



# ANNUAL REPORT

Commonwealth of Puerto Rico • Office of the Comptroller

*FOR FISCAL  
YEAR ENDED  
JUNE 30, 2019*







# OFFICIAL SHIELD

The sky-blue color represents loyalty and truth, essential values in public service.

The crossed keys with the gold coins mean fidelity, security and safe-keeping of the people's moneys and properties.

The satellite orbiting above the earth represents the era of information technology systems and telecommunications.

The planet symbolizes a new world, of which we are all a part thereof.

Bordering the shield, we have the eight values that are part of our public service philosophy.

**To improve the oversight function and administration of public funds and property is a commitment of all.**

Additional information related to the Office of the Comptroller of Puerto Rico is available through the Internet at [www.ocpr.gov.pr](http://www.ocpr.gov.pr)



ocpronline



ocpronline



## MISSION

To oversee the transactions of public funds and property, with independence and objectivity, in order to ascertain that they have been carried out in accordance with the law, and address other matters entrusted. To promote the effective, economical, efficient, and ethical use of government resources for the benefit of our people.

## VISION

To serve Puerto Rico with a modern and technological Comptrollership that will carry out advanced audits and investigations, to achieve good government through our experience and knowledge support.

## VALUES

### COMMITMENT

We offer the best of our capabilities, talent, energy and effort.

### EXCELLENCE

We are relentless in our efforts to perform to the best of our capabilities.

### INTEGRITY

We demonstrate honesty and reliability in the constant execution of our duties.

### JUSTICE

We promote solutions, methods and processes based on maintaining balance and respect of rights. We observe and respect legal equality.

### RESPECT

We are pleasant and considerate. We accept diversity and individual qualities.

### RESPONSIBILITY

We are thorough in the manner in which we carry out our duties and accept the consequences of our actions and decisions.

### SENSIBILITY

We are empathic and treat others without prejudgments.

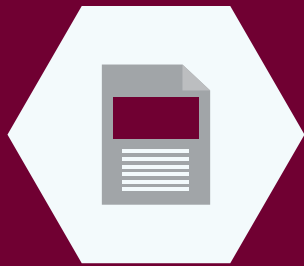
### TRANSPARENCY

We express ourselves with clarity and act with confidence and legality.

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# LETTER OF TRANSMITTAL



**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

June 6, 2022

To the Governor of Puerto Rico,  
the President of the Senate,  
the Speaker of the House of Representatives,  
Members of the Legislature,  
and the People of Puerto Rico:

In the exercise of our ministerial duty, we are pleased to submit the Annual Report of the Office of the Comptroller of Puerto Rico, hereinafter referred to as the OCPR, for the fiscal year ended June 30, 2019. The OCPR is responsible for the accuracy, completeness, and fairness of the information and disclosures included in this document. All disclosures necessary for a reasonable understanding of the financial activities have been included. To the best of our knowledge, the information presented herein is accurate.

Our independent auditor has issued an unmodified (“clean”) opinion on the OCPR financial statements for the fiscal year ended June 30, 2019. The independent auditors’ report is located at the front of the financial section of this report. This report was not issued until December 10, 2021.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the general fund balance sheet and statement of net position, the statement of general fund revenue, expenditures and changes in fund balance and statement of activities, and the notes to financial statements. The statistical section completes this report. It provides information about finances, economics, and operational matters related to the OCPR that is generally presented on a comparative basis.

## GENERAL INFORMATION

The Comptroller of Puerto Rico has the Constitutional duty to oversee all revenues, accounts, and disbursements of the Commonwealth of Puerto Rico, and to ascertain that all operations involving public funds and public property are performed according to applicable laws and regulations. This authority arises from Section 22, Article III of the Constitution of the Commonwealth of Puerto Rico, and from the Public Law that created the Office of the Comptroller of Puerto Rico, Act No. 9 of July 24, 1952, as amended.

As required by Act 243-2015, for audits commenced on or after July 1, 2016 government agencies are audited through the application of the Generally Accepted Government Auditing Standards (GAGAS) published by the Government Accountability Office (GAO) and other pertinent investigative techniques adopted by the Comptroller. The OCPR has divided all government entities of the Executive, Legislative, and Judicial branches, into 501 units as of June 30, 2019 for auditing or examination purposes. This figure includes departments, agencies, public corporations, and municipalities.

Results, including findings and recommendations, are presented in audit and special reports, thus providing for appropriate corrective actions. Violations of law are referred to the appropriate administrative, civil, or criminal law enforcement agencies.

The chief executive of the audited agency is required to inform the OCPR of the actions taken or that will be taken in order to comply with the recommendations resulting from our audit.

## STRATEGIC PLAN

The OCPR operates according to the four-year Strategic Plan 2018-2021, approved on February, 2018. To achieve our mission and vision statements, and meet our statutory responsibilities, we developed our Plan which consists of two strategic goals, six strategic objectives, initiatives and key projects to support what we want to achieve. The Plan was developed with the participation of executives in various one day sessions. The mission and values were revised and ideas to develop the goals, objectives and initiatives were considered to define the execution plans. The vision declaration was validated with a focus to serve Puerto Rico with a modern and technological Comptrollership that will carry out state of the art audits and investigations, to achieve good government through our experience and knowledge support.

Each year we establish the objectives that we propose to accomplish, depending on the resources that are assigned to the OCPR. During fiscal year 2018-2019 we attained significant goals using the managerial philosophy of Total Quality Management (TQM) to optimize the use of funds that have been assigned to conduct our operations. As of June 2019, we have completed 16 key projects defined on Strategic Plan 2018-2021.

## OVERSIGHT

During fiscal year 2018-19, we published 86 audit reports, and 2 special reports. The audit reports correspond to the Legislative Branch (27), the Executive Branch (14), the Judicial Branch (2), and municipalities (45). The audit reports contained 672 situations: in the Legislative Branch (17), the Executive Branch (224), the Judicial Branch (1), and municipalities (430). In Chart 4 we present the classification of the most important findings. On these reports we included 696 recommendations: to the Governor (0), the President of the Senate and the Speaker of the House of Representatives (1), the Department of Justice (11), the Treasury Department (1), the Office of Government Ethics of Puerto Rico (4), the principal officers of the entities (582), and others (97).

## PREVENTION

1. Professional guidance concerning sound public administration were offered to 5,753 government officials and employees during fiscal year 2018-19. This amount includes lectures offered to 60 officials on the proper use of public property and funds in compliance with Act No. 78-2011, as amended, and 56 executives appointed by the Governor of Puerto Rico in compliance with Act No. 190-2006. In addition, it includes lectures offered to 5,637 officials and employees from different state government agencies, public corporations and municipalities and the private sector (academic institutions, professional associations and others).
2. Attended the 2018 Teammate Forum in Florida on September 30 – October 3, 2018.
3. Attended the NSAA IT Workshop and Conference in Savannah, Georgia on January 29 - February 1, 2019.
4. Participated in the Access Data 2019 User Summit in Las Vegas, NV on April 8-11, 2019.
5. Attended the High Tech Crime Investigation Association (HTCI) International Conference and Expo in Washington, DC on August 19-22, 2018.
6. Participated in the XLII General Assembly of the *Organización Centroamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OCCEFS) held in Guatemala on July 4-6, 2018.
7. Attended the National Association of State Auditors, Comptrollers and Treasurers (NASACT) Annual Conference in August 2018.
8. Participated in the XXVIII General Assembly of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OLACEFS) held in Argentina on October 8-13, 2018.
9. Participated in the Annual International Integrity Conference (CAII) hosted by SAI Perú and held in Lima, Perú on December 5-8, 2018.
10. Participated in the Seminar-Workshop *Improving the Access to Information and the utilization of governmental oversight results in Latin America and the Caribbean*. held in Chile on March 13-14, 2019.

11. Received 131 requirements of information from various Supreme Audit Institutions around the world about different topics like: SAIs technical and audit issues.
12. Answered 22 surveys form various Supreme Audit Institutions around the world about different topics like: internal communications; integrity management; internal controls; audit procedures.
13. Participated in two webinars hosted by OLACEFS.
14. Offered five sessions of training to approximately 85 employees of the Department of Treasury on *Aspects related to corruption, fraud and its consequences*.
15. Offered training to auditors on topics like: *Aspects related to corruption, fraud and its consequences; Auditorías de Alcance Específico (Quick Response Audits); and Duties, responsibilities and functions of the members of the boards of directors of public corporations*.
16. Published revised versions of three publications regarding various topics as follows: Government Payroll Expenses and Job Registry (Section 14 of Act 103-2006, as amended); Planning, contracting, service provision and other aspects related to disbursements for technology projects in the government; and Duties, responsibilities and functions of the members of the boards of directors of public corporations.
17. Participated in the Business Simulation Course offered at Universidad Ana G. Méndez-Carolina Campus held on October 26, 2018.
18. Prepared and published the video: *The bidding process*.
19. Continue working with the strategies to improve the OCPR webpage to comply with OLACEFS evaluation on SAIs transparency standards.
20. Fifteen (15) Circular letters were issued during fiscal year 2018-19. Among the most important letters are:
  - a. Circular Letter OC-19-05 dated October 3, 2018 - *Extensión de fecha límite para remitir la Certificación sobre el Cumplimiento de la Ley 273-2003, para el año fiscal 2016-17,*
  - b. Circular Letter OC-19-06 dated November 9, 2018 - *Disposiciones de la Ley 103-2006 sobre el Registro de Puestos e Información Relacionada en el Gobierno.*
  - c. Circular Letter OC-19-09 dated January 16, 2019 - *Planificación, contratación, prestación de servicios y aspectos relacionados con los desembolsos para proyectos tecnológicos en el gobierno.*
  - d. Circular Letter OC-19-10 dated February, 13, 2019 - *Fechas límites en el 2019 para remitir a la Oficina del Contralor los informes mensuales del Registro de Puestos e Información Relacionada.*
  - e. Circular Letter OC-19-11 dated March 27, 2019 - *Contratos de Servicios Profesionales a Contingencia.*
  - f. Circular Letter OC-19-13 dated April, 30, 2019 - *Deberes, responsabilidades y funciones de los miembros de las juntas directivas de las corporaciones públicas.*

- g. Circular Letter OC-19-14 dated June 19, 2019 - *Facturación y cobro por solicitudes y requerimientos de información de la Oficina del Contralor de Puerto Rico.*
- h. Circular Letter OC-19-15 dated June 28, 2019 - *Aspectos a Considerar en el Proceso y el Control de las Transferencias Electrónicas por la Red Automated Clearing House (Red ACH).*

## HUMAN CAPITAL

1. Office-wide training was offered on techniques for the detection of illegal use of controlled substances, sexual harassment, and other forms of discrimination.
2. All personnel were trained on Government Ethics.
3. Fringe benefits and government contributions to the Medical plan were maintained to retain and attract highly qualified personnel.
4. Engaged in special activities as part of our commitment with the community and to comply with our social responsibility objective. Among them:
  - United Fund Campaign
  - Participated in activities with the Down Syndrome Foundation.
5. The OCPR continued providing services as established in the Personnel Support Program empowered by Act No. 9 of July 24, 1952, as amended. The Program's philosophy and goals are directed to assist our fellow-workers and their families, primarily with problems related to marital or family situations, work conditions, emotional aspects, and adolescence guidance, among others. The Program is voluntarily guided, and it is considered an innovative initiative to improve the quality of life of our personnel.
6. Internship Program: provided four qualified university students the opportunity for learning government operations through the audits that the Office performs. Also, to develop and encourage interest in public service.

## TECHNOLOGY

1. New public search portal of the contract registry (*consultacontratos.ocpr.gov.pr*) was implemented making accessible to the public the full text of government contracts.
2. New Cybersecurity awareness training program was implemented.
3. The new *Contraloría Digital* portal (*contraloriadigital.ocpr.gov.pr*) was implemented.
4. Phase 2 of the Audit Circle Dashboard was implemented using the Power BI application.
5. Phase 1 of the Specific Scope Methodology Dashboard was implemented using the Power BI application.

6. Phase 1 of the Progress of Publication of Audit Reports Dashboard was implemented using the Power BI application.
7. Microsoft Teams collaboration platform implementation.

