



Commonwealth of Puerto Rico
OFFICE OF THE COMPTROLLER

Annual Report For Fiscal Year Ended June 30 — 2017 —

TQM A total Quality
Management Organization





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



ocpronline



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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.

TABLE OF CONTENTS

Official Shield.....	i
Mission, Vision and Values.....	ii
Table of Contents.....	iii
General Information.....	2
Strategic Plan.....	2
Oversight.....	3
Prevention.....	3
Human Capital.....	5
Technology.....	6
Total Quality Management	
Improving Processes.....	7
ISO (International Organization for Standardization).....	7
The Corrective Action Plan.....	8
Public Registry of Government Contracts.....	9
Registry of Losses or Irregularities of Public Funds or Property.....	9
Registry of Privatizations.....	9
Government Expenses and Employment Registry.....	10
Results of Operations	
Budget.....	10
Human Capital.....	10
Training.....	11
Financial Information	
Internal Controls.....	11
Budgetary Controls.....	11
Independent Audit.....	12
Financial Reporting.....	12

TABLE OF CONTENTS

Organizational Chart	15
Principal Officers	17
Financial Section	
Financial Statements and Required Supplementary Information (June 30,2017).....	20
Independent Auditor's Report.....	22
Management's Discussion and Analysis (Unaudited).....	25
Basic Financial Statements	
• General Fund Balance Sheet and Statement of Net Position.....	32
• Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities.....	33
Notes to Financial Statements.....	34
Required Supplementary Information (Unaudited).....	55
• Schedule of Employer's Share of Net Pension Liability and Related Ratios.....	56
• Schedule of Employer's Contributions.....	57
• Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Non-GAAP Budgetary Basis (General Fund).....	58
• Notes to Required Supplementary Information (Unaudited).....	59
Statistical Section	
Chart 1 – Operations Budget.....	63
Chart 2 – Human Capital.....	64
Chart 3 – Time Distribution.....	65
Chart 4 – Most Important Findings included in Audit Reports.....	66
Internal Anticorruption Policy	68
Reference Guides Published	69



LETTER OF TRANSMITTAL



Commonwealth of Puerto Rico
Office of the Comptroller

July 31, 2020

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 enclose 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, 2017. 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.

KPMG, our independent auditor, has issued an unmodified (“clean”) opinion on the OCPR financial statements for the fiscal year ended June 30, 2017. The independent auditors’ report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follow the independent auditors’ reports and provide 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.

On July 1, 2010, I took office as Comptroller, after being designated by the Governor with the advice and consent of the Legislature, as required by the Constitution. This appointment is for a term of 10 years.

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 508 units as of June 30, 2017 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

During this period, the OCPR operated according to the four year Strategic Plan 2014-17, approved on December, 2013. To achieve our mission and vision statements, and meet our statutory responsibilities, we developed our Plan which consisted of two strategic goals, six strategic objectives, and performance goals and initiatives to support what we wanted to achieve. The Plan was developed with the participation of 120 executives in three, 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 changed 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 2016-17 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.

The new Strategic Plan 2018-21 was in development during fiscal year 2016-17 and most of the executives of the Office participated in the process. It was published on February 9, 2018.

OVERSIGHT

During fiscal year 2016-17, we published 106 audit reports, and 5 special reports. The audit reports correspond to the Legislative Branch (1), the Executive Branch (62), the Judicial Branch (1), and municipalities (42). The audit reports contained 1,842 situations: in the Legislative Branch (33), the Executive Branch (881), the Judicial Branch (11), and municipalities (917). One special report contained two situations related to the Executive Branch and municipalities. In Chart 4 we present the classification of the most important findings. On these reports we included 1,481 recommendations: to the Governor (5), the President of the Senate and the Speaker of the House of Representatives (4), the Department of Justice (17), the Treasury Department (5), the Office of Government Ethics of Puerto Rico (12), the principal officers of the entities (1,316), and others (122).

PREVENTION

1. Professional guidance concerning sound public administration were offered to 6,662 government officials and employees during fiscal year 2016-17. This amount includes trainings offered to 4,362 members of the public schools councils in compliance with Act No. 77-2006, as amended, 1,290 officials on the proper use of public property and funds in compliance with Act No. 78-2011, as amended, and 138 executives appointed by the Governor of Puerto Rico in compliance with Act No. 190-2006. In addition, it includes lectures offered to 872 officials and employees from different state government agencies, public corporations and municipalities.
2. Participated in the Domestic Working Group's annual meeting of the Governmental Accountability Office (GAO) in Washington, DC.
3. Participated in the XXVI General Assembly of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores (OLACEFS)* in República Dominicana on October 17 – 21, 2016.
4. Organized and participated in the XLI General Assembly of the *Organización Centroamericana y del Caribe de Entidades Fiscalizadoras Superiores (OCCEFS)* in San Juan, Puerto Rico on June 21 – 23, 2017.

5. Participated in OCCEFS Committee of Image and Communication and prepared the communication strategy. Participated in meetings to coordinate with Cuba, El Salvador, Guatemala, Honduras, Panamá and República Dominicana to develop the strategy on March 2 – 4, 2017.
6. Answered 105 requirements of information from various Supreme Audit Institutions around the world, about different topics for example: evaluations of audits issues, surveys and virtual courses.
7. Answered eight surveys and questionnaires from various Supreme Audit Institutions around the world, about topics such as internal controls, transparency and ISSAIs.
8. Participated in three virtual courses from various Supreme Audit Institutions, about audit sampling, performance audits and internal controls.
9. Attended the NASACT Annual Conference in August, 2016.
10. Twenty-one circular letters were issued during fiscal year 2016-17. Among the most important letters are:
 - a. Circular Letter OC-17-05 dated August 30, 2016 - *Recordatorio sobre disposiciones legales relevantes al período electoral.*
 - b. Circular Letter OC-17-07 dated November 21, 2016 - *Certificación e Informe Anual sobre el Estado de las Privatizaciones al 30 de junio de 2016.*
 - c. Circular Letter OC-17-08 dated November 21, 2016 - *Certificación Anual Requerida por el Artículo 10 de la Ley 103-2006 para el año fiscal 2015-16.*
 - d. Circular Letter OC-17-09 dated December 6, 2016 - *Reglamento 26, Administración del Plan de Acción Correctiva; y modelo del Plan de Acción Correctiva.*
 - e. Circular Letter OC-17-10 dated December 8, 2016 - *Resultados de la evaluación a los departamentos y a las agencias de la Rama Ejecutiva del Estado Libre Asociado de Puerto Rico y a la Oficina de Administración de los Tribunales sobre el establecimiento de un Programa de Control Interno y de Prevención (PROCIP) al 30 de junio de 2015.*
 - f. Circular Letter OC-17-11 dated December 8, 2016 - *Resultados de la evaluación a las corporaciones públicas, a los sistemas de retiro de la Rama Ejecutiva del Estado Libre Asociado de Puerto Rico y a la Administración Central de la Universidad de Puerto Rico sobre el establecimiento de un Programa de Control Interno y de Prevención (PROCIP) al 30 de junio de 2015.*
 - g. Circular Letter OC-17-12 dated December 8, 2016 - *Resultados de la evaluación a las universidades y recintos de la Universidad de Puerto Rico, a la Estación Experimental Agrícola y al Servicio de Extensión*

Agrícola del Colegio de Ciencias Agrícolas sobre el establecimiento de un Programa de Control Interno y de Prevención (PROCIP) al 30 de junio de 2015.

