceding the filing of the Title III Case. Any distribution on said claim, which is a general unsecured claim will be made after confirmation of the Plan of adjustment filed by the Commonwealth of Puerto Rico and will be subject to the prorated distribution provisions to general unsecured creditor.

D. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 18, 2019, the date the Schedule of Property Tax Fund Liquidation (the Schedule) of the Municipal Revenue Collection Center (the Center) for the year ended June 30, 2019 was available to be issued. No significant events that should have been recorded or disclosed were noted, except for the matters mentioned in the next paragraphs.

Impact of the Certified Budget for Fiscal Year 2019-2020

The Financial Oversight and Management Board approved a fiscal plan which included the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenues Collection Center (CRIM).

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2019-2020, the estimated reduction of revenues will be \$36,102,000. Accordingly, during fiscal year 2019-20, the revenues will experience a reduction of 16.77% distributed as follows:

<u>Revenue Source</u>	<u>2019-20 Budget</u>	<u>2018-19 Budget</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
2.5% NIR General Fund	\$ 131,838,000	\$ 175,730,000	\$ (43,892,000)	(24.98)%
35% of Puerto Rico Additional Lottery System	47,310,000	39,520,000	7,790,000	19.71%
Total	<u>\$ 179,148,000</u>	<u>\$ 215,250,000</u>	<u>\$ (36,102,000)</u>	<u>(16.77)%</u>



Autorizado por la Comisión Estatal de Elecciones Núm. CEE-SA-2020-5908