## TOTAL QUALITY MANAGEMENT

### IMPROVING PROCESSES

Continued with our commitment to analyze existing processes in our organization, improving them, and identifying the pertinent variables and factors so as to monitor behavior, measure progress, and control the processes. During fiscal year 2018-19, we continued updating internal data to the *Centro de Información Gubernamental* (CIG), and the usage and access to databases of the Department of Labor and Human Resources and the Department of Justice to support the auditors increased. We continued conducting surveys and publishing the results to measure customer satisfaction of the external orientations and trainings offered to the public employees. Also, we administered an Employee Engagement Survey based on the Federal Employee Viewpoint Survey (FEVS) methodology to obtain employee feedback on managerial priorities and practices, essential to effectively leading the OCPR toward successful accomplishments on goals and mission. The OCPR met 80% of the quality objectives defined for the year.

### ISO (INTERNATIONAL ORGANIZATION FOR STANDARDIZATION)

ISO (word derives from the Greek *isos*, meaning “equal”) is the world’s largest developer and publisher of International Standards. ISO is a network of the national standards bodies of 163 countries, on the basis of one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. Through its members, it brings together experts to share knowledge and develop voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges.

The quality management system standards of the revised ISO 9001:2008 series are based on eight principles (all fundamental to good business practices) that can be used by senior management as a framework to guide their organizations towards improved performance. The eight quality management principles are: Customer Focus, Leadership, Involvement of People, Process Approach, Systems Approach to Management, Continual Improvement, Fact Based Decision Making and Mutually Beneficial Supplier Relationships.

On November 11, 2015, Bureau Veritas, a widely recognized certification body in the world, re-certified the compliance of our Quality Management System (QMS) against the 9001:2008 international standard, without any non-conformances detected. The certification is valid for the next three years, contingent to successful periodic follow up audits. On November 11, 2016, Bureau Veritas performed the first follow up audit and certified, without any non-conformances detected, the compliance of our QMS to the standard. Subsequent follow up audits required by the certification requirements were postponed due to natural

disasters caused by hurricanes Irma and Maria. Finally, the certification of our Quality Management System (QMS) against the 9001:2008 standard expired on September 15, 2018. Subsequent certifications will be to the new standard 9001:2015. The OCPR management decided strategically to use this new standard as a reference to improve our processes.

## **THE CORRECTIVE ACTION PLAN**

The Corrective Action Plan (CAP) is a follow-up mechanism that ensures compliance with the recommendations made by the OCPR in its audit reports. This program was implemented pursuant to the provisions of Act No. 9, of July 24, 1952 which allows the Comptroller, in the exercise of her authority, to adopt practices and procedures generally accepted in current auditing practices. On May 6, 1988, the Governor issued Executive Order 5098D. This Order requires that the chief executive of an audited unit implement the corrective actions in compliance with the Comptroller's recommendations. On November 1, 1990, the Office approved Regulation No. 26 implementing the CAP. On June 13, 1998, the Governor issued Executive Order OE-1998-16, superseding Executive Order 5098D. On March 1, 2010, we implemented a process which allows the government entities to send the CAPs and complementary reports information using electronic mail. In addition, on October 24, 2016, the Office approved Regulation No. 26 implementing the CAP, superseding previous regulation.

On March 12, 2012 the Governmental Ethics Office of Puerto Rico issued Circular Letter No. 2012-01 in which it stated that non compliance with CAPs could be considered a violation of Act 1-2012 if by not complying public funds or property were considered lost.

By June 30, 2019, the OCPR had received 730 and evaluated 725 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 99 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2017-18 the OCPR received 558 and evaluated 550 CAPs, the 8 remaining were evaluated during fiscal year 2018-19. The Executive Order and Regulation No. 26 state that government entities should apply the same procedures applicable to the Comptroller's audit report recommendations contained in the external auditors' management letters. If, upon due consideration, the chief executive determines that the recommendations of the external auditors cannot be adopted, this determination should be appropriately documented and sustained.

The entire operation of the CAP continues to be reviewed, since optimum efficiency needs to be reached in the follow-up process, in order to increase compliance with the recommendations and develop quicker and accurate statistical data.

## **PUBLIC REGISTRY OF GOVERNMENT CONTRACTS**

According to Act No. 18 of October 30, 1975, as amended, government agencies, including public corporations and municipalities, are required to maintain a registry of all their contracts and deeds, including amendments thereto. Additionally, they have to register and submit a copy of their contracts, deeds, and

amendments to the OCPR within 15 consecutive days from the date of execution, or within 30 consecutive days if the contract is executed outside of Puerto Rico. Exceptions to this requirement are set forth in the statute and Regulation 33 of September 15, 2009.

The OCPR uses the Registry for verification purposes as part of its oversight role. On October 15, 2009, we implemented a version of the Registry which allows government agencies, among other enhancements, to send digitized copies of the contracts using the Internet. The Registry is accessible to the general public via Internet since 1999 at [www.ocpr.gov.pr](http://www.ocpr.gov.pr). Interested parties may request copies of these contracts. Since October 1, 2018, copies of contracts are available without charge. If the copy of the contract is not available, it may be requested. As of fiscal year 2018-19 a total of **172,830** contracts are available to be downloaded.

The information system related to the Registry of Government Contracts established since 1990-91 has proven to be an efficient research tool related to contracts executed by government entities. This system has a search feature which allows for the retrieval of information using various reference fields such as: contract number, name of the contractor, date of execution, dollar amount and type of contract. In our opinion the Registry of Contracts is the most transparent tool in the Puerto Rico government.

## REGISTRY OF LOSSES OR IRREGULARITIES OF PUBLIC FUNDS OR PROPERTY

The OCPR instituted a computerized registry system on October 30, 2013 in which government entities register the information related to losses or irregularities with public funds or property. This computerized system was established in compliance with the provisions of Act No. 96 of June 26, 1964, as amended. As per this statute, government entities are also required to report certain losses to the Treasury Department and the Justice Department.

## REGISTRY OF PRIVATIZATIONS

Act No. 136-2003, as amended by Act No. 71-2007, requires all government entities, including public corporations and municipalities, to submit an annual report of all privatizations of functions, areas of administration, or duties of their entities to the Governor, the Legislature and the Office of the Comptroller. Additionally, they have to submit information related to contracts, budget, projects, obligations, internal controls, real property and an independent financial and administrative evaluation of said privatizations. The OCPR is required to maintain a registry on all reports received. The Registry is accessible to the general public via Internet at [www.ocpr.gov.pr](http://www.ocpr.gov.pr).

## GOVERNMENT EXPENSES AND EMPLOYMENT REGISTRY

According to Act No. 103-2006, every agency that receives funds from the government's General Fund has to submit by December 31 of each year, to the secretaries of the House of Representatives and Senate of Puerto Rico, the Office of the Comptroller, and the Office of Management and Budget (OMB), a certification signed and sworn by the Director of Finance and the Agency Executive. This certification must contain, among

other things: the number of job posts by category at the beginning and at the end of the fiscal year, including the payroll budget; professional services received and analysis of expenses during the fiscal year; and all its funding sources from the general fund, special assignments, state and federal funds, and other income. In addition, Act No. 103-2006 created a Job Registry, monitored by the Office of the Comptroller, which requires that all agencies, public corporations and municipalities report, on a monthly basis, all occupied job posts and vacancies. The registry has been designed by the OCPR and is available online through the website with the title Job Registry under *Contraloría Digital*.

## RESULTS OF OPERATIONS

### BUDGET

The budget assigned to the OCPR for the fiscal year 2018-19 was \$39,133,000, this represents \$557,000 less when compared to the previous year. Of this amount \$2,331,000 was withheld by the Office of Management and Budget (OGP, Spanish acronym) for the payment of the PayGo Charge of their pensioners. Resulting in an operating budget of \$36,802,000. The OCPR had expenses and obligations in the amount of \$35,449,157, resulting in an unspent balance of \$1,352,843. This balance is available for non-recurring expenses. Specific information for all the financial result, not only the budgetary, is presented in the Financial and in the Statistical Sections of this Report.

### HUMAN CAPITAL

As of June 30, 2019, the Office had 515 full time occupied positions or 77 percent out of 669 authorized positions; 315 were auditors and 200 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals (Chart 2). During 2018-19, 11 auditors and 7 support personnel resigned or retired, while none auditors and 1 support personnel were hired. A grand total of 779,651.25 hours were dedicated to audits, service and administrative support, information and communication systems, trainings, and prevention and anti-corruption. (Chart 3)

### TRAINING

The OCPR has established through internal regulation requirements for support personnel to take a minimum of 15 hours of continued education annually. Auditors are required a minimum of 80 hours every 2 years; 24 must be in subjects and topics directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates.

During 2018-19, 26,722.75 hours were dedicated to training and education. Seminars and conferences in auditing, management, report writing, grammar skills, leadership, supervision, and recent developments in information technology have been a priority.

## FINANCIAL INFORMATION

### INTERNAL CONTROLS

The OCPR is responsible for establishing and maintaining an internal control structure designed to ensure that its assets are protected from loss, theft, or misuse, and that adequate accounting data is compiled to allow for the presentation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that, (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and sound management judgment by administrators.

The OCPR has regulations to strengthen the independence, integrity, and trust on the Office's internal auditing activity and the transparency in its fiscal processes and transactions.

### BUDGETARY CONTROLS

The OCPR maintains an encumbrance accounting system to accomplish its budgetary controls. As demonstrated by the financial statements and schedules included in the Financial Section of this report, management of the OCPR continue to meet its responsibility for sound financial administration, following the norms of austerity and modesty.

### INDEPENDENT AUDIT

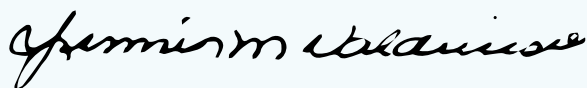
KPMG, LLP an independent certified public accounting firm, performed the audit of the financial statements of the OCPR for fiscal year ended June 30, 2019. The Independent Auditors' Report is included in the Financial Section. The OCPR received the audited financial statements on December 10, 2021.

### FINANCIAL REPORTING

The OCPR complies with all financial reporting requirements.

Improving the oversight function and administration of public funds and property is a commitment of all.

