



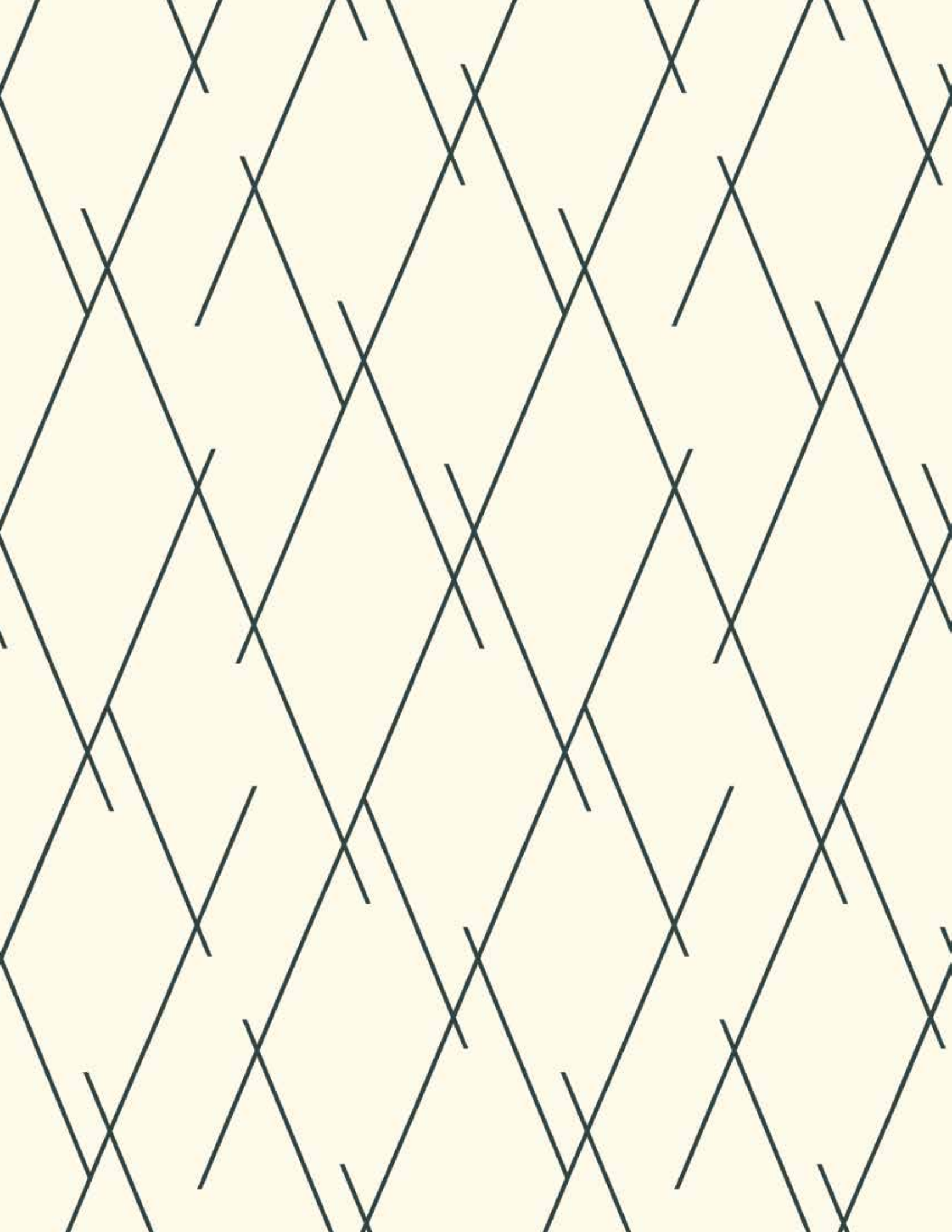
Commonwealth of Puerto Rico
OFFICE OF THE COMPTROLLER

ANNUAL REPORT

*For Fiscal Year Ended
June 30, 2018*

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.