- h. Circular Letter OC-17-13 dated January 18, 2017 - *Datos de las Entidades y Funcionarios Principales.*
- i. Circular Letter OC-17-14 dated January 24, 2017 - *Registro Anual de Puestos por Demografía (OCALARH).*
- j. Circular Letter OC-17-15 dated January 25, 2017 - *Ley 197-2016 para eliminar las excepciones que por ley existían de remitir ciertos contratos a la Oficina del Contralor.*
- k. Circular Letter OC-17-16 dated January 31, 2017 - *Fechas límites en el 2017 para remitir a la Oficina del Contralor los Informes Mensuales del Registro de Puestos e Información Relacionada.*
- l. Circular Letter OC-17-17 dated March 3, 2017 - *Versión 2.1 de la Aplicación del Registro de Puestos.*
- m. Circular Letter OC-17-18 dated March 14, 2017 - *Envío del Plan de Acción Correctiva (PAC) y de los informes complementarios (ICP), y otros documentos relacionados.*
- n. Circular Letter OC-17-19 dated March 24, 2017 - *Certificación sobre el Cumplimiento de la Ley 273-2003, para el año fiscal 2015-2016.*
- o. Circular Letter OC-17-20 dated March 30, 2017 - *Recordatorio sobre el envío de las Notificaciones de Pérdidas o Irregularidades a la Oficina del Contralor de Puerto Rico.*
- p. Circular Letter OC-17-21 dated June 21, 2017 - *Renovación Automática de Contratos.*

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 Muscular Dystrophy Association.
 - Donated surplus equipment to schools and other non-profit organizations.

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 nine 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. Version 4.7 of the contract registry application was implemented.
2. Phase 2 of the Information Systems Division restructuring project based upon ITIL processes, job descriptions and related items was implemented.
3. An agreement was signed to collaborate with the chief of staff's office by creating a dashboard to share data of the OPCR's Data Warehouse and ensure direct access.
4. A new section was integrated into the BI-OCPR portal, named Audit Programs.
5. Phase 1 of the new training record application (v1.0) was completed for use by the Professional Development Center and Special Activities.
6. Phase 1 of the new external complaint application was completed for use by the Office of Complaints and Fiscal Intelligence.
7. Phase 1 of the new information system service and incident management application (help desk) was completed.
8. The project for migrating the portals of the external pages of the public registry to a new server was completed.
9. The new cyber security system *Firewall IDS-IPS* of the OCPR was implemented.
10. Phase 1 of the new investigation registry application (version 1.0) was completed for use by the Office of Legal Matters, Litigation, and Investigations.

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 2016-17, we implemented recommendations to improve the Measurement of Customer Satisfaction Model Process, the internal data update and migration to the *Centro de Información Gubernamental* (CIG), and the access to databases of the Department of Labor and Human Resources and the Department of Justice. Also, we designed and offered pilot trainings to selected auditors related to Root Cause Analysis and the Effective Utilization of data in the CIG. We conducted surveys to measure customer satisfaction of the orientations offered to the state and municipal legislators and mayors elected on November 8, 2016, required by Act 78-2011, as amended. The OCPR met most 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.

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, 2017, the OCPR had received 774 and evaluated 682 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 88 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2015-16 the OCPR received 663 and evaluated 634 CAPs, the 29 remaining were evaluated during fiscal year 2016-17. 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. Interested parties may request copies of these contracts. A nominal fee is required for each copy. The OCPR received 677 requests and submitted 3,811 copies during fiscal year 2016-17.

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 or clues such as: contract number, name of the contractor, date of execution, dollar amount and type of contract. Furthermore, the system is capable of furnishing elaborate statistical information regarding the types of contracts most frequently executed by an agency or group of agencies, the number of agencies that are late in submitting contracts, the agencies that submit contracts with erroneous information, and those that belatedly submit corrected information after receiving our observations.

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.

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 fiscal year 2016-17 was \$39,690,000, which represents the same amount for the previous year. The OCPR spent and encumbered \$39,566,124 leaving an unexpended balance of \$123,876. This balance is available for non-recurring expenses. Specific information is presented in the Statistical Section of this Report. (Chart 1)

HUMAN CAPITAL

As of June 30, 2017 the Office had 561 full time occupied positions or 84 percent out of 669 authorized positions; 348 were auditors and 213 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals (Chart 2). During 2016-17, 31 auditors and 13 support personnel resigned or retired, while 15 auditors and 8 support personnel were hired. A grand total of 873,839.50 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 have to 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 2016-17, 29,085.15 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, 2017. The Independent Auditors' Report is included in the Financial Section. The OCPR received the audited financial statements on December, 20, 2019.