Respectfully submitted,



Yesmín M. Valdivieso



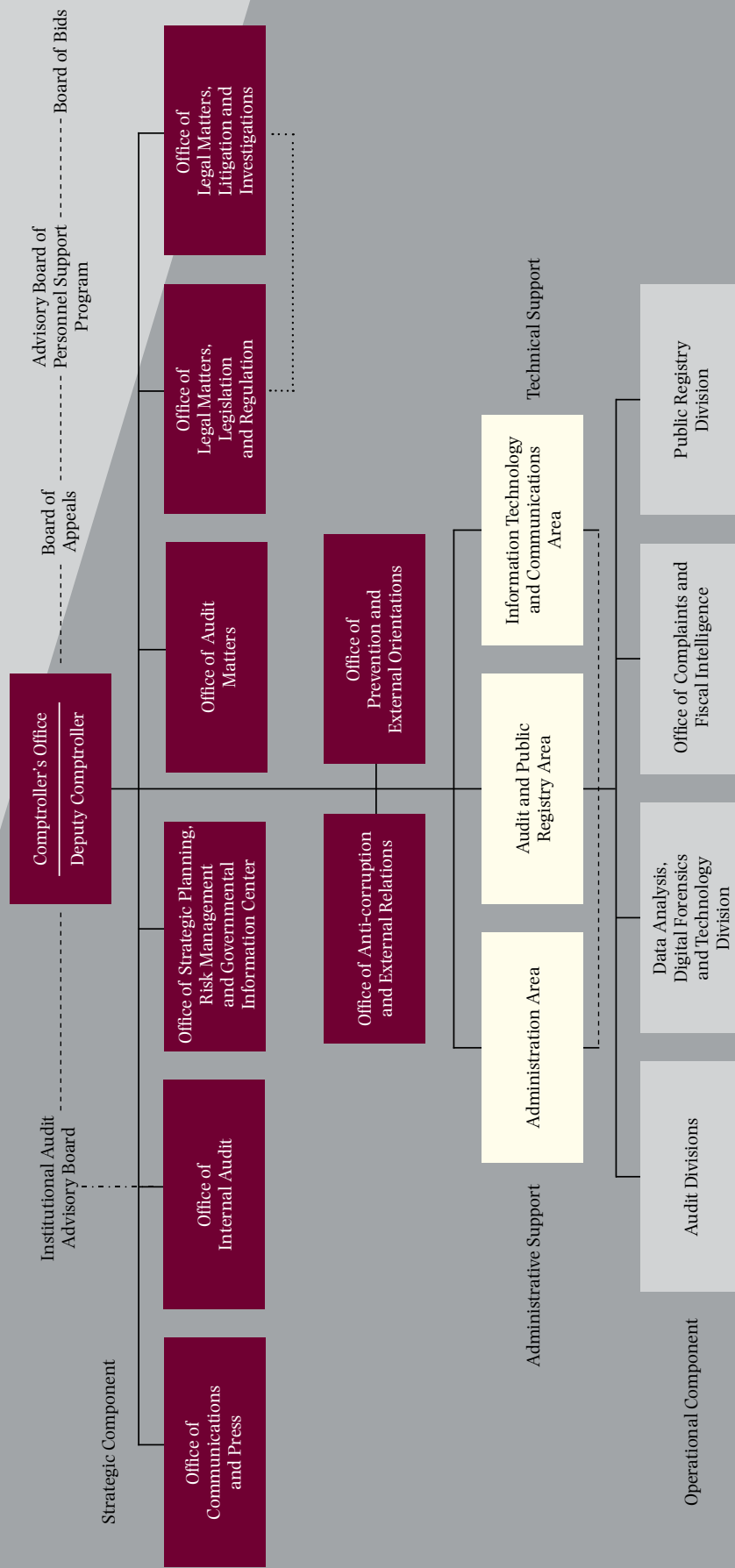


# ORGANIZATIONAL CHART



# COMMONWEALTH OF PUERTO RICO OFFICE OF THE COMPTROLLER

## Organizational Chart



----- Consulting and Advisory Areas

..... Technical Control and Coordination Areas

----- Reports to Institutional Advisory Board and Administratively to the Comptroller



# PRINCIPAL OFFICERS

# PRINCIPAL OFFICERS

## OFFICE OF THE COMPTROLLER

**Hon. Yesmín M. Valdivieso**  
COMPTROLLER

**Jesús A. Rosario Morales**  
DEPUTY COMPTROLLER

**Miriam T. Contreras Amador**  
ASSISTANT COMPTROLLER  
ADMINISTRATION AREA

**Miriam Díaz Viera**  
DIRECTOR  
OFFICE OF PREVENTION AND  
EXTERNAL ORIENTATIONS

**Edwin H. Rodríguez Hernández (RIP)**  
DIRECTOR  
OFFICE OF ANTI-CORRUPTION  
AND EXTERNAL RELATIONS

**Jamiel Miranda Matos**  
EXECUTIVE DIRECTOR  
OFFICE OF STRATEGIC PLANNING, RISK MANAGEMENT  
AND GOVERNMENTAL INFORMATION CENTER

**Abelardo Casanova Hernández**  
EXECUTIVE DIRECTOR  
OFFICE OF LEGAL MATTERS,  
LEGISLATION AND REGULATIONS

**Ismael Ramírez Rodríguez**  
EXECUTIVE DIRECTOR  
OFFICE OF LEGAL MATTERS,  
LITIGATION AND INVESTIGATION

**Myriam J. Flores Santiago**  
DIRECTOR OF INTERNAL AUDIT

**Lisandra Rivera Rivera**  
DIRECTOR OF COMMUNICATIONS AND PRESS

## AUDIT AND PUBLIC REGISTRY AREA

**Edna Velázquez Díaz**  
DIRECTOR  
OFFICE OF AUDIT MATTERS

**José E. Maldonado Castro**  
AUDIT DIRECTOR  
DEPARTMENTS AND AGENCIES DIVISION

**Elvira López Ortiz**

AUDIT DIRECTOR  
PUBLIC CORPORATIONS DIVISION  
**Pedro J. Brugueras Fernández**  
AUDIT DIRECTOR  
MUNICIPALITIES DIVISION

**Ivonne J. Plumey López**  
AUDIT DIRECTOR  
INFORMATION TECHNOLOGY DIVISION

**Ricardo Acosta Acosta**  
DIRECTOR  
DATA ANALYSIS, DIGITAL FORENSICS AND  
TECHNOLOGY DEVELOPMENT DIVISION

**Suzanne Benítez Matos**  
DIRECTOR OF PUBLIC REGISTRY DIVISION

**Julio J. Dávila Bravo**  
DIRECTOR  
OFFICE OF COMPLAINTS  
AND FISCAL INTELLIGENCE

## ADMINISTRATION AREA

**Oscar A. Luna Díaz**  
DIRECTOR  
FINANCE AND BUDGET DIVISION

**Iseut G. Vélez Rivera**  
DIRECTOR  
HUMAN CAPITAL DIVISION

**Elsa S. Páez Guerrero**  
DIRECTOR  
GENERAL SERVICES DIVISION

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# FINANCIAL SECTION



**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

(An Agency of the Commonwealth of Puerto Rico)

Financial Statements and Required Supplementary Information

June 30, 2019

(With Independent Auditors' Report Thereon)

**COMMONWEALTH OF PUERTO RICO**  
**OFFICE OF THE COMPTROLLER**  
 (An Agency of the Commonwealth of Puerto Rico)

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## Independent Auditors' Report

The Comptroller of Puerto Rico  
Office of the Comptroller

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Office of the Comptroller (the Office), an agency of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2019 and the related notes to the financial statements, which collectively comprise the Office'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 U.S. generally accepted accounting principles; 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Office of the Comptroller, an agency of the Commonwealth of Puerto Rico, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



## Emphasis of Matters

### *An Agency of the Commonwealth of Puerto Rico*

As discussed in Note 1, the financial statements of the Office, an agency of the Commonwealth, are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the Commonwealth as of June 30, 2019, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### *Adoption of GASB Statement No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*

As discussed in Note 10 to the financial statements, the Office adopted the provisions in Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*. Our opinions are not modified with respect to this matter.

## Other Matters

### *Commonwealth of Puerto Rico - Going Concern Considerations*

As further discussed in Note 2, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). The June 30, 2018 audited financial statements of the Commonwealth, which were issued on June 30, 2021, disclosed there was substantial doubt as to the ability of the Commonwealth to continue as a going concern. As of the date of these financial statements, a plan of adjustment has not yet been approved by the Title III Court. Our opinions are not modified with respect to this matter.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the [ management's discussion and analysis on pages 4–11 and the schedule of the Office's proportionate share of net pension liability and related ratios, schedule of employer's contributions- Pension Plan, Schedule of the Office's proportionate share of OPEB liability and related ratios, schedule of revenues, expenditures, and budgetary information page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2021 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Office's internal control over financial reporting and compliance.

KPMG LLP

San Juan, Puerto Rico  
December 10, 2021

Stamp No. E470349 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

(An Agency of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)

June 30, 2019

The Office of the Comptroller (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico (the Commonwealth), offers to the readers of the financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2019. The Office has the constitutional duty to ascertain that all revenues, accounts, and disbursements of the Commonwealth and all operations involving public funds and public property were performed as stated in Article III of the Constitution of the Commonwealth, Act No. 9 of July 24, 1952, as amended.

**Financial Highlights**

- Total liabilities of the Office's governmental at the close of the fiscal year ended June 30, 2019 amounted to approximately \$137,908,000 comprising primarily of the total pension liability of approximately \$110,600,000.
- The liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by approximately \$127,450,000.
- As a result of the implementation of the PayGo system on July 1, 2018, the Defined Benefit Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico does not meet the criteria in paragraph 4 of the Governmental Accounting Standards Board (GASB) Statement No. 68 and therefore as of July 1, 2018 the pension plan is no longer administered by a trust and the net pension liability was replaced with a total pension liability under GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*.
- The Office's total assets and deferred outflows of resources decreased by approximately \$28,460,000.
- The Office's net position increased by approximately \$53,776,000 in fiscal year 2019 when compared to prior year net position of approximately \$181,226,000, mainly as a result of the decreased in the pension expense related to the adoption of GASB Statement No. 73.
- Pursuant to GASB Statement No. 73, which establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68, the Office recognized a total pension liability of approximately \$110,600,000 as of June 30, 2019.
- The Office's net investment in capital assets increased by approximately \$513,000.
- The final budget of the Office for fiscal year 2018-2019 was \$39,133,000.

The Office's budgetary basis revenues and other financing sources exceeded its budgetary basis expenditures by approximately \$1,633,560 for the fiscal year 2018-2019.

**Overview of the Basic Financial Statements**

This Management's Discussion and Analysis section is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components:

- 1) government-wide financial statements on all of the activities of the Office, 2) fund financial statements, and 3) notes to basic financial statements.

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*Government-Wide Financial Statements*

The government-wide financial statements are designed to provide readers with a broad overview of the Office's financial position, in a manner similar to a private-sector business.

The statement of net position presents information of all of the Office's assets and deferred outflows of resources and liabilities and deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating as a result of the year's operations.

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

Both of the government-wide financial statements distinguish functions of the Office that are supported by appropriations from the General Fund of the Commonwealth.

*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 Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of the Office belongs to the category of governmental funds.

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

Because the focus of governmental fund financial statements 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. Both, the General Fund balance sheet and the statement of General Fund revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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*Notes to Financial Statements*

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 to 34 of this report.

***Changes in Accounting for Pensions***

Effective July 1, 2017, the Commonwealth, its component units and municipalities were required to implement a "pay-as-you-go" (PayGo) system for the payment of pensions pursuant to Act No. 106 of August 23, 2017 (Act No. 106-2017) which provided the legal framework for the Commonwealth to implement the PayGo system. Pursuant to Act No. 106-2017, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities (the System) was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers' contributions and the Additional Uniform Contribution were eliminated.

Because of the implementation of PayGo, the Office applied the guidance in GASB Statement No. 73, which establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The impact of the application of GASB Statement No. 73 was primarily the elimination of the previously reported net pension liability as of July 1, 2018 of approximately \$175,615,000 and the recognition of a total pension liability of approximately \$125,770,000 and a gain of approximately \$41,000,000.

**Financial Analysis of the Governmental Activities**

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

*Net Position*

The statement of net position serves as an indicator of the Office's financial position at the end of fiscal year. The Office's net position includes net investment in capital assets of approximately \$2,140,000 and an

**COMMONWEALTH OF PUERTO RICO  
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unrestricted deficit of approximately \$129,590,000. The following is condensed summary information for fiscal years ended June 30, 2019 and 2018.

| <b>Condensed Information - Net Position</b> |                         |                      |                     |
|---------------------------------------------|-------------------------|----------------------|---------------------|
|                                             | <b>2019</b>             | <b>2018 *</b>        | <b>Change</b>       |
| Current assets                              | \$ 7,753,226            | 6,596,030            | 1,157,196           |
| Capital assets, net                         | 2,139,133               | 1,625,798            | 513,335             |
| <b>Total assets</b>                         | <b>9,892,359</b>        | <b>8,221,828</b>     | <b>1,670,531</b>    |
| Deferred outflows of resources              | 7,536,311               | 37,664,355           | (30,128,044)        |
| Other liabilities                           | 5,026,595               | 5,155,517            | (128,922)           |
| Long-term liabilities                       | 132,881,193             | 199,814,108          | (66,932,915)        |
| <b>Total liabilities</b>                    | <b>137,907,788</b>      | <b>204,969,625</b>   | <b>(67,061,837)</b> |
| Deferred inflows of resources               | 6,971,387               | 22,142,862           | (15,171,475)        |
| <b>Net position:</b>                        |                         |                      |                     |
| Net investment in capital assets            | 2,139,133               | 1,625,798            | 513,335             |
| Unrestricted – deficit                      | (129,589,638)           | (182,852,102)        | 53,262,464          |
| <b>Total net position</b>                   | <b>\$ (127,450,505)</b> | <b>(181,226,304)</b> | <b>53,775,799</b>   |

\* The 2018 figures do not include the effect of the application of GASB Statement No. 73.