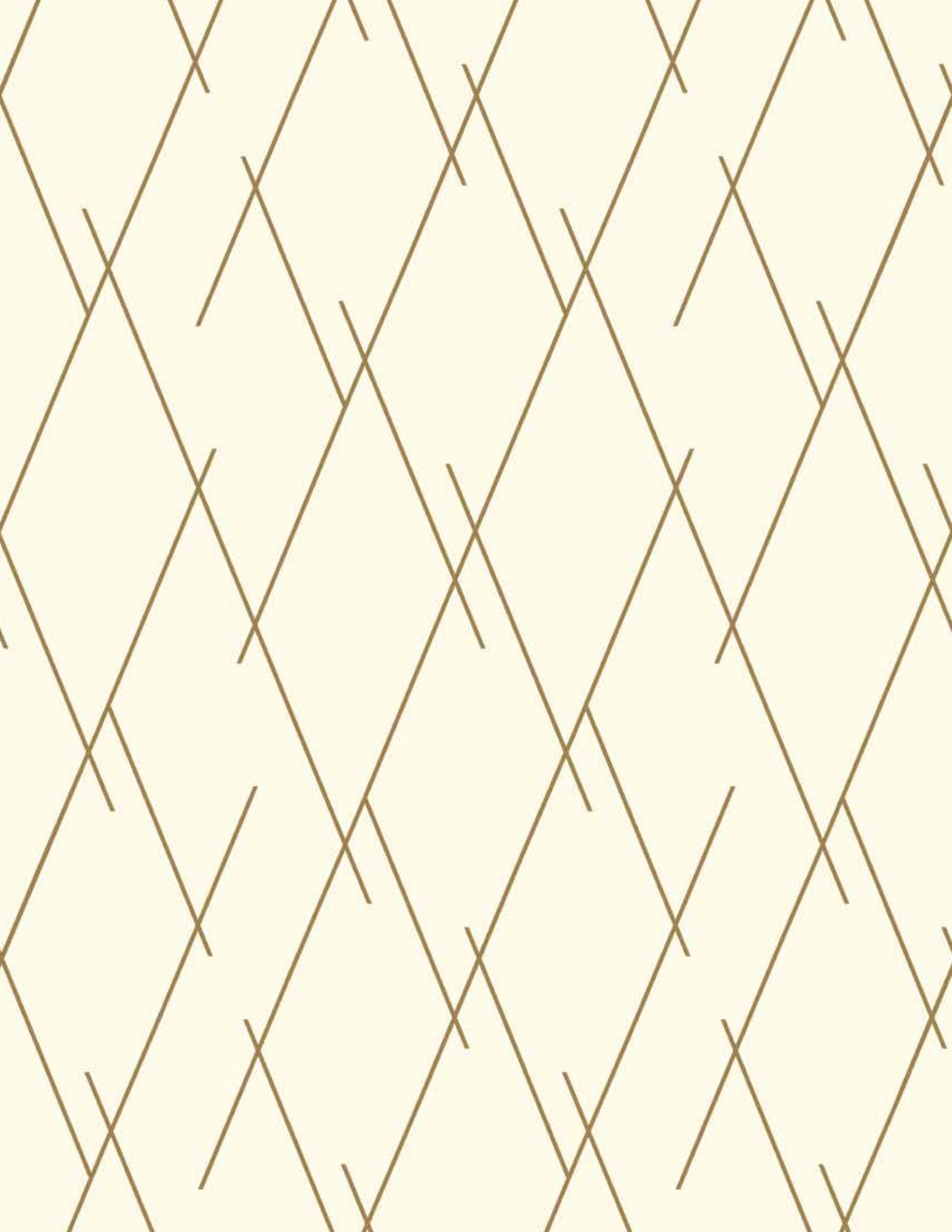
Additional information related to the Office of the Comptroller of Puerto Rico is available through the Internet at www.ocpr.gov.pr



ocpronline



ocpronline



MISSION

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

VISION

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

VALUES

COMMITMENT

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

EXCELLENCE

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

INTEGRITY

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

JUSTICE

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

RESPECT

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

RESPONSIBILITY

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

SENSIBILITY

We are empathic and treat others without prejudgments.