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

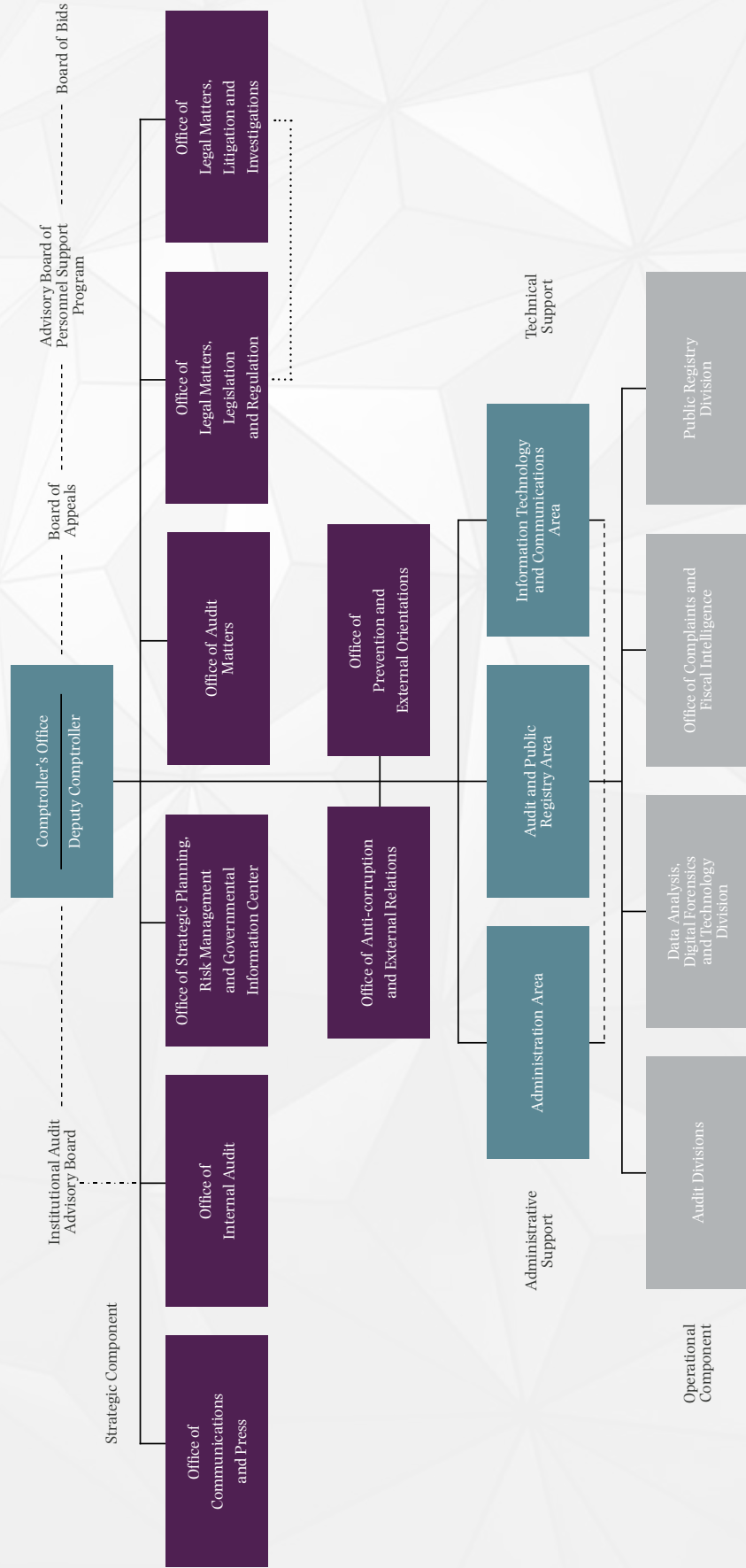


ORGANIZATIONAL CHART



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

Natanael Arroyo Cruz
Deputy Comptroller

Miriam T. Contreras Amador
Assistant Comptroller
Administration Area

Miriam Díaz Viera
Director
Office of Prevention and
External Orientations

Edwin H. Rodríguez
Hernández
Director
Office of Anti-corruption
and External Relations

Jamiel Miranda Matos
Executive Director
Office of Strategic Planning, Risk
Management and Governmental
Information Center

Lilliam M. Feliciano Solero
Executive Director
Office of Legal Matters,
Legislation and Regulation

Nilsa T. Añeses Loperena
Executive Director
Office of Legal Matters, Litigation
and Investigations

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

Héctor A. Rivas Ortiz
Audit Director
Departments and Agencies Division

Julio J. Dávila Bravo
Audit Director
Public Corporations Division

Pedro J. Brugueras Fernández
Audit Director
Municipalities Division

Ivonne J. Plumey López
Audit Director
Information Technology Division

Iván D. Denizac González
Director
Data Analysis, Digital Forensics
and Technology
Development Division

Suzanne Benítez Matos
Director of Public
Registry Division

Egda M. Pagán Rivera
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

Mara E. Reyes Alfonso
Director
Professional Development Center
and Special Activities

Carlos A. Pérez Rivera
Administrator
Public Documents Administration
Program

INFORMATION TECHNOLOGY AND COMMUNICATIONS AREA

N'gai Oliveras Arroyo
Director of Information Systems



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, 2017

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1–3
Management's Discussion and Analysis (Unaudited)	4–10
Basic Financial Statements:	
General Fund Balance Sheet and Statement of Net Position	11
Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities	12
Notes to Financial Statements	13–33
Required Supplementary Information (Unaudited)	
Schedule of Employer's Share of Net Pension Liability and Related Ratios	34
Schedule of Employer's Contributions	35
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Non-GAAP Budgetary Basis (General Fund)	36
Notes to Required Supplementary Information	37–38



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Comptroller of Puerto Rico
Office of the Comptroller:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico (the Office), an agency of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the 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 financial position of the governmental activities and General Fund of the Office of the Comptroller of the Commonwealth of Puerto Rico as of June 30, 2017, 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 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, 2017, or the changes in financial position, for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Going Concern – Commonwealth of Puerto Rico

As more fully described in note 2 to the financial statements, the Office is an agency of the Commonwealth. The Commonwealth has incurred recurring deficits, has a negative financial position, has experienced further deterioration of its economic condition, and has not been able to access the credit markets. On May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation of the events and conditions and the Commonwealth's plans regarding this matter are also described in note 2 to the financial statements. Accordingly, management has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 10 and the schedules of employer's share of net pension liability and related ratios, employer's contributions, and budgetary information on pages 34 through 38 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 20, 2019 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 20, 2019

Stamp No. E392004 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, 2017

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, 2017.

Financial Highlights

- Total liabilities of the Office's governmental at the close of the fiscal year ended June 30, 2017 amounted to approximately \$220,000,000 comprising primarily of the net pension liability of approximately \$194,000,000.
- The liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by approximately \$170,000,000 mainly resulted from the change in net pension liability and voluntary termination benefits.
- The Office's total net position decreased by approximately \$26,000,000 in fiscal year 2017 when compared to prior year net position of approximately \$144,000,000, mainly as a result of the change in the pension cost.
- The Office's total assets and deferred outflows of resources increased by approximately \$12,300,000.
- Pursuant to GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes that employers should recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated, the Office recognized approximately \$13,700,000.
- The Office's net investment in capital assets decreased by approximately \$227,000.
- The final budget of the Office for fiscal year 2016-2017 was \$39,690,000.

The Office's revenues and other financing sources exceeded its budgetary basis expenditures by approximately \$140,000 for the fiscal year 2016-2017.

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.

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.

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

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. 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.

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.

Notes to Financial Statements

The notes 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 basic financial statements can be found on pages 13 to 33 of this report.

Financial Analysis of the Governmental Activities

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

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)

June 30, 2017

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 \$1,374,000 and an unrestricted deficit of approximately \$171,600,000. The following is condensed summary information for fiscal years ended June 30, 2017 and 2016.

Condensed summary information of net position			
	2017	2016	Change
Current assets	\$ 6,206,375	6,170,129	36,246
Capital assets, net	1,374,322	1,601,524	(227,202)
Total assets	7,580,697	7,771,653	(190,956)
Deferred outflows of resources	45,472,133	33,159,437	12,312,696
Current liabilities	1,387,020	944,813	442,207
Noncurrent liabilities	218,152,691	181,121,988	37,030,703
Total liabilities	219,539,711	182,066,801	37,472,910
Deferred inflows of resources	3,708,342	2,943,533	764,809
Net position:			
Net investment in capital assets	1,374,322	1,601,524	(227,202)
Unrestricted – deficit	(171,569,545)	(145,680,768)	(25,888,777)
Total net position	\$ (170,195,223)	(144,079,244)	(26,115,979)

Total assets of the Office's at June 30, 2017 decreased by approximately \$191,000 when compared to the total assets as of June 30, 2016 primarily attributable to 2017 depreciation and amortization of approximately \$473,000.

Deferred outflows of resources, which represents resources applicable to a future reporting period, increased by approximately \$12,300,000 when compared to deferred outflows of resources at June 30, 2016. The increase in 2017 resulted primarily from the pension plan employer's contributions made subsequent to the measure date and from pension activities related to changes in assumptions and changes in proportion and differences between employer and contributions and proportionate share of contributions.

Total liabilities at June 30, 2017 increased by approximately \$37,000,000 when compared to total liabilities at June 30, 2016. This increase is mainly resulted from the recognition of voluntary termination benefits which totaled approximately \$13,700,000 and the change in the net pension liability which totaled approximately \$194,000,000 at June 30, 2017, an increase of approximately \$24,000,000 when compared to net pension liability at June 30, 2016.