Total assets of the Office's at June 30, 2019 increased by approximately \$1,670,000 when compared to the total assets as of June 30, 2018 primarily attributable to an increase of cash in commercial bank of approximately \$1,150,000.

Deferred outflows of resources, which represents an increase in net position applicable to future reporting periods, decreased by approximately \$30,130,000 when compared to June 30, 2018. The decrease in 2019 resulted primarily from the implementation of the PayGo system which does not meet the criteria for GASB Statement No. 68 and therefore GASB Statement No. 73 was applied.

Total liabilities at June 30, 2019 decreased by approximately \$67,062,000 when compared to total liabilities at June 30, 2018. This decrease resulted mainly from the net effect of the application of GASB Statement No. 73 as amended, which required the Office to recognize a total pension liability of approximately \$125,770,000 as of July 1, 2018 and eliminate the net pension liability of approximately \$175,615,000 a net difference of approximately \$50,000,000.

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Deferred inflows of resources, which represent a decrease in net position that is applicable to future reporting periods, amounted to approximately \$6,970,000 at June 30, 2019. The decrease of approximately \$15,170,000 when compared to June 30, 2018 resulted primarily from changes in the deferred inflows of resources from pension activities related to differences between projected and actual earnings on pension plan benefits.

*Capital Assets*

The capital assets of the Office are those assets that are used in the performance of its functions. The net investment in capital assets for the fiscal year ended June 30, 2019 amounts to approximately \$2,139,000. The Office's capital assets, net increased during 2019 by approximately \$513,000.

Capital assets, net increased primarily due to the net effect of the following:

- The acquisition of software including capitalization of internally developed software in the amount of approximately \$268,000,
- Current year's depreciation and amortization of approximately \$436,000, and
- The acquisition of electronic equipment and computer software at a cost of approximately \$634,000.

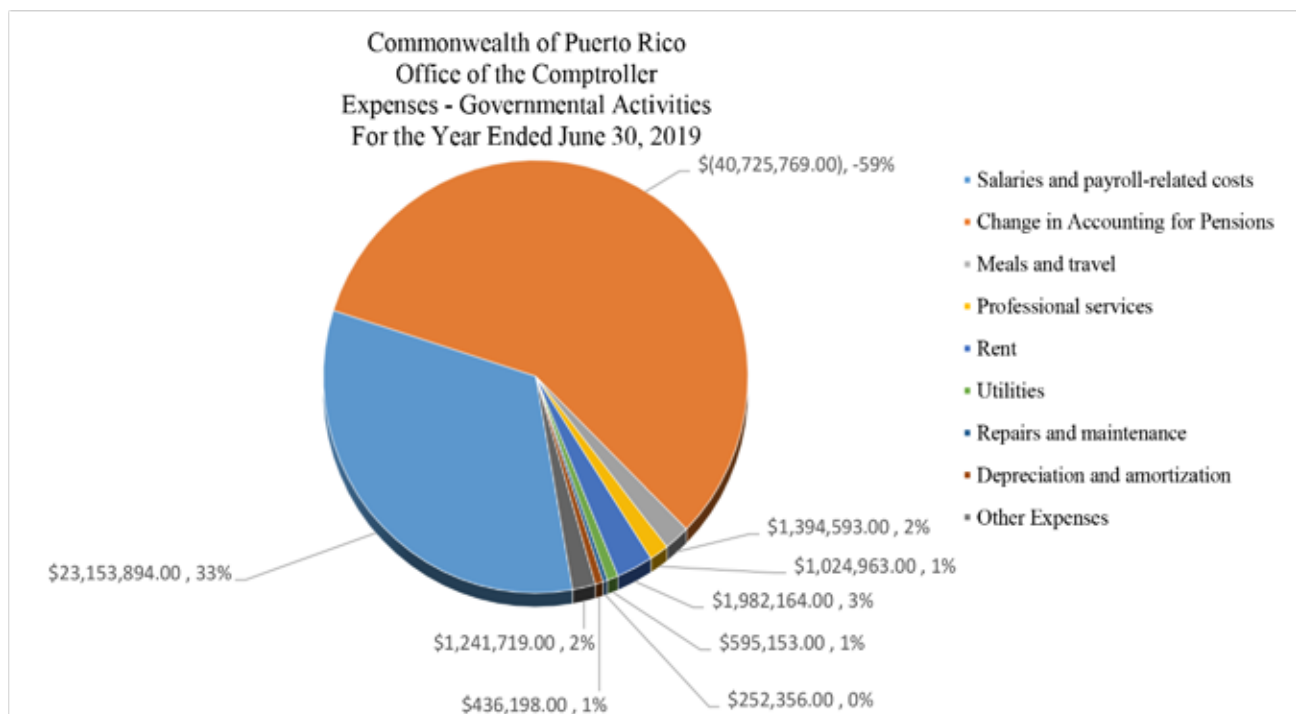
*Changes in Net Position*

The following condensed summary of activities reflects how the Office's net position changed during the fiscal year ended June 30, 2019.

| <b>Condensed Information - Statement of Activities</b> |                  |               |               |
|--------------------------------------------------------|------------------|---------------|---------------|
|                                                        | <b>2019</b>      | <b>2018</b>   | <b>Change</b> |
| Revenues                                               | \$ 96,129        | 25,509        | 70,620        |
| Transfers in                                           | 43,034,941       | 39,692,003    | 3,342,938     |
| Expenses                                               | 10,644,729       | (48,253,989)  | 58,898,718    |
| Change in net position                                 | \$ 53,775,799    | (8,536,477)   | 62,312,276    |
| Net position:                                          |                  |               |               |
| At beginning of year                                   | (181,226,304)    | (170,195,223) | (11,031,081)  |
| Prior period adjustment                                | —                | (2,494,604)   | 2,494,604     |
| At beginning of year, as restated                      | —                | (172,689,827) | 172,689,827   |
| At end of year                                         | \$ (127,450,505) | (181,226,304) | 53,775,799    |

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The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2019.



There is a substantial decrease in the Office's expenses which is related to the application of the change in the accounting for pensions, which represent approximately -59% of total expenses incurred during fiscal year ended June 30, 2019. Total expenses also decreased by approximately \$58,900,000 mainly due to a decrease in this fiscal year pension expense due to the application of GASB Statement No. 73 and the elimination of GASB Statement No. 68. The increase in transfers in of approximately \$3,343,000 is mainly due to the establishment of the pay-as-you-go method by which pensions benefits would be paid by the Commonwealth.

**General Fund Budgetary Highlights**

The 2018-2019 General Fund Budget was \$39,133,000 and actual expenses in the budgetary basis were approximately \$41,498,000. Total expenditures represented 97.02% of total budget availability for the fiscal year.

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The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2019.

|                                     | <u>Actual</u>       |
|-------------------------------------|---------------------|
| Revenue and other financing sources | \$ 43,131,070       |
| Expenditures                        | <u>41,497,506</u>   |
| Unexpended balance                  | <u>\$ 1,633,564</u> |
| Expenditure rate                    | 96.21%              |

The operational results present a saving on the assigned budget amounting to approximately \$1,634,000 for year ended June 30, 2019.

#### **The Commonwealth Going Concern**

The Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) of June 30, 2016. PROMESA grants the Commonwealth access to an orderly mechanism to restructure its debt in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic stability through, among other things, (a) oversight provided by the Financial Oversight and Management Board (the Oversight Board), (b) relief from creditor lawsuits through a temporary stay on litigation, and (c) two alternative methods to adjust unsustainable debt.

The June 30, 2018 audited financial statements of the Commonwealth, which were issued on June 30, 2021, disclosed there was substantial doubt as to the ability of the Commonwealth to continue as a going concern.

On October 26, 2021, the Governor signed into law Act No. 53-2021 better known as the "Debt Restructuring Act" to authorize the issuance of new general obligation (GO) bonds. On November 4, 2021 the Oversight Board announced that it filed its 8th amended to the Commonwealth Plan of Adjustment. As of the date of these financial statements, a plan of adjustment has not yet been approved by the Title III Court.

#### **Economic Factors and Next Year's Budget**

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, high levels of debt and pension obligations, and a downgrading by the major rating agencies of the general obligation bonds of the Commonwealth to noninvestment grade rating. These factors could have had an adverse effect in the Commonwealth ability to achieve a balanced budget and improved its financial condition.

The Office approved budget for the fiscal year 2020 is approximately \$43,308,000. The Office adopted cost reduction measures that resulted in a decrease in certain employee benefits accrued in the government-wide financial statements.

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June 30, 2019

On March 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island.

The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

**Requests for Information**

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Budget Division, The Office of the Comptroller of the Commonwealth of Puerto Rico, PO Box 366069, San Juan, Puerto Rico 00936-6069.

**COMMONWEALTH OF PUERTO RICO**  
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General Fund Balance Sheet and Statement of Net Position

June 30, 2019

|                                                             | <u>General Fund<br/>Balance Sheet</u> | <u>Adjustments</u> | <u>Statement of<br/>Net Position</u> |
|-------------------------------------------------------------|---------------------------------------|--------------------|--------------------------------------|
| <b>Assets:</b>                                              |                                       |                    |                                      |
| Cash in commercial bank                                     | \$ 7,714,467                          | —                  | 7,714,467                            |
| Accounts receivable – employees and other                   | 38,759                                | —                  | 38,759                               |
| Capital assets:                                             |                                       |                    |                                      |
| Non-depreciable                                             | —                                     | 572,275            | 572,275                              |
| Depreciable, net                                            | —                                     | 1,566,858          | 1,566,858                            |
| Capital Assets net                                          | —                                     | 2,139,133          | 2,139,133                            |
| Total assets                                                | 7,753,226                             | 2,139,133          | 9,892,359                            |
| Deferred outflows of resources - Pensions                   |                                       | 7,379,239          | 7,379,239                            |
| Deferred outflows of resources - OPEB                       | —                                     | 157,072            | 157,072                              |
| Total deferred outflows of resources                        | —                                     | 7,536,311          | 7,536,311                            |
| Total assets and deferred outflows<br>of resources          | \$ 7,753,226                          | 9,675,444          | 17,428,670                           |
| <b>Liabilities:</b>                                         |                                       |                    |                                      |
| Accounts payable and accrued liabilities                    | \$ 5,026,595                          | —                  | 5,026,595                            |
| Other accrued long-term liabilities,<br>due within one year | —                                     | 6,367,805          | 6,367,805                            |
| Total pension liability due within one year                 | —                                     | 6,047,952          | 6,047,952                            |
| Other accrued long-term liabilities,<br>due after one year  | —                                     | 15,921,858         | 15,921,858                           |
| Total pension liability                                     | —                                     | 104,543,578        | 104,543,578                          |
| Total liabilities                                           | 5,026,595                             | 132,881,193        | 137,907,788                          |
| Deferred inflows of resources - Pensions                    | —                                     | 6,971,387          | 6,971,387                            |
| Total liabilities and deferred inflows<br>of resources      | 5,026,595                             | 139,852,580        | 144,879,175                          |
| <b>Fund balance/net position:</b>                           |                                       |                    |                                      |
| Fund balance:                                               |                                       |                    |                                      |
| Committed                                                   | 299                                   | (299)              | —                                    |
| Assigned                                                    | 214,121                               | (214,121)          | —                                    |
| Unassigned                                                  | 2,512,211                             | (2,512,211)        | —                                    |
| Total fund balance                                          | 2,726,631                             | (2,726,631)        | —                                    |
| Total liabilities and fund balance                          | \$ 7,753,226                          |                    |                                      |
| <b>Net position:</b>                                        |                                       |                    |                                      |
| Net investment in capital assets                            |                                       | 2,139,133          | 2,139,133                            |
| Unrestricted                                                |                                       | (129,589,638)      | (129,589,638)                        |
| Net position                                                |                                       | \$ (127,450,505)   | (127,450,505)                        |

See accompanying notes to financial statements.