TRANSPARENCY

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

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Commonwealth of Puerto Rico
Office of the Comptroller
2017-18

GENERAL INFORMATION

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

As required by Act 243-2015, for audits commenced on or after July 1, 2016 government agencies are audited through the application of the Generally Accepted Government Auditing Standards (GAGAS) published by the Government Accountability Office (GAO) and other pertinent investigative techniques adopted by the Comptroller. The OCPR has divided all government entities of the Executive, Legislative, and Judicial branches, into 510 units as of June 30, 2018 for auditing or examination purposes. This figure includes departments, agencies, public corporations, and municipalities.

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

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

STRATEGIC PLAN

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


Each year we establish the objectives that we propose to accomplish, depending on the resources that are assigned to the OCPR. During fiscal year 2017-2018 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 timeframe to complete the initiatives and comply with the action plans defined on the previous Strategic Plan 2014-2017 was extended to achieve an effective transition to the new plan.

OVERSIGHT

During fiscal year 2017-18, we published 86 audit reports, and 2 special reports. The audit reports correspond to the Executive Branch (46), and municipalities (42). The audit reports contained 1,274 situations: in the Legislative Branch (0), the Executive Branch (489), the Judicial Branch (0), and municipalities (785). In Chart 4 we present the classification of the most important findings. On these reports we included 1,142 recommendations: to the Governor (3), the President of the Senate and the Speaker of the House of Representatives (9), the Department of Justice (11), the Treasury Department (1), the Office of Government Ethics of Puerto Rico (7), the principal officers of the entities (1,023), and others (88).

PREVENTION

1. Professional guidance concerning sound public administration were offered to 3,306 government officials and employees during fiscal year 2017-18. This amount includes lectures offered to 820 members of the public schools councils in compliance with Act No. 77-2006, as amended, 46 officials on the proper use of public property and funds in compliance with Act No. 78-2011, as amended, and 54 executives appointed by the Governor of Puerto Rico in compliance with Act No. 190-2006. In addition, it includes lectures offered to 2,386 officials and employees from different state government agencies, public corporations and municipalities and the private sector (academic institutions, professional associations and others).
2. Attended the National Intergovernmental Audit Forum in Washington, DC on July 18, 2017.
3. Participated in the Annual Association of Certified Fraud Examiner (ACFE) Global Fraud Conference in Las Vegas, NV on June 18-21, 2018.
4. Participated in the Access Data 2018 Summit in San Antonio, TX on June 20-22, 2018.
5. Attended the National Association of State Auditors, Comptrollers and Treasurers (NASACT) Annual Conference in August, 2017.
6. Participated in the *Design Thinking* course offered by *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores* (OLACEFS) in Brazil on August 28 – September 1, 2017.

- 
7. Participated in the Domestic Working Group annual meeting of the Governmental Accountability Office (GAO) in Washington, DC. on March 28, 2018.
 8. Participated in the training *Achievements by Supreme Audit Institutions (SAIs) in preventing corruption and fighting for efficiency in public management* held in Cuba on June 11-15, 2018.
 9. Answered 122 requirements of information from various Supreme Audit Institutions around the world about different topics like: evaluation of audit issues; advancements in the implementation of ISSAIS and the 3i Program.
 10. Answered seven surveys from various Supreme Audit Institutions around the world about different topics like: internal controls; types of audits performed; and gender equality.
 11. Participated in ten virtual courses offered by OLACEFS about topics like: integrated internal control framework; IT General Controls Audit; Sampling; and Integrity Risk Evaluation Methodology.
 12. Participated in three webinars offered by OLACEFS about topics like: ISSAIS Implementation; 3i Program for implementing ISSAIS