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

Deferred inflows of resources, which is an acquisition of resources by the Office that is applicable to a future reporting period, amounted to approximately \$3,700,000 at June 30, 2017. The increase of approximately \$765,000 when compared to June 30, 2016 resulted from changes in the deferred inflows of resources from pension activities related to differences between projected and actual earnings on pension plan investments.

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, 2017 amounts to approximately \$1,374,000. The Office's capital assets, net decreased during 2017 by approximately \$227,000.

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

- The retirement of equipment, electronic equipment, vehicles, furniture and software in the net amount of approximately \$600,000.
- The acquisition of software including capitalization of internally developed software in the amount of approximately \$55,000,
- Current year's depreciation and amortization of approximately \$473,000, and
- The acquisition of equipment and furniture at a cost of approximately \$230,000.

Changes in Net Position

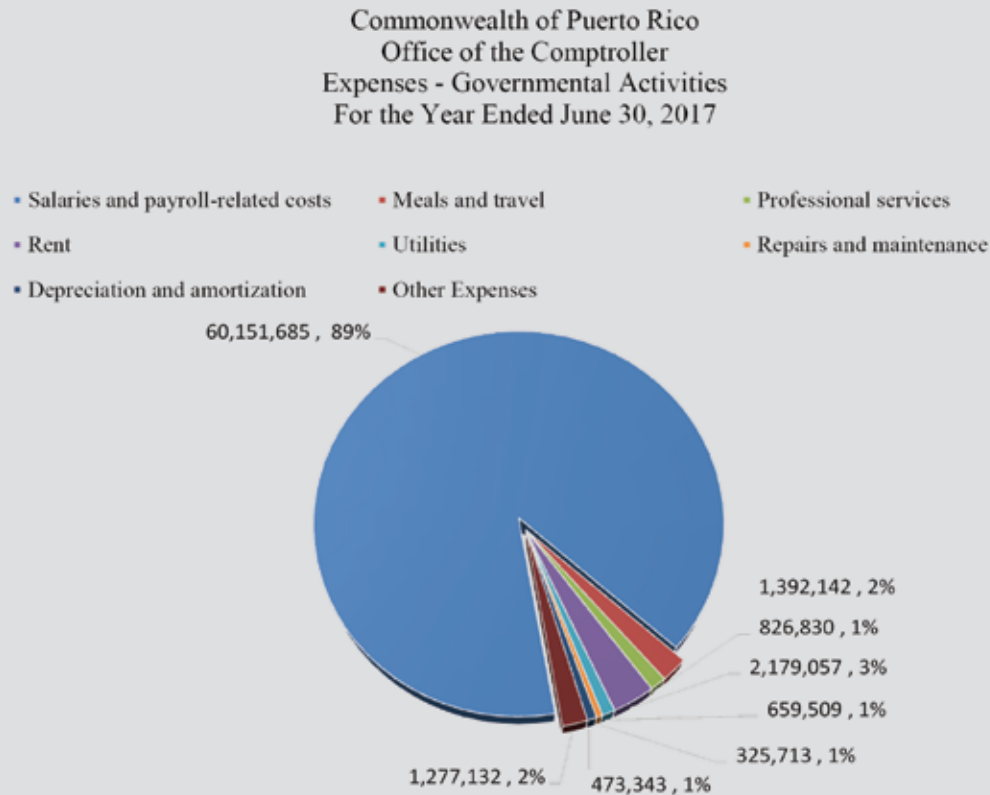
The following condensed summary of activities reflects how the Office's net position changed during the fiscal year ended June 30, 2017.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues	\$ 15,664	11,616	4,048
Transfers in	41,153,768	40,894,112	259,656
Expenses	<u>(67,285,411)</u>	<u>(51,157,078)</u>	<u>(16,128,333)</u>
Change in net position	<u>\$ (26,115,979)</u>	<u>(10,251,350)</u>	<u>(15,864,629)</u>

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
 (An Agency of the Commonwealth of Puerto Rico)
 Management's Discussion and Analysis (Unaudited)
 June 30, 2017

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2017.



The Office's major expense is related to salaries, benefits, and payroll taxes, which represent 89% of total expenses incurred during fiscal year ended June 30, 2017. Total expenses also increased by approximately \$16,000,000 mainly due to voluntary termination benefit costs in 2016 of approximately \$13,700,000. The increase in transfers in of approximately \$260,000 is mainly due to an increase in the annual Legislative appropriations when compared to 2016.

General Fund Budgetary Highlights

The 2016-2017 General Fund Budget was \$39,690,000 and actual expenses in the budgetary basis were approximately \$39,600,000. Total expenditures represented 99.65% of total budget availability for the fiscal year.

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2017.

	<u>Actual</u>
Revenue and other financing sources	\$ 39,705,664
Expenditures	<u>39,566,124</u>
Unexpended balance	<u>\$ 139,540</u>
Expenditure rate	99.65%

The operational results present a saving on the assigned budget amounting to approximately \$140,000 for year ended 2017.

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 the culmination of many years of governmental 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.

In addition, the Commonwealth also faces liquidity and debt payments issues. As a result of such fiscal crisis (as further described in Note 2), the U.S. Congress enacted a law establishing an Oversight Board with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, and review and approval over certain governmental actions. This law is known as the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA).

On May 1, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA at the request of the Governor approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth. As a result, the Office approved budget for the fiscal year in 2018 is \$39,690,000. The Office adopted cost reduction measures that resulted in a decrease in certain employee benefits accrued in the government-wide financial statements.

After the submission and certification of various version of the Commonwealth's fiscal plans during 2017 and 2018, the Oversight Board certified its own fiscal plan for the Commonwealth on May 9, 2019 (the Commonwealth Fiscal Plan).

(Continued)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2017

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
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)

General Fund Balance Sheet and Statement of Net Position

June 30, 2017

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets:			
Cash in commercial bank	\$ 6,175,866	—	6,175,866
Accounts receivable – employees and other	30,509	—	30,509
Capital assets:			
Non-depreciable	—	92,050	92,050
Depreciable, net	—	1,282,272	1,282,272
Capital Assets net	<u>—</u>	<u>1,374,322</u>	<u>1,374,322</u>
Total assets	<u>6,206,375</u>	<u>1,374,322</u>	<u>7,580,697</u>
Deferred outflows of resources	<u>—</u>	<u>45,472,133</u>	<u>45,472,133</u>
Total assets and deferred outflows of resources	<u>\$ 6,206,375</u>	<u>46,846,455</u>	<u>53,052,830</u>
Liabilities:			
Accounts payable and accrued liabilities	1,387,020	—	1,387,020
Other accrued long-term liabilities, due within one year	—	2,974,065	2,974,065
Other accrued long-term liabilities, due after one year	—	21,422,844	21,422,844
Net pension liability	<u>—</u>	<u>193,755,782</u>	<u>193,755,782</u>
Total liabilities	<u>1,387,020</u>	<u>218,152,691</u>	<u>219,539,711</u>
Deferred inflows of resources	<u>—</u>	<u>3,708,342</u>	<u>3,708,342</u>
Total liabilities and deferred inflows of resources	<u>1,387,020</u>	<u>221,861,033</u>	<u>223,248,053</u>
Fund balance/net position:			
Fund balance:			
Committed	299	(299)	—
Assigned	363,774	(363,774)	—
Unassigned	<u>4,455,282</u>	<u>(4,455,282)</u>	<u>—</u>
Total fund balance	<u>4,819,355</u>	<u>(4,819,355)</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 6,206,375</u>		
Net position:			
Net investment in capital assets		1,374,322	1,374,322
Unrestricted		<u>(171,569,545)</u>	<u>(171,569,545)</u>
Net position		<u>\$ (170,195,223)</u>	<u>(170,195,223)</u>

See accompanying notes to financial statements.