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Statement of General Fund Revenue,  
Expenditures, and Changes in Fund Balance and Statement of Activities

June 30, 2019

|                                                                         | <b>General Fund<br/>Revenue,<br/>Expenditures,<br/>and Changes in<br/>Fund Balance</b> | <b>Adjustments</b>   | <b>Statement<br/>of Activities</b> |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------|------------------------------------|
| Expenditures/expenses:                                                  |                                                                                        |                      |                                    |
| General government:                                                     |                                                                                        |                      |                                    |
| Salaries and payroll-related costs                                      | \$ 34,404,471                                                                          | (11,250,577)         | 23,153,894                         |
| Change in accounting for pensions                                       | —                                                                                      | (40,725,769)         | (40,725,769)                       |
| Meals and travel                                                        | 1,394,593                                                                              | —                    | 1,394,593                          |
| Professional services                                                   | 1,024,963                                                                              | —                    | 1,024,963                          |
| Insurance                                                               | 98,693                                                                                 | —                    | 98,693                             |
| Rent                                                                    | 1,982,164                                                                              | —                    | 1,982,164                          |
| Utilities                                                               | 595,153                                                                                | —                    | 595,153                            |
| Noncapitalizable equipment                                              | 65,379                                                                                 | —                    | 65,379                             |
| Materials and supplies                                                  | 74,850                                                                                 | —                    | 74,850                             |
| Repairs and maintenance                                                 | 252,356                                                                                | —                    | 252,356                            |
| Depreciation and amortization                                           | —                                                                                      | 436,198              | 436,198                            |
| Loss on disposition of assets                                           | —                                                                                      | 10,914               | 10,914                             |
| Trainings and continuing professional education                         | 182,270                                                                                | —                    | 182,270                            |
| Subscriptions and memberships                                           | 91,551                                                                                 | —                    | 91,551                             |
| Outsource services:                                                     |                                                                                        |                      |                                    |
| Security                                                                | 206,526                                                                                | —                    | 206,526                            |
| Maintenance                                                             | 138,199                                                                                | —                    | 138,199                            |
| Other                                                                   | 369,484                                                                                | —                    | 369,484                            |
| Printing services                                                       | 27,840                                                                                 | —                    | 27,840                             |
| Postage                                                                 | 742                                                                                    | —                    | 742                                |
| Miscellaneous                                                           | 30,161                                                                                 | —                    | 30,161                             |
| Capital outlays                                                         | 905,557                                                                                | (960,447)            | (54,890)                           |
| Total expenditures/expenses                                             | <u>41,844,952</u>                                                                      | <u>(52,489,681)</u>  | <u>(10,644,729)</u>                |
| General revenue – Interest income                                       | 96,129                                                                                 | —                    | 96,129                             |
| Other financing sources – Transfers in:                                 |                                                                                        |                      |                                    |
| Commonwealth of Puerto Rico appropriations                              | 43,033,000                                                                             | —                    | 43,033,000                         |
| Other Commonwealth of Puerto Rico appropriations under Joint Resolution | 1,941                                                                                  | —                    | 1,941                              |
| Total general revenue and transfer-in                                   | <u>43,131,070</u>                                                                      | <u>—</u>             | <u>43,131,070</u>                  |
| Excess of revenues and transfers in over expenditures                   | <u>1,286,118</u>                                                                       | <u>(1,286,118)</u>   | <u>—</u>                           |
| Change in net position                                                  | —                                                                                      | 53,775,799           | 53,775,799                         |
| Fund balance/net position:                                              |                                                                                        |                      |                                    |
| At beginning of year                                                    | <u>1,440,513</u>                                                                       | <u>(182,666,817)</u> | <u>(181,226,304)</u>               |
| At end of year                                                          | <u>\$ 2,726,631</u>                                                                    | <u>(130,177,136)</u> | <u>(127,450,505)</u>               |

See accompanying notes to financial statements.

**COMMONWEALTH OF PUERTO RICO  
OFFICE OF THE COMPTROLLER**

(An Agency of the Commonwealth of Puerto Rico)

Notes to Financial Statements

June 30, 2019

**(1) Organization and Basis of Presentation**

**(a) Organization**

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of its Constitution as approved by the People of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

The position of Comptroller of Puerto Rico was created by virtue of Article III, Section 22 of the Constitution of the Commonwealth. The Comptroller of Puerto Rico is appointed by the Governor with the consent of the Legislature of the Commonwealth (the Legislature) for a term of 10 years and until his successor has been appointed and qualified.

The function of the Comptroller of Puerto Rico is to audit all the revenues, accounts, and expenditures of the Commonwealth, its agencies and instrumentalities, and its municipalities, in order to determine if they have been made in conformity with the law and to submit the corresponding audit reports. Also, it submits annual reports and all other special reports that are required by the Legislature or the Governor.

The Office of the Comptroller (the Office) was created by Act No. 9 of July 24, 1952, as amended. The Office is an agency of the Commonwealth, assigned to the Legislative Branch of the Commonwealth. The administration of the Office is autonomous and is under the direction of the Comptroller of Puerto Rico.

Effective July 1, 2012, the Office became fiscally autonomous pursuant to the provisions of Act 58 of March 19, 2012. As a result of this Act, the noncommitted cash of the Office that was previously under the custody of the Secretary of Treasury of the Commonwealth was transferred to the Office. Substantially, all expenditures of the Office are disbursed from the Office's bank accounts since that date.

The accompanying basic financial statements of the Office have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

**(b) The Financial Reporting Entity**

The Office is an agency of the Commonwealth. Its financial statements are intended to present the financial position, and changes in financial position, of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the Office.

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June 30, 2019

**(c) Basis of Presentation**

The financial activities of the Office, which consist only of governmental activities, are reported under the general government function in the Commonwealth's basic financial statements. For its reporting purposes, the Office has combined the General Fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Office's government-wide and fund financial statements is as follows:

*Government-wide Financial Statements:* The government-wide statement of net position and statement of activities report the overall financial activity of the Office. The financial activities of the Office consist only of governmental activities, which are primarily supported by Commonwealth appropriations (transfers within the General Fund of the Commonwealth).

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Office has no program revenues. Revenues that are not classified as program revenues are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Office's General Fund. The General Fund accounts for all financial resources of the Office.

The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2019:

|                                                                                                                                                                                                                                       |                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Fund balance                                                                                                                                                                                                                          | \$ 2,726,631            |
| Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund                                                                                         | 2,139,133               |
| Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future reporting periods and therefore, are not reported in the governmental funds:                                                         |                         |
| Add deferred outflows of resources                                                                                                                                                                                                    | 7,536,311               |
| Less deferred inflows of resources                                                                                                                                                                                                    | (6,971,387)             |
| Less accrued compensated absences, pension liability, OPEB liability, voluntary termination benefits, and Christmas bonus, as they are not due and payable in the current period and, therefore, are not reported in the General Fund | (132,881,193)           |
| Net position                                                                                                                                                                                                                          | <u>\$ (127,450,505)</u> |

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June 30, 2019

The following is a reconciliation between the excess of revenues and transfers in over expenditures in the statement of General Fund revenues, expenditures, and changes in fund balance, and the change in net position in the statement of activities for the fiscal year ended June 30, 2019:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Excess of revenues and transfers in over expenditures                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | \$ 1,286,118         |
| Add current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements                                                                                                                                                                                                                                                                                                                                                                                     |                      |
| Compensated absences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | (328,256)            |
| Christmas bonus                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 21,930               |
| Voluntary termination benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 2,050,472            |
| Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities                                                                                                                                                                                                                                                                                                                                                                                 | (436,198)            |
| Less loss on disposal of assets that were not capitalized in the General Fund                                                                                                                                                                                                                                                                                                                                                                                                                                              | (10,914)             |
| Add pension benefit payments which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported total pension liability is measured a year before the Office's report date. Pension expense, which is the change in the total pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities                 | 9,343,900            |
| Add change in the adoption of GASB Statement No. 73 which replaces net pension liability with total pension liability                                                                                                                                                                                                                                                                                                                                                                                                      | 40,725,769           |
| Add OPEB benefits paid which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported OPEB liability is measured a year before the Office's report date. OPEB expense, which is the change in the net OPEB liability adjusted for changes in deferred outflows and inflows of resources related to other postemployment benefits other than pension is reported in the statement of activities | 162,531              |
| Add capital outlays reported as expenditures in the General Fund that are shown as capital assets in the statement of activities                                                                                                                                                                                                                                                                                                                                                                                           | 960,447              |
| Change in net position                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>\$ 53,775,799</u> |

**(d) Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

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The General Fund, as a governmental fund, is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

**(2) Going Concern – Commonwealth of Puerto Rico**

The Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) of June 30, 2016. PROMESA grants the Commonwealth access to an orderly mechanism to restructure its debt in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic stability through, among other things, (a) oversight provided by the Financial Oversight and Management Board (the Oversight Board), (b) relief from creditor lawsuits through a temporary stay on litigation, and (c) two alternative methods to adjust unsustainable debt.

The June 30, 2018 audited financial statements of the Commonwealth, which were issued on June 30, 2021, disclosed there was substantial doubt as to the ability of the Commonwealth to continue as a going concern.

On October 26, 2021, the governor signed into law Act No. 53-2021 better known as the "Debt Restructuring Act" to authorize the issuance of new general obligation (GO) bonds. On November 4, 2021 the Oversight Board announced that it filed its 8th amended to the Commonwealth Plan of Adjustment. As of the date of these financial statements, a plan of adjustment has not yet been approved by the Title III Court.

**(3) Summary of Significant Accounting Policies**

**(a) Capital Assets**

Capital assets are reported in the government-wide financial statements of the Office. The Office defines capital assets as assets, which have an initial, individual cost of \$500 or more at the date of acquisition and have a useful life in excess of two years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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Capital assets are depreciated or amortized using the straight-line method over the assets estimated useful lives. No amortization is recorded for computer software being developed. The estimated useful lives of capital assets being depreciated are as follows:

|                               | <u>Years</u> |
|-------------------------------|--------------|
| Electronic equipment          | 5            |
| Other equipment               | 5            |
| Furniture                     | 10           |
| Purchased computer software   | 5            |
| Internally developed software | 3–10         |
| Vehicles                      | 5–10         |

**(b) Compensated Absences**

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for Office employees. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., social security and Medicare tax).

The employees of the Office are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. The employees have from January to June of each year to use any vacation or sick leave excess accumulated as of December of the previous year. If the employee chooses not to take the excess of vacation and sick leave during the assign period they will lose the excess accumulated. When an employee resigns, the Office accumulated vacation is liquidated. The resignation as a government employee, before consuming the accrued sick leave days, ends all rights to compensation except for those employees with ten (10) or more years of service, which have the right to such compensation up to the maximum allowed.

**(c) Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents an increase in net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Similarly, the Office reports deferred inflows of resources in the statement of net position in a separate section following liabilities. This separate financial statement element, deferred inflows of resources, represents a reduction of net position and resources that apply to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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**(d) Accounting for Pension Costs**

The Office accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*.

The Office's employees participate in the Defined Benefit Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Pension Plan) a defined pension plan. Therefore, in accordance with GASB Statement No. 73, the Office reports its proportionate share of the Pension Plan's total pension liability and the related pension amounts.

**(e) Post-employment Benefits Other than Pensions**

Office follows the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Qualified retired employees of the Office participate in the Other Post-employment Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employee's Retirement System (the OPEB Plan). The OPEB Plan is an unfunded, single-employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis. Therefore, in accordance with GASB Statement No. 75, the Office reports its proportionate share of OPEB liability and the related OPEB amounts.

**(f) Fund Balance**

The fund balance for the General Fund is reported in classifications based on the extent to which the Office is bound to honor constraints on the specific purposes for which amounts in the General Fund can be spent.

- Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2019.
- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation. There was no restricted fund balance as of June 30, 2019.
- The Office's highest decision-making level of authority rests with the Commonwealth's Legislature. Fund balance is reported as committed when the Legislature passes a law that places specified constraints on how resources may be used. The law can modify or rescind a commitment of resources through passage of a new law.
- Resources that are constrained by the Office's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Comptroller.

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- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Office for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the Office's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

**(g) Net Position**

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position is displayed in the following components:

- (i) Net investment in capital assets— This consists of capital assets, less accumulated depreciation and amortization.
- (ii) Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2019.
- (iii) Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

**(h) Commonwealth Appropriations**

The Office's operations are financed through appropriations from the Commonwealth. These appropriations are recognized as general revenue in the General Fund when received.

**(i) Risk Management**

The Commonwealth purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the Office. The Office reimburses the Commonwealth for premium payments made on its behalf. The current Office insurance policies have not been canceled or terminated. For worker's compensation the State Insurance Fund Corporation, a component unit of the Commonwealth, provides the worker's compensation to the Office employees.

The Office purchases commercial insurance to provide health benefits to its employees.

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**(j) Termination Benefits**

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

**(k) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**(l) Accounting Pronouncements Issued but not yet Effective**

The GASB has issued the following accounting standards that have effective dates after June 30, 2019:

- (i) 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 financial statements for periods beginning after December 15, 2020. The Office is currently evaluating the impact of this statement.

**(4) Deposits**

The Office follows the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about the deposits of the Office at June 30, 2019.

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Custodial credit risk is the risk that in the event of a bank failure, the Office's deposits may not be recovered. The Office's cash in commercial banks are deposited in the Banco Popular of Puerto Rico. The Commonwealth requires that the public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2019 was as follows:

|                                                     | <u>Beginning<br/>balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>balance</u> |
|-----------------------------------------------------|------------------------------|------------------|------------------|---------------------------|
| Capital assets, non-depreciable:                    |                              |                  |                  |                           |
| Computer software being developed                   | \$ 304,512                   | 267,763          | —                | 572,275                   |
| Capital assets depreciable:                         |                              |                  |                  |                           |
| Equipment                                           | 825,026                      | 23,534           | (36,395)         | 812,165                   |
| Electronic equipment                                | 2,575,653                    | 633,715          | (154,712)        | 3,054,656                 |
| Furniture                                           | 1,133,851                    | 2,855            | (28,669)         | 1,108,037                 |
| Computer software                                   | 1,754,668                    | 614              | —                | 1,755,282                 |
| Vehicles                                            | 353,715                      | 31,966           | —                | 385,681                   |
| Total capital asset, depreciable                    | <u>6,642,913</u>             | <u>692,684</u>   | <u>(219,776)</u> | <u>7,115,821</u>          |
| Less accumulated depreciation and amortization for: |                              |                  |                  |                           |
| Equipment                                           | 760,558                      | 10,216           | (36,395)         | 734,379                   |
| Electronic equipment                                | 2,271,351                    | 249,210          | (143,798)        | 2,376,763                 |
| Furniture                                           | 732,253                      | 12,374           | (28,669)         | 715,958                   |
| Computer software                                   | 1,251,488                    | 147,385          | —                | 1,398,873                 |
| Vehicles                                            | 305,977                      | 17,013           | —                | 322,990                   |
| Total accumulated depreciation and amortization     | <u>5,321,627</u>             | <u>436,198</u>   | <u>(208,862)</u> | <u>5,548,963</u>          |
| Total capital asset depreciable                     | <u>1,321,286</u>             | <u>256,486</u>   | <u>(10,914)</u>  | <u>1,566,858</u>          |
| Capital assets, net                                 | <u>\$ 1,625,798</u>          | <u>524,249</u>   | <u>(10,914)</u>  | <u>2,139,133</u>          |

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**(6) Long-Term liabilities**

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

|                                 | Beginning<br>balance<br>June 30, 2018 | Additions          | Reductions           | Ending balance<br>June 30, 2019 | Due within<br>one year | Long-term<br>portion |
|---------------------------------|---------------------------------------|--------------------|----------------------|---------------------------------|------------------------|----------------------|
| Accrued compensated absence: \$ | 9,779,307                             | 4,981,932          | (4,653,676)          | 10,107,563                      | 3,789,338              | 6,318,225            |
| Accrued Christmas bonus         | 584,434                               | 562,504            | (584,434)            | 562,504                         | 562,504                | —                    |
| Voluntary termination benefits  | 11,744,316                            | —                  | (2,050,472)          | 9,693,844                       | 1,858,891              | 7,834,953            |
| OPEB liability                  | 2,091,160                             | —                  | (165,408)            | 1,925,752                       | 157,072                | 1,768,680            |
| Net pension liability           | 175,614,891                           | —                  | (175,614,891)        | —                               | —                      | —                    |
| Total pension liability         | —                                     | 125,770,820        | (15,179,290)         | 110,591,530                     | 6,047,952              | 104,543,578          |
| <b>\$</b>                       | <b>199,814,108</b>                    | <b>131,315,256</b> | <b>(198,248,171)</b> | <b>132,881,193</b>              | <b>12,415,757</b>      | <b>120,465,436</b>   |

**(7) Lease Commitments**

The Office rents its facilities through operating lease agreements in which the latest expires in 2023. Rent expense under such lease agreements for the year ended June 30, 2019 amounted to approximately \$1,975,000.

Future minimum lease payments as of June 30, 2019 are as follows:

|                      |                     |
|----------------------|---------------------|
| Year ending June 30, |                     |
| 2020                 | \$ 1,975,000        |
| 2021                 | 1,975,000           |
| 2022                 | 1,975,000           |
| 2023                 | 1,975,000           |
|                      | <u>\$ 7,900,000</u> |

**(8) Contingencies**

The Office is defendant in a lawsuit pending in court. Management of the Office believes that the ultimate disposition of this matter will not have a material adverse effect on the Office's financial position or results of operations. The Department of Justice of the Commonwealth may represent the Office in any litigation. As established by law, any unfavorable outcome against the Office will be settled ultimately with appropriations of the Commonwealth of Puerto Rico other than the annual appropriations received by the Office.

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**(9) Voluntary Termination Benefits**

On August 9, 2016, the Commonwealth enacted Act No. 170 to amend Act No. 211 of 2015 better known as the "Voluntary Pre-Retirement Program Act" to allow the Office employees to participate in a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees as defined on Act No. 211.

Act No. 211 established that early retirement benefits (Early retirement program or Program) will be provided to eligible employees that have completed more than 20 years of credited services in the System and consist of the following benefits:

- a. Sixty percent (60%) of their average compensation as of December 31, 2015, until they attain age sixty-one (61).
- b. Payout of unused vacation and sick leaves accrued as of the time of enrollment in the Program, in accordance with the limits established in the applicable legislation or regulations, exempt from income taxes.
- c. While the employee is enrolled in the Program, beneficiary account under the Defined Contribution Hybrid Program shall continue receiving the total amount of the individual contribution that the pre-retiree would have contributed, paid in full by the Office, at a rate of ten percent (10%) of the beneficiary average compensation as of December 31, 2015.
- d. The Office shall continue to make employer contributions on account of Social Security (6.2%) and Medicare (1.45%) corresponding to sixty percent (60%) of the participant's gross income. However, equal percentages corresponding to individual contributions shall be deducted from the participant's compensation.
- e. Keep health insurance coverage or medical service program, or employer contribution for health insurance, that the employee enjoyed at the time of making an election to enroll in the Voluntary Pre-Retirement Program up to two (2) years, as of the enrollment date or until beneficiary enters the Retirement System, or until the participant is eligible to receive health insurance coverage in another employment, or by any other source of coverage, whichever comes first.
- f. May request the Office to deduct and withhold from the sixty percent (60%) of the compensation they will receive, contributions on account of savings, loan payments, insurance premiums, or any other applicable payment at the time, as provided in Act No. 9-2013, as amended known as the "Commonwealth of Puerto Rico Employee Association Act of 2013," but in no case the savings contributions shall be mandatory. Likewise, participants may choose to withdraw their savings from AEELA, insofar as they are not securing any debt with such entity.
- g. If a pre-retiree dies while participating in the Program, participation in the Program shall automatically end and beneficiaries or heirs, as the case may be, shall receive the same benefits they would have received under Act No. 447 of May 15, 1951, as amended, and any other benefit to which they would have been entitled under any special law if the pre-retiree was an active employee of the Commonwealth of Puerto Rico; and

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- h. Once a pre-retiree attains age sixty-one (61), participants shall enter the Retirement System and receive the benefits to which beneficiary is entitled as a pensioner of the Commonwealth of Puerto Rico, in accordance with Chapter 5 of Act No. 447 of May 15, 1951, as amended; provided, that Program participants shall be guaranteed, at the time of their retirement, a minimum benefit of fifty percent (50%) of their average compensation as of June 30th, 2013, if the combination of annuities of the contributions frozen as of June 30th, 2013, and the contributions made to the Hybrid Program account do not reach such minimum percentage.

The Office Program started on January 2017 and the benefits are expected to be provided until October 2030. The methodology used an alternative method of projecting future cash outlays for benefits and discounting projected benefits to present value and allocating the present value of benefits to periods using a cost method. A total of 47 eligible employees are participating in the Program and at June 30, 2019, unpaid long-term benefits granted in Act No.211 were discounted at 0.133% interest rate.

**(10) Pension Plan**

**(a) Plan Description**

*General Information about the Pension Plan*

The Office's employees participate in the Pension Plan, a defined benefit pension plan, which covers only eligible full-time employees. The Employee Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created by Act No. 447 of May 15, 1951 and provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems. Prior to the effect of Act No 106 of August 23, 2017 (Act No 106-2017) the pension plan was administered by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017 all employer contributions were eliminated pursuant to Act No. 106-2017 and the Office implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the Plan was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of the Governmental Accounting Standards Board (GASB) Statement No 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Office is considered to be one employer, and is classified for financial reporting purposes as a single-employer defined benefit pension plan.

The benefits provided to members of the Plan are established by Commonwealth law and may be amended only by Legislature with Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the Plan. The Commonwealth does not guarantee benefits at retirement age.

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Certain provisions are different for the three groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990. (contributory, defined benefit program)
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999. (contributory, defined benefit program)
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013. (defined contribution program)

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

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the Plan.

*Service Retirement Annuity Benefits*

**Benefits Provided** – An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the defined contribution hybrid account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants, the service retirement annuity benefit is not available.

- 1) **Accrued Benefit as of June 30, 2013 for Act No. 447 Members** – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

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

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If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

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

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

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

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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**(b) Total Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As an employer in the Plan, the Commonwealth is allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocate its proportionate share to various internal organizations, including the Office. At June 30, 2019, the Office recorded a liability of \$110,591,530 for its proportionate share of the Commonwealth's collective total pension liability. The collective total pension liability for the plan was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018. The Office's proportionate share for allocation of the Commonwealth's total pension liability was based on the ratio of the Office's actual benefit payments for allocation of \$6,021,596 for the year ended June 30, 2018, relative to the Commonwealth's total benefit payments for allocation of \$977,408,918. At June 30, 2018, the Office's proportionate share of the Commonwealth's allocation was 0.45159%, which increased by 0.00867 basis points when compared to the proportionate share as of June 30, 2017 of 0.44592%.

A reconciliation of actual benefits paid and those considered for allocation for the year ended June 30, 2017 is as follows:

|                                          | <u>The Office</u>   | <u>Commonwealth</u> |
|------------------------------------------|---------------------|---------------------|
| Actual benefit payments                  | \$ 6,183,753        | 977,408,918         |
| Included (excluded) for allocation       |                     |                     |
| Early retirement incentives and other    | <u>(162,157)</u>    | <u>(19,999,797)</u> |
| Employer benefit payments for allocation | <u>\$ 6,021,596</u> | <u>957,409,121</u>  |

For the year ended June 30, 2019, the Office recognized a pension benefit of \$(3,517,594).