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

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

June 30, 2017

	General Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures/expenses:			
General government:			
Salaries and payroll-related costs	\$ 34,668,869	25,482,816	60,151,685
Meals and travel	1,392,142	—	1,392,142
Professional services	826,830	—	826,830
Insurance	27,078	—	27,078
Rent	2,179,057	—	2,179,057
Utilities	659,509	—	659,509
Noncapitalizable equipment	28,510	—	28,510
Materials and supplies	72,142	—	72,142
Repairs and maintenance	325,713	—	325,713
Depreciation and amortization	—	473,343	473,343
Loss on disposition of assets	—	38,691	38,691
Trainings and continuing professional education	206,280	—	206,280
Subscriptions and memberships	140,571	—	140,571
Outsource services:			
Security	216,121	—	216,121
Maintenance	116,636	—	116,636
Other	348,318	—	348,318
Printing services	34,276	—	34,276
Postage	27,706	—	27,706
Impairment loss on deposits with governmental bank	11	—	11
Miscellaneous	20,792	—	20,792
Capital outlays	284,832	(284,832)	—
Total expenditures/expenses	<u>41,575,393</u>	<u>25,710,018</u>	<u>67,285,411</u>
General revenue – Interest income	15,664	—	15,664
General revenue – Miscellaneous income			—
Other financing sources – Transfers in:			
Commonwealth of Puerto Rico appropriations	39,690,000	—	39,690,000
Other Commonwealth of Puerto Rico appropriations under Joint Resolution No. 63, of July 6, 2015	<u>1,463,768</u>	<u>—</u>	<u>1,463,768</u>
Total general revenue and transfer-in	<u>41,169,432</u>	<u>—</u>	<u>41,169,432</u>
Excess of revenues and transfers in over expenditures	(405,961)	405,961	—
Change in net position		(26,115,979)	(26,115,979)
Fund balance/net position:			
At beginning of year	<u>5,225,316</u>	<u>(149,304,560)</u>	<u>(144,079,244)</u>
At end of year	<u>\$ 4,819,355</u>	<u>(175,014,578)</u>	<u>(170,195,223)</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, 2017

(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 Law 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.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(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, 2017:

Fund balance	\$ 4,819,355
Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund	1,374,322
Add Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and therefore, are not reported in the funds.	41,763,791
Less accrued compensated absences, net pension 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	<u>(218,152,691)</u>
Net position	<u>\$ (170,195,223)</u>

(Continued)

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

Notes to Financial Statements

June 30, 2017

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, 2017:

Excess of revenues and transfers in over expenditures	\$ (405,961)
Less current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements	687,081
Less current year change in accrued Christmas bonus that is recorded as a long-term liability in the government-wide financial statements	17,842
Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities	(473,343)
Less loss on disposal of assets that were not capitalized in the General Fund	(38,691)
Less pension contributions 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 net pension liability is measured a year before the Office's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities	(12,515,351)
Less Voluntary termination benefits	(13,672,388)
Add capital outlays reported as expenditures in the General Fund that are shown as capital assets in the statement of activities	284,832
Change in net position	<u>\$ (26,115,979)</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.

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.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(2) Going Concern – Commonwealth of Puerto Rico

As described in note 1(a) the Office is an agency of the Commonwealth. The Commonwealth is in a midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's General Fund budget has been allocated to health care, pensions, and debt service costs through fiscal year 2016, and funding for essential services has been reduced. The Commonwealth's liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted a law on June 30, 2016 establishing the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, and to review and approve certain governmental actions. This law is known as the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA). On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume, and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, the Title III automatic stay immediately went into effect to stay creditor litigation.

After the submission and certification of various versions of Commonwealth fiscal plans during calendar years 2017 and 2018, the Oversight Board certified its own fiscal plan for the Commonwealth on May 9, 2019 (the Commonwealth Fiscal Plan). There is no certainty that the Commonwealth Fiscal Plan (as currently certified or subsequently amended and recertified) will be fully implemented, or if implemented will ultimately achieve the intended results. The implementation of the various measures contemplated in the Commonwealth Fiscal Plan, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years, depends on a number of factors and risks, some of which are not wholly within the Commonwealth's control, such as general macroeconomic conditions in the United States and the appropriation and receipt of federal funding.

The risks and uncertainties facing the Commonwealth, together with other factors, have led management to conclude that there is substantial doubt as to the ability of the Commonwealth to continue as a going concern. The financial difficulties being experienced by the Commonwealth may have a significant adverse impact on the Office.

(Continued)

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

Notes to Financial Statements

June 30, 2017

On September 27, 2019, the Oversight Board filed a proposed plan of adjustment of Commonwealth debt that would reduce the Commonwealth's debt obligations by approximately 60% and establishes a roadmap to exit bankruptcy. As of the date of these financial statements, the disclosure statement accompanying the proposed plan of adjustment has not yet been approved by the Title III Court and no solicitation of the proposed plan has been approved. It is not certain that creditors eligible to vote on the plan will vote in favor of it or that the Title III Court will ultimately confirm the Oversight Board's proposed plan of adjustment.

(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.

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 excess accumulated as of December of the previous year. If the employee chooses not to take the excess of Vacation and Sick during the assign period they will lose the excess accumulated. When an

(Continued)

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

Notes to Financial Statements

June 30, 2017

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 of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(d) *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, 2017.
- 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, 2017.
- 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.
- 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.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(e) *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, 2017.
- (iii) Unrestricted – This consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

(f) *Commonwealth Appropriations*

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

(g) *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.

(h) *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 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.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(i) Pensions

Financial reporting information pertaining to the Office is participation in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS) is prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(j) 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.

(k) Accounting Pronouncements Issued but not yet Effective

The GASB has issued the following accounting standards that have effective dates after June 30, 2017:

- (i) 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*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The Office is currently evaluating the impact of this statement.
- (ii) GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting

(Continued)

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

Notes to Financial Statements

June 30, 2017

assessments of accountability and inter period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Office is currently evaluating the impact of this statement.

- (iii) 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, 2019. The Office is currently evaluating the impact of this statement.
- (iv) GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Office is currently evaluating the impact of this statement.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(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, 2017.