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At June 30, 2019, the Office reported deferred outflows of resources and deferred inflows of resources from the following sources related to PayGo pension benefits:

|                                                               | <u>Deferred<br/>Outflows<br/>of Resources</u> | <u>Deferred<br/>Inflows<br/>of Resources</u> |
|---------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Balance of deferred outflows and inflows of resources due to: |                                               |                                              |
| Difference between expected and actual experience             | \$ —                                          | 3,344,858                                    |
| Changes of assumptions                                        | —                                             | 3,626,529                                    |
| Changes in proportion                                         | 1,331,287                                     | —                                            |
| Employer contributions subsequent to the measurement date     | <u>6,047,952</u>                              | <u>—</u>                                     |
| Total                                                         | <u>\$ 7,379,239</u>                           | <u>6,971,387</u>                             |

\$6,047,952 reported as deferred outflows of resources to pensions resulting from pension benefits paid subsequent to the measurement date will be recognized during the year ended June 30, 2020 as a reduction of the total pension liability. Other amounts reported as deferred (inflows) / outflows of resources are scheduled to be recognized in pension expense as follows:

Year ending June 30:

|      |                       |
|------|-----------------------|
| 2020 | \$ (1,128,020)        |
| 2021 | (1,128,020)           |
| 2022 | (1,128,020)           |
| 2023 | (1,128,020)           |
| 2024 | <u>(1,128,020)</u>    |
|      | <u>\$ (5,640,100)</u> |

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**(c) Actuarial Assumptions**

Actuarial valuations of the Plan involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the total pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability include the following:

|                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Measurement Date         | June 30, 2018                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Actuarial cost method    | Entry age normal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Future Salary Increases  | 3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Cost-of-Living Increases | Not assumed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Mortality Assumption     | <p>Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from 2006 base year, and projected forward using MP-2018 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date.</p> <p>100% of deaths while in active service are assumed to be occupational members covered under Act No. 127.</p> <p>Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.</p> <p>Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.</p> |

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**(d) Discount Rate**

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

**(e) Sensitivity of Total Net Pension Liability to Changes in the Discount Rate**

The following presents the total pension liability of the Office as of June 30, 2019, calculated using the discount rate of 3.87%, as well as what the total pension liability would be if it was calculated assuming a discount rate that is 1-percentage point lower (2.87%) or 1-percentage point higher (4.87%) than current rate:

|                         | <b>At 1%<br/>decrease<br/>(2.87%)</b> | <b>At current<br/>discount rate<br/>(3.87%)</b> | <b>At 1%<br/>increase<br/>(4.87%)</b> |
|-------------------------|---------------------------------------|-------------------------------------------------|---------------------------------------|
| Total pension liability | \$ 125,844,601                        | 110,591,530                                     | 98,213,572                            |

**(11) Other Postemployment Healthcare Benefit Plan**

**(a) General Information about the OPEB Plan**

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Retirement System (the OPEB Plan) is an unfunded single-employer defined benefit other postemployment healthcare benefit plan that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The OPEB Plan covers a payment up to \$100 per month for reimbursement of medical insurance premiums to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013. The OPEB Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from the Office on a monthly basis for the corresponding amount of the OPEB Plan payments made by the Commonwealth in relation to the Office retirees. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of healthcare insurance premium not covered by the Office contribution.

Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB Plan members that retired after June 30, 2013.

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**(b) Actuarial assumptions and methods**

The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Measurement Date      | June 30, 2018                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Actuarial cost method | Entry age normal                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Discount rate         | 3.87%                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Mortality Assumption  | Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. |

Post-retirement Health Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index.

The benefits covered by the OPEB Plan (i.e., reimbursement of medical insurance premiums), is not subject to the variability on healthcare costs. Therefore, the healthcare costs trend rates do not represent a relevant assumption for the determination of the OPEB liability and, accordingly, are not included in the notes to the financial statements.

**(c) Retiree Healthcare OPEB Liability, OPEB Expense, and Deferred Outflow of Resources**

As an employer in the Plan, the Commonwealth is allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocate its proportionate share to various internal organizations, including the Office. At June 30, 2019 the Office recorded a liability of \$1,925,752 for its proportionate share of 0.22867% of the Commonwealth's total OPEB liability of \$ 842,153,064. For the year ended June 30, 2018, the Office recognized OPEB benefit of \$(5,459). The collective OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017 that was rolled forward to June 30, 2018. The Office's proportionate share for allocation of the Commonwealth's OPEB liability was based on the ratio of the Office's actual benefit payments for allocation of \$159,949 for the year ended June 30, 2018, relative to the Commonwealth's total benefit payments for allocation of \$56,669,219.

At June 30, 2018, the employer reported deferred outflows of resources of \$157,072 resulting from amounts associated with benefits paid subsequent to the measurement date that will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2020.

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

**(d) Sensitivity of the total OPEB Liability to Changes in the Discount Rate**

The following presents the proportionate share of the Office's total OPEB liability as of June 30, 2019, calculated using the discount rate of 3.87%, as well as what the total OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.87%) or 1-percentage point higher (4.87%) than current rate:

|                      | At 1%<br>decrease<br>(2.87%) | At current<br>discount rate<br>(3.87%) | At 1%<br>increase<br>(4.87%) |
|----------------------|------------------------------|----------------------------------------|------------------------------|
| Total OPEB liability | \$ 2,112,151                 | 1,925,752                              | 1,767,479                    |

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**(12) General Fund – Fund balance**

At June 30, 2019, portions of the General Fund balances were committed and assigned for specific amounts as follows:

| <u>Fund balance</u>                 | <u>Amount</u>       |
|-------------------------------------|---------------------|
| Committed:                          |                     |
| Repair of vehicles due to collision | \$ 299              |
| Assigned:                           |                     |
| Purchased services                  | 5,445               |
| Professional services               | <u>208,676</u>      |
|                                     | 214,121             |
| Unassigned                          | <u>2,512,211</u>    |
|                                     | <u>\$ 2,726,631</u> |

**(13) Subsequent Events**

The Office has evaluated subsequent events through December 10, 2021, the date that the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, the Governor issued executive order EO2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard health, well-being and public safety of the citizens of Puerto Rico. The executive order authorized the Secretary of the Department of Transportation (DOT) and the Executive Director of the Puerto Rico Office of Management and Budget (PROMB) to set up a special budget, from any available funds, including Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with municipalities.

Numerous executive orders have been subsequently issued by the Governor to manage all COVID-19 related matters. As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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Required Supplementary Information (Unaudited)

Schedule of the Office's Proportionate Share of Total Pension Liability and Related Ratios

June 30, 2019

|                                                                                                                                       | <u>2019*</u>   |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Office's proportion of the Commonwealth's total pension liability                                                                     | 0.45159%       |
| Office's proportionate share of the Commonwealth's total pension liability                                                            | \$ 110,591,530 |
| **Office's covered-employee payroll                                                                                                   | —              |
| **Office's proportionate share of the Commonwealth's total pension liability as a percentage of the Office's covered-employee payroll | —              |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

\*The amounts presented have a measurement date of the previous fiscal year end.

\*\*The Office has no practical way to determine the Office's covered-employee payroll for fiscal year ended on June 30, 2019.

See accompanying notes to required supplementary information and independent auditors' report.

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Required Supplementary Information (Unaudited)

**Schedule of the Office's Proportionate Share of OPEB Liability and Related Ratios**

June 30, 2019

|                                                                         | <u>2019*</u> | <u>2018*</u> | <u>2017*</u> |
|-------------------------------------------------------------------------|--------------|--------------|--------------|
| Office's proportion of the Commonwealth's total OPEB liability          | 0.22867%     | 0.22717%     | 0.22528%     |
| Office's proportionate share of the Commonwealth's total OPEB liability | \$ 1,925,752 | 2,091,160    | 2,669,825    |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

\*The amounts presented have a measurement date of the previous fiscal year end.

\*\*Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

See accompanying notes to required supplementary information and independent auditors' report.

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Required Supplementary Information (Unaudited)

Schedule of Revenues, Expenditures, and Changes in Fund Balance –  
Budget to Actual – Non-GAAP Budgetary Basis (General Fund)

Year ended June 30, 2019

|                                                                 | <b>Original<br/>budget</b> | <b>Final<br/>budget</b> | <b>Actual<br/>amounts<br/>(Budgetary<br/>basis)</b> | <b>Variance-<br/>favorable<br/>(unfavorable)</b> |
|-----------------------------------------------------------------|----------------------------|-------------------------|-----------------------------------------------------|--------------------------------------------------|
| Revenue:                                                        |                            |                         |                                                     |                                                  |
| Interest income                                                 | \$ —                       | —                       | 96,129                                              | 96,129                                           |
| Other income                                                    | —                          | —                       | 1,941                                               | 1,941                                            |
|                                                                 | <u>—</u>                   | <u>—</u>                | <u>98,070</u>                                       | <u>98,070</u>                                    |
| Expenditures:                                                   |                            |                         |                                                     |                                                  |
| Salaries and payroll-related expenditures                       | 32,986,544                 | 31,639,461              | 34,625,927                                          | (2,968,466)                                      |
| Facilities and payments of public services                      | 671,260                    | 671,260                 | 595,153                                             | 76,107                                           |
| Purchased services                                              | 3,053,400                  | 3,163,400               | 3,060,298                                           | 103,102                                          |
| Transportation expenditures                                     | 1,477,000                  | 1,475,000               | 1,361,706                                           | 113,294                                          |
| Professional services                                           | 889,796                    | 993,796                 | 823,920                                             | 169,876                                          |
| Other expenditures                                              | 230,000                    | 267,699                 | 212,768                                             | 54,931                                           |
| Materials and supplies                                          | 322,000                    | 322,000                 | 218,783                                             | 103,217                                          |
| Capital outlays                                                 | 50,000                     | 588,384                 | 588,150                                             | 234                                              |
| Announcements and media communications required by law          | 10,000                     | 12,000                  | 10,801                                              | 1,199                                            |
|                                                                 | <u>39,690,000</u>          | <u>39,133,000</u>       | <u>41,497,506</u>                                   | <u>(2,346,506)</u>                               |
| Other financing sources – transfers in:                         |                            |                         |                                                     |                                                  |
| Commonwealth appropriations                                     | <u>39,690,000</u>          | <u>43,033,000</u>       | <u>43,033,000</u>                                   | <u>—</u>                                         |
| Excess of revenue and other financing sources over expenditures | \$ <u>—</u>                | <u>3,900,000</u>        | <u>1,633,564</u>                                    | <u>(2,266,436)</u>                               |

See accompanying notes to required supplementary information and independent auditors' report.

**COMMONWEALTH OF PUERTO RICO**  
**OFFICE OF THE COMPTROLLER**  
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 Notes to Required Supplementary Information  
 June 30, 2019

**(1) Changes of benefit terms and assumptions**

On August 23, 2017, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

**Changes in assumptions**

In the revised June 30, 2018 actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017 actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2016 to 3.58% in 2017.

In the revised June 30, 2016 actuarial valuation, there was a decrease relating to the discount rate from 3.80% in 2015 to 2.85% in 2016.

**(2) Budgetary Control**

The Office of the Comptroller's (the Office) budgetary system is its primary control over expenditures. The Office conducts the following procedures in order to establish the budgetary information:

- The Office prepares its annual budget and submits it to the Legislature of the Commonwealth of Puerto Rico for its approval.
- The budget is approved on the basis of a global assignment.
- The budget is prepared using the modified accrual basis of accounting, except for encumbrances, as explained below.

The budgeted revenue presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non-GAAP Budgetary Basis, consisted of a Legislative Appropriation, for the year ended June 30, 2019 for operational appropriations of \$39,133,000.

The primary difference between the budgetary basis and the modified accrual basis under U.S. generally accepted accounting principles (GAAP basis) is the encumbrances that are presented as expenditures under the budgetary basis.

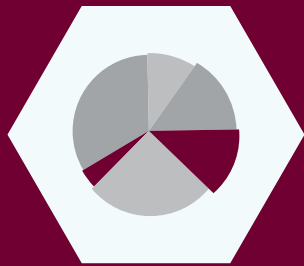
**COMMONWEALTH OF PUERTO RICO**  
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The reconciliation of the expenditures between the budgetary basis and the GAAP basis is as follows:

|                                                                                                                                                                            |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Change in Fund Balance according to the Statement of Revenues,<br>Expenditures, and Changes in Fund Balance – Budget and Actual<br>Non-GAAP Budgetary Basis – General Fund | \$ 1,633,564        |
| Plus current year encumbrances not recorded as expenditures under the<br>modified-accrual basis                                                                            | 69,020              |
| Less expenditures recorded against unencumbered appropriations carried<br>forward from prior year                                                                          | (138,908)           |
| Less prior year encumbrances recorded as expenditures under the modified<br>accrual basis                                                                                  | <u>(277,558)</u>    |
| Change in Fund Balance according to the Statement of Revenues, Expenditures,<br>and Changes in Fund Balance – General Fund                                                 | <u>\$ 1,286,118</u> |

It is the Office's policy that all unencumbered funds at the end of the fiscal year be carried forward to future periods as permitted by Act No. 230 of July 23, 1974. These unencumbered funds are allowed to be partially or totally encumbered for nonrecurrent expenditures.