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 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, 2017 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, non-depreciable:				
Computer software being developed	\$ 38,355	55,076	(1,381)	92,050
Capital assets depreciable:				
Equipment	937,558	18,771	(104,479)	851,850
Electronic equipment	2,730,681	195,669	(369,236)	2,557,114
Furniture	1,134,969	15,315	(22,958)	1,127,326
Computer software	1,772,072	1,382	(85,428)	1,688,026
Vehicles	368,705	—	(14,990)	353,715
Total capital asset, depreciable	<u>6,943,985</u>	<u>231,137</u>	<u>(597,091)</u>	<u>6,578,031</u>
Less accumulated depreciation and amortization for:				
Equipment	825,540	48,750	(103,388)	770,902
Electronic equipment	2,250,436	202,977	(368,640)	2,084,773
Furniture	1,035,758	35,630	(22,613)	1,048,775
Computer software	974,149	172,969	(48,769)	1,098,349
Vehicles	294,933	13,017	(14,990)	292,960
Total accumulated depreciation and amortization	<u>5,380,816</u>	<u>473,343</u>	<u>(558,400)</u>	<u>5,295,759</u>
Total capital asset depreciable	<u>1,563,169</u>	<u>(242,206)</u>	<u>(38,691)</u>	<u>1,282,272</u>
Capital assets, net	<u>\$ 1,601,524</u>	<u>(187,130)</u>	<u>(40,072)</u>	<u>1,374,322</u>

(Continued)

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

Notes to Financial Statements

June 30, 2017

(6) Long-Term liabilities

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

	Beginning balance June 30, 2016	Additions	Reductions	Ending balance June 30, 2017	Due within one year	Long-term portion
Accrued compensated absences	\$ 10,792,893	4,500,065	(5,187,145)	10,105,813	710,294	9,395,519
Accrued Christmas bonus	636,550	618,708	(636,550)	618,708	618,708	—
Voluntary termination benefits	—	13,672,388	—	13,672,388	1,645,063	12,027,325
Net pension liability	169,692,545	57,987,484	(33,924,247)	193,755,782	—	193,755,782
	<u>\$ 181,121,988</u>	<u>76,778,645</u>	<u>(39,747,942)</u>	<u>218,152,691</u>	<u>2,974,065</u>	<u>215,178,626</u>

(7) Lease Commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2018. Rent expense under such lease agreements for the year ended June 30, 2017 amounted to approximately \$2,100,000.

(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.

(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 Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS) 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).

(Continued)

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

Notes to Financial Statements

June 30, 2017

- 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
- 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.

(Continued)

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

Notes to Financial Statements

June 30, 2017

A total of 48 eligible employees are participating in the Program and at June 30, 2017, unpaid long-term benefits granted in Act No. 211 were discounted at 0.15% interest rate.

(10) Pension Plan

(a) General Information about the Pension Plan

The Office participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a cost sharing multiple-employer retirement plan, which covers only eligible full-time employees. The ERS 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.

The ERS administers different benefits structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions may vary depending on a member's date of hire.

The benefits provided to members of the ERS 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 ERS. The Commonwealth does not guarantee benefits at retirement age.

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

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- 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.
- 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.

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.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

(Continued)

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

Notes to Financial Statements

June 30, 2017

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 hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

- 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. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

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

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

(Continued)

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

Notes to Financial Statements

June 30, 2017

multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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

- 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.

Contributions

The contribution requirement to the ERS is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

1) *Member Contributions*

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

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

Effective July 1, 2011, employer contributions are 9.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of

(Continued)

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

Notes to Financial Statements

June 30, 2017

compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

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

Effective July 1, 2013, the System will receive a supplemental contribution of \$2,000 (of which \$800 corresponds to the pension plan and \$1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries employees or by certain public corporations with their own treasuries or municipalities for their former employees.

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

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below \$1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015 and 2016 was \$120 million, payable at the end of each fiscal year. The additional uniform contribution determined for fiscal year 2016-2017 was \$596 million, payable at the end of the fiscal year. The additional uniform contribution was eliminated in June 2017.

Additional information of the ERS is provided in its financial statements for the year ended June 30, 2017 a copy of which can be obtained from the Administrator of the Retirement Systems of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan, Puerto Rico 00949.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Office recorded a liability of \$193,755,782 for its proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Office's proportionate share of the total net pension liability was based on the ratio of the Office's contributions of \$3,436,142 paid to ERS for the year ended June 30, 2016 relative to the total contributions for allocation of \$779,477,001 from all participating employers. At June 30, 2016, the Office's proportionate share was 0.51740%, which increased .00481% when compared to the proportionate share as of June 30, 2015 of 0.51259%.

(Continued)

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

Notes to Financial Statements

June 30, 2017

For the year ended June 30, 2017, the office recognized pension expense of \$16,631,435.

At June 30, 2017, the office reported deferred outflows of resources and deferred inflows of resources from the following sources related to ERS pension benefits:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Balance of Deferred outflows and inflows due to:		
Difference between expected and actual experience	\$ 158,411	2,659,961
Changes of assumptions	29,553,734	—
Net difference between projected and actual earnings on pension plan investments	—	1,048,381
Changes in proportion and differences between Employer contributions and proportionate share of contributions	11,643,904	—
Employer contributions subsequent to the measurement date	4,116,084	—
Total	<u>\$ 45,472,133</u>	<u>3,708,342</u>

\$4,116,084 reported as deferred outflows of resources to pensions resulting from contribution subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as collective deferred (inflows) / outflows of resources to be recognized in pension expense:

Year ending June 30:

2018	\$ 8,989,833
2019	8,989,833
2020	9,234,511
2021	6,622,613
2022	3,810,917
	<u>\$ 37,647,707</u>

(c) Actuarial Assumptions

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

(Continued)

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

Notes to Financial Statements

June 30, 2017

about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability:

Measurement Date	June 30, 2016
Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy.
Cost-of-Living Increases	Not assumed.
Mortality Assumption	Pre-retirement Mortality: For members covered under Act

127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.

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 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. As a generational table, it reflects mortality improvements both before and after 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-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

(Continued)

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

Notes to Financial Statements

June 30, 2017

(d) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience.

The June 30, 2016 actuarial valuation for ERS reflects an increase of approximately \$3.8 billion in the total pension liability of which approximately \$19.3 million was allocated to the Office because of the changes in assumptions related to the change in the discount rate, and a decrease of approximately \$642 million in the total pension liability of which approximately \$3.3 thousand were allocated to the Office because of differences between expected and actual experience. With the enactment of Act No. 3 of 2013, termination, retirement and disability rates were added for new Act No. 3 members. Also, the compensation increase assumption was revised due to Act No. 66 of 2014.

For purposes of the 2017 actuarial valuation, the projected mortality improvement scale was updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. Also, the 2017 valuation should reflect the impact over the salary growth assumption as a result of the Act No. 3-2017 extension of the Act No. 66-2014 salary freeze until July 1, 2021.

(e) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation portfolio that was adopted by the ER'S Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and estimates of expected rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

	Target allocation	Long-term expected rate of return
Asset Class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
	<hr/>	
Total	100 %	
	<hr/>	

(Continued)

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

Notes to Financial Statements

June 30, 2017

(f) Date of Depletion and Discount Rate

The asset basis for the depletion projection is the ERS Fiduciary net position. On this basis, the ERS fiduciary net position was exhausted in fiscal year 2015. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

The ERS fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods projected benefit payments to determine the total pension liability. The discount rate used to measure the ERS total pension liability was 2.85%.