# STATISTICAL SECTION

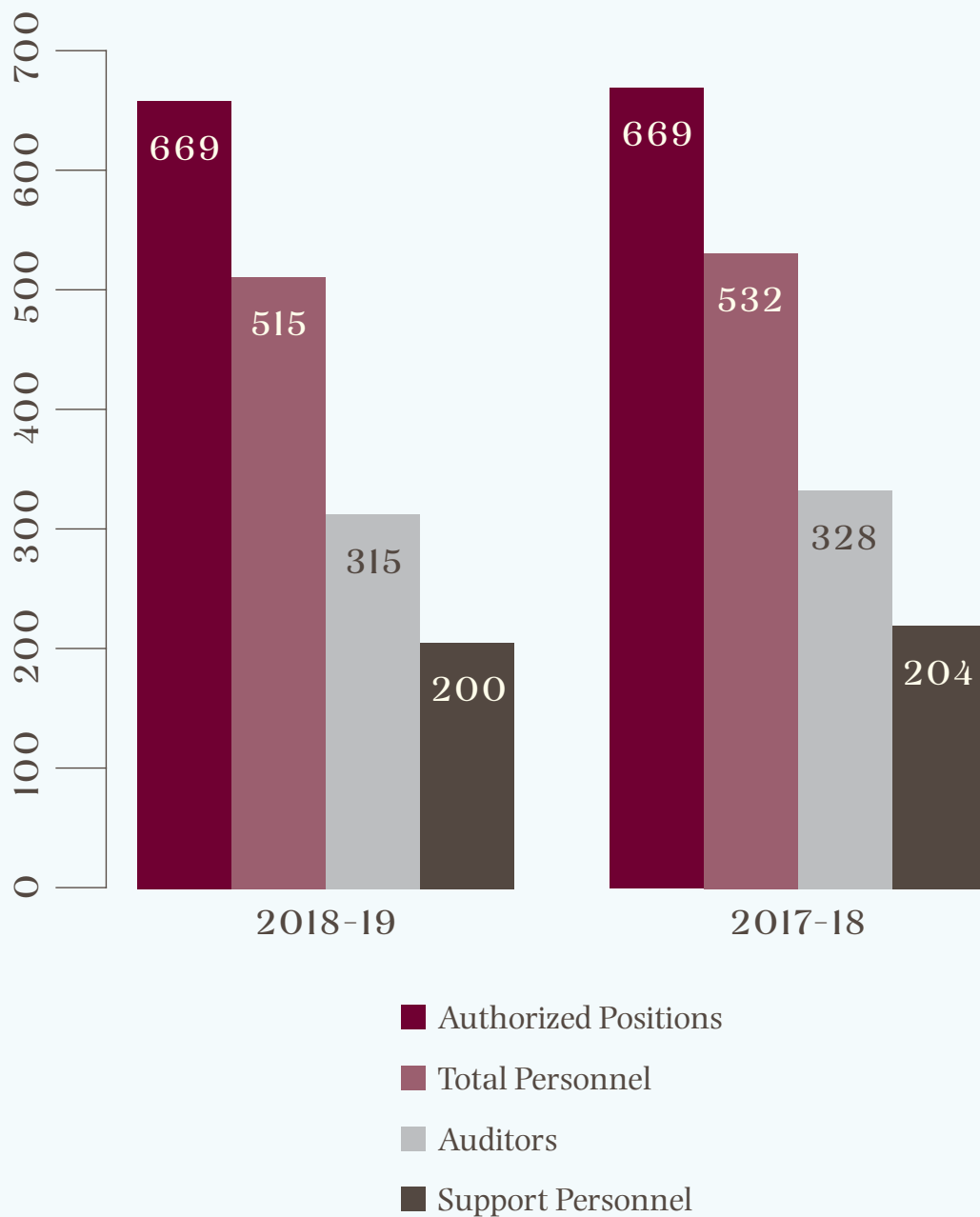
## CHART 1 – OPERATIONS BUDGET

The table and chart that follow indicate the composition of the budget by salaries, transportation expenditures, professional services, and others, with respect to the total legislative appropriations. In addition, present a comparative picture for two consecutive fiscal years, 2018-19 and 2017-18.

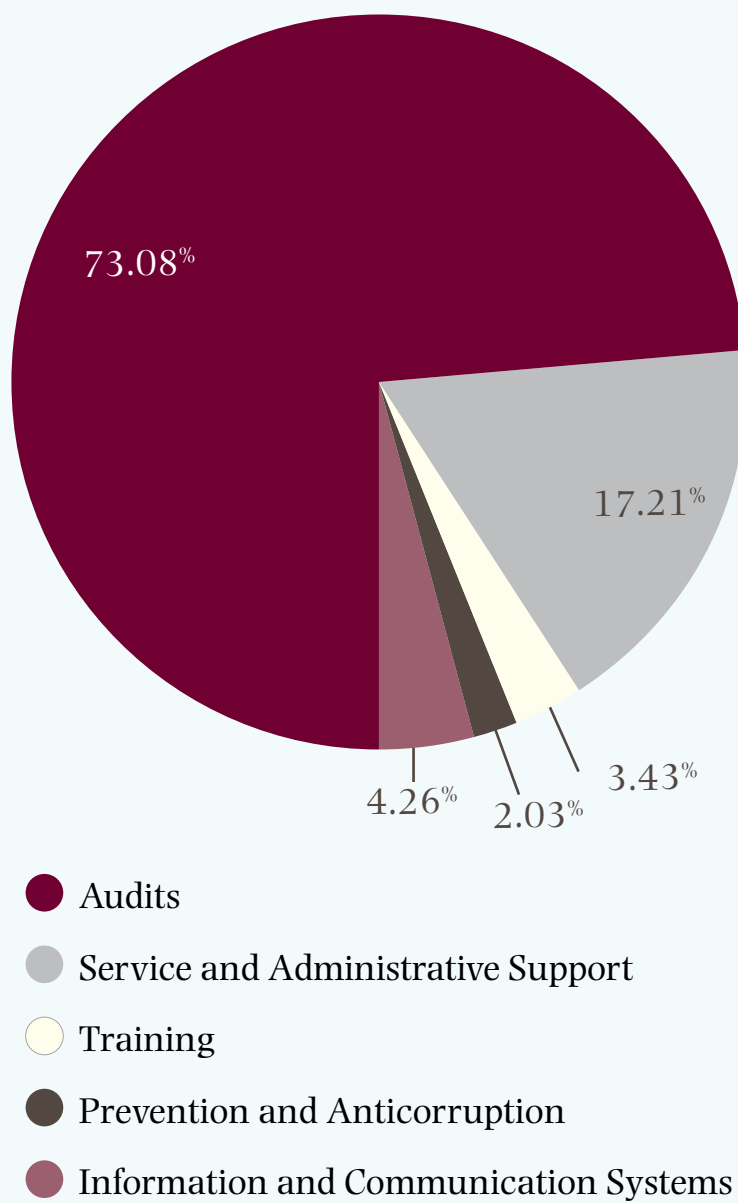
| DESCRIPTION                                | 2018 - 19         |            | 2017 - 18           |            |
|--------------------------------------------|-------------------|------------|---------------------|------------|
|                                            | APPROPRIATION     | PERCENT    | APPROPRIATION       | PERCENT    |
| Salaries and Payroll Related Expenditures  | \$31,639,461      | 80.9       | \$33,237,059        | 83.7       |
| Transportation Expenditures                | 1,475,000         | 3.8        | 1,280,300           | 3.2        |
| Other Purchased Services                   | 1,181,236         | 3.0        | 1,155,526           | 3.0        |
| Professional Services                      | 993,796           | 2.5        | 819,796             | 2.1        |
| Facilities and Payments of Public Services | 671,260           | 1.7        | 694,000             | 1.7        |
| Rent                                       | 1,982,164         | 5.1        | 1,898,519           | 4.8        |
| Materials and Supplies                     | 322,000           | 0.8        | 316,800             | .8         |
| Other Expenditures                         | 279,699           | 0.7        | 238,000             | .6         |
| Capital Outlays                            | 588,384           | 1.5        | 50,000              | .1         |
| <b>TOTAL</b>                               | <b>39,133,000</b> | <b>100</b> | <b>\$39,690,000</b> | <b>100</b> |

## CHART 2 – HUMAN CAPITAL

This chart shows the distribution of human capital by auditor and support personnel for fiscal years 2018-19 and 2017-18.



# CHART 3 – TIME DISTRIBUTION



## CHART 4 – MOST IMPORTANT FINDINGS INCLUDED IN AUDIT REPORTS

| CLASSIFICATION                                 | QUANTITY |
|------------------------------------------------|----------|
| Cash                                           | 154      |
| Planning-Administrative Controls               | 123      |
| Purchasing, Accounts Payable and Disbursements | 98       |
| Building and Improvements                      | 83       |
| Others                                         | 67       |
| Professional Services                          | 49       |
| General Controls - Computers                   | 37       |
| Property                                       | 20       |
| Personnel                                      | 15       |
| Revenues and Receivables                       | 14       |
| Donations                                      | 10       |
| Applications Controls                          | 2        |
|                                                | 672      |



IMPROVING  
THE OVERSIGHT FUNCTION  
AND ADMINISTRATION OF  
PUBLIC FUNDS AND PROPERTY  
IS A COMMITMENT OF ALL.

*COMPTROLLERSHIP AT YOUR SERVICES...*

# INTERNAL ANTICORRUPTION POLICY



## STATEMENT POLICY

The Office of the Comptroller of Puerto Rico is highly committed to combat corruption and fraud in the government and internally.

## PHILOSOPHY OF THE ORGANIZATION

All our coworkers must act according to our codes of ethics and behavior, as well as the applicable norms and regulations of their respective working areas. Zero Tolerance for Corruption has been established through this policy.

## INTERNAL CONTROL POLICY

- Code of Ethics
- Code of Behavior
- Regulations
- Procedures
- Standards for the safety of our computerized systems
- Standards for confidentiality of the Office information and processes
- Annual renewal of constitutional commitment
- Annual certification of profitable activities and of filing Income Tax Returns.

## PREVENTION PHASE

**Recruiting:** The recruiting of personnel must comply with the regulations and procedures approved by the Comptroller.

**Regulation:** Effective internal controls are established in regulations, systems, and procedures of this Office to warrant transparency in administrative, fiscal, and financial processes.

**Internal Controls:** The managerial personnel is responsible for monitoring that the controls established in their respective working areas are effective, efficient, and updated. Our internal auditors periodically audit processes in order to determine if the controls are adequate and efficient.

**External Controls:** The Office is subject to monitoring by external entities, in order to promote and assure a sound public administration, as follows:

- The Advisory Committee on Internal Audit can require audits of the Office and have access to all accounting files.
- External Auditors shall not be contracted for more than three consecutive years.
- Regulations and policies for suppliers of property or services were approved to regulate relations between the Office and providers.
- Office of Government Ethics of Puerto Rico (OGEPR), the Comptroller and designated personnel file financial reports with OGEPR.

## CONFIDENTIALITY

Acts No. 426 of November 7, 2000 and No. 14 of April 11, 2001, provide protection and prohibit disclosure of public employees and officials, complainants or witnesses for reporting alleged illegal acts or corruption actions.

## CONTINUOUS EDUCATION

We established a policy that requires a minimum of 15 annual credit hours to support personnel and 40 credit hours to auditing staff, to expand their knowledge on internal controls, laws, regulations, fiscal standards, and procedures, among others.

# REFERENCE GUIDES PUBLISHED







Comptrollership At Your Services...