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Office as of June 30, 2017, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than current rate:

		At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net pension liability	\$	222,230,227	193,755,782	170,571,815

(11) General Fund – Fund balance

At June 30, 2017, portions of the General Fund balances were committed and assigned for specific amounts as follows:

Fund balance	Amount
Committed:	
Repair of vehicles due to collision	\$ 299
Assigned:	
Purchased services	1,069
Professional services	362,705
	363,774
Unassigned	4,455,282
	<u>\$ 4,819,355</u>

(Continued)

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

Notes to Financial Statements

June 30, 2017

(12) Subsequent Events

The Office has evaluated subsequent events from the General Fund balance sheet and Statement of Net Position date through December 20, 2019, the date that the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Required Supplementary Information (Unaudited)

Schedule of Employer's Share of Net Pension Liability and Related Ratios

June 30, 2017

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
Employer's Proportion of the Net Pension Liability	0.51740%	0.51259%	0.49%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 193,755,782	169,692,545	146,917,907
Employer's Covered-Employee Payroll	<u>24,064,999</u>	<u>24,397,683</u>	<u>24,175,133</u>
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	<u>805.14%</u>	<u>695.53%</u>	<u>607.72%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	(3.47)%	(2.05)%	(0.27)%

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.

See accompanying independent auditor's report.

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
(An Agency of the Commonwealth of Puerto Rico)
Required Supplementary Information (Unaudited)
Schedule of Employer's Contributions
June 30, 2017

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
June 30, 2014*	2,968,948	2,968,948	—	24,175,133	12.28%
June 30, 2015*	3,240,533	3,240,533	—	24,397,683	13.28%
June 30, 2016*	3,436,142	3,436,142	—	24,064,999	13.47%
June 30, 2017*	4,116,084	4,116,084	—	24,064,999	17.10%

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 year end.

See accompanying independent auditor's report.

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

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, 2017

	Original budget	Final budget	Actual amounts (Budgetary basis)	Variance- favorable (unfavorable)
Revenue:				
Miscellaneous income	—	—	—	—
Interest income	\$ —	—	15,664	15,664
	—	—	15,664	15,664
Expenditures:				
Salaries and payroll-related expenditures	32,545,047	33,008,801	33,008,801	—
Facilities and payments of public services	829,046	659,509	659,509	—
Purchased services	3,343,202	3,242,295	3,242,295	—
Transportation expenditures	1,500,958	1,333,652	1,333,652	—
Professional services	889,796	828,203	761,505	66,698
Other expenditures	228,000	222,589	220,703	1,886
Materials and supplies	326,951	326,951	277,483	49,468
Capital outlays	16,000	51,000	46,673	4,327
Announcements and media communications required by law	11,000	17,000	15,503	1,497
	39,690,000	39,690,000	39,566,124	123,876
Other financing sources – transfers in:				
Commonwealth appropriations	39,690,000	39,690,000	39,690,000	—
Excess of revenue and other financing sources over expenditures	\$ —	—	139,540	139,540

See accompanying notes to required supplementary information.

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

Notes to Required Supplementary Information

June 30, 2017

(1) Changes of benefit terms and assumptions

For purposes of the 2017 actuarial valuation, the projected mortality improvement scale was updated from Scale MP-2015 to Scale MP-2016, which was published by the Society of Actuaries in October 2016. Also, the 2017 valuation should reflect the impact over the salary growth assumption as a result of the Act No. 3-2017 extension of the Act No. 66-2014 salary freeze until July 1, 2021.

(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, 2017 for operational appropriations of \$39,690,000.

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.

(Continued)

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

Notes to Required Supplementary Information

June 30, 2017

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, Expenditures, and Changes in Fund Balance – Budget and Actual Non-GAAP Budgetary Basis – General Fund	\$ 139,540
Plus current year encumbrances not recorded as expenditures under the modified-accrual basis	363,774
Less expenditures recorded against unencumbered appropriations carried forward from prior year	(832,595)
Less prior year encumbrances recorded as expenditures under the modified accrual basis	<u>(76,680)</u>
Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	\$ <u><u>(405,961)</u></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, 2016-17 and 2015-16.

Description	2016-17		2015-16	
	Appropriation	Percent	Appropriation	Percent
Salaries and Payroll Related Expenditures	\$33,008,801	83.2	\$32,412,047	81.7
Transportation Expenditures	1,333,652	3.3	1,500,958	3.8
Other Purchased Services	1,063,238	2.7	1,102,743	2.8
Professional Services	828,203	2.1	889,796	2.2
Facilities and Payments of Public Services	659,509	1.7	727,632	1.8
Rent	2,179,057	5.5	2,240,459	5.6
Materials and Supplies	326,951	.8	326,951	0.8
Other Expenditures	239,589	.6	239,000	0.6
Capital Outlays	51,000	.1	250,414	0.7
Total	\$39,690,000	100	\$39,690,000	100

Chart 2 – Human Capital

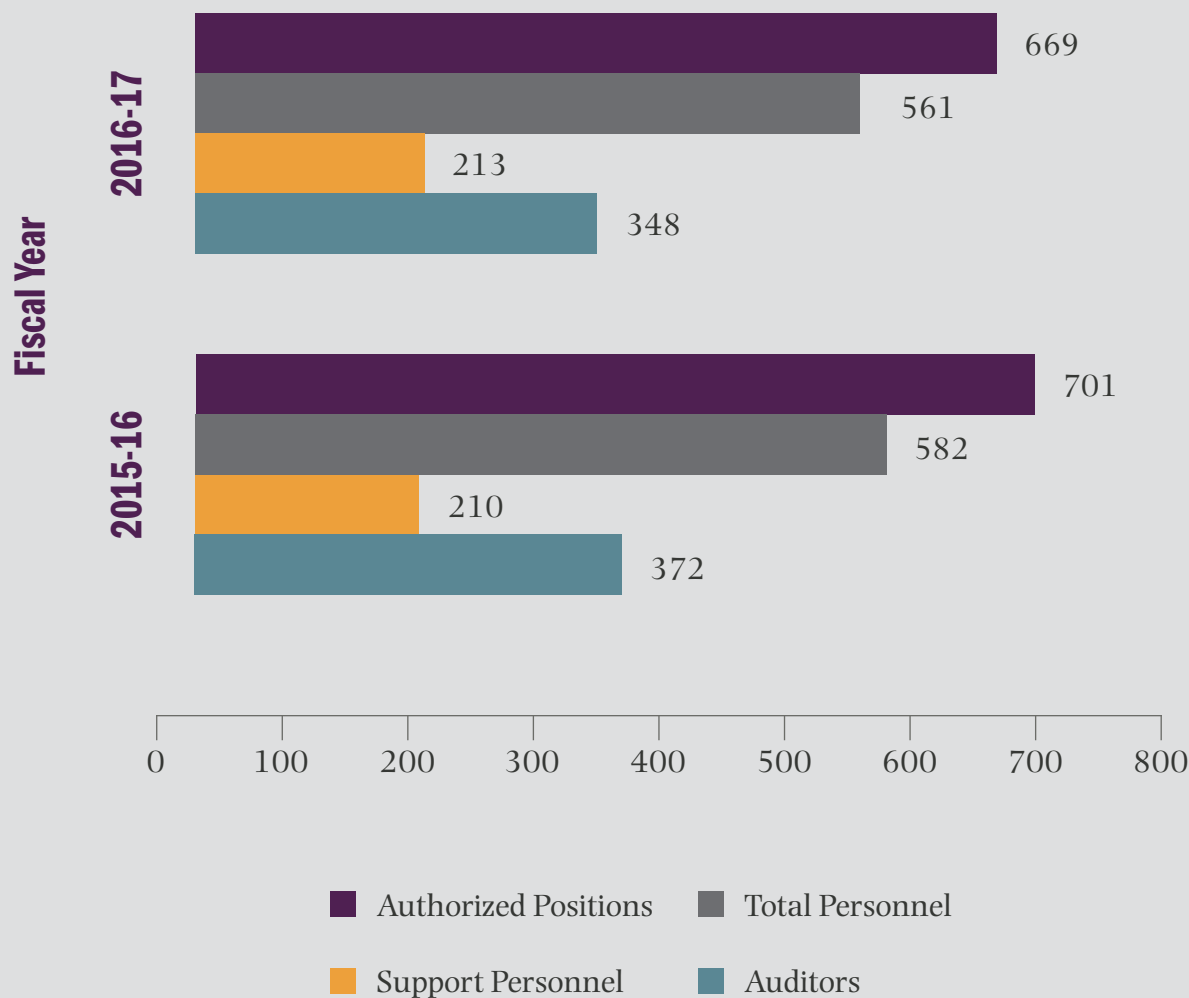


Chart 3 – Time Distribution

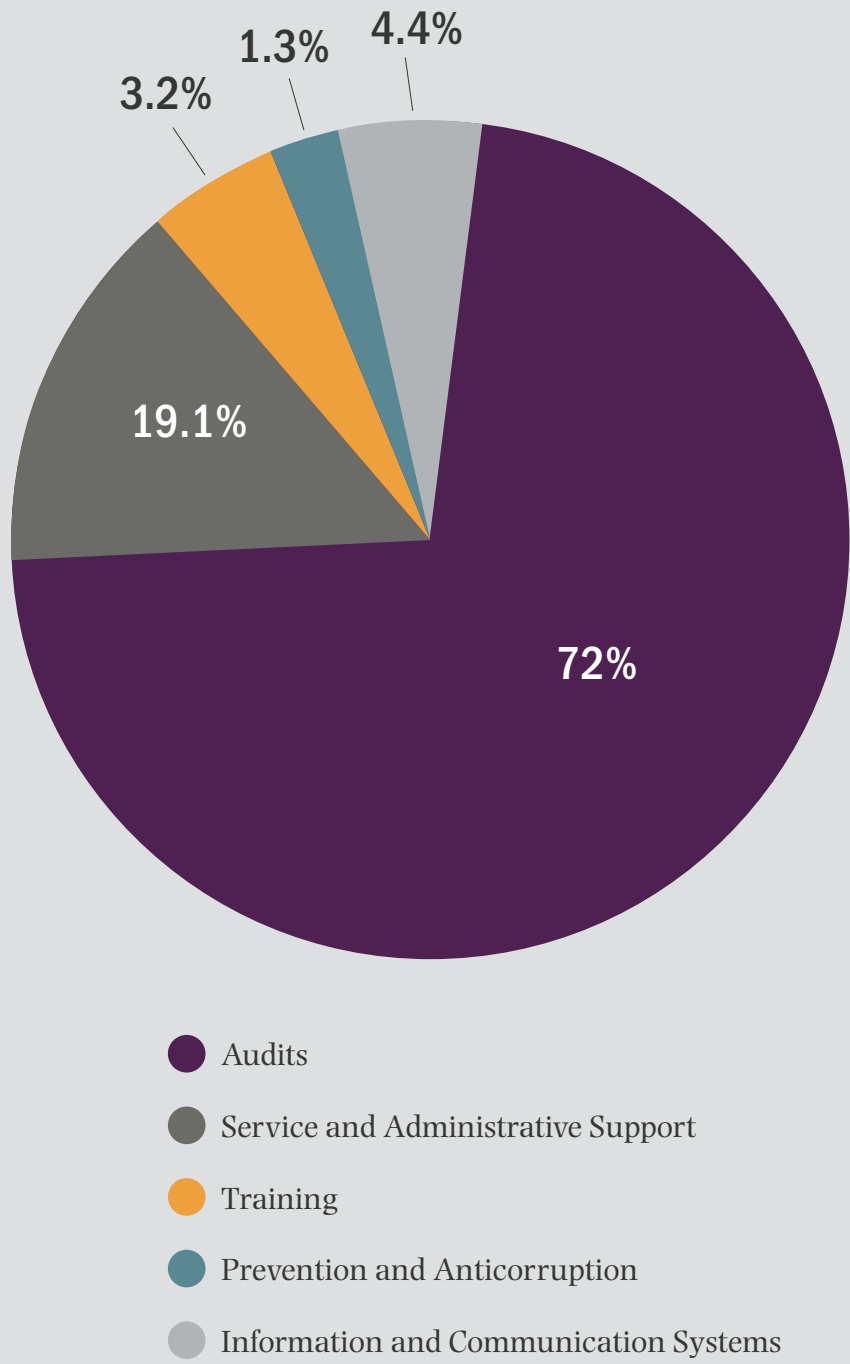


Chart 4 – Most Important Findings Included In Audit Reports

CLASSIFICATION	QUANTITY
Purchasing, accounts payable and disbursements	403
Planning-Administrative controls	273
Building and improvements	248
Cash	209
Professional services	148
Others	142
Revenues and receivables	140
Property	99
Personnel	89
Applications controls	37
General controls - Computers	37
Donations	10
Local Area Network (LAN) Controls	5
Privatizations	1
Investments	1



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.

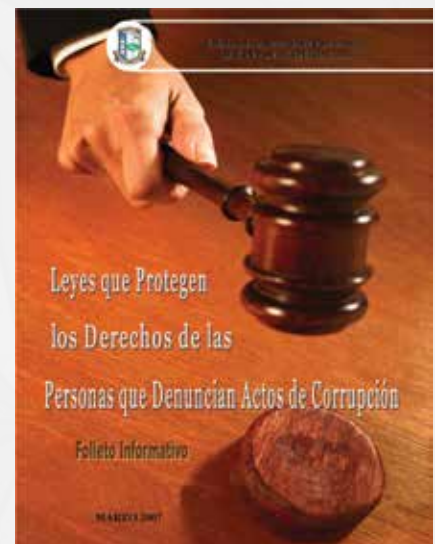
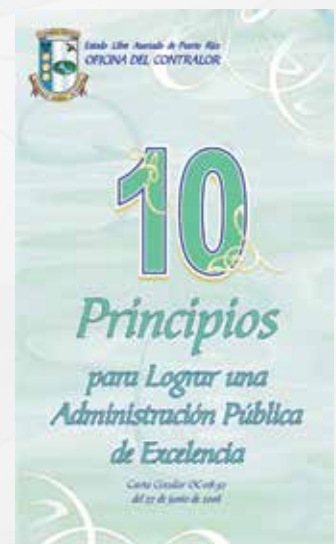
CONFIDENTIALITY

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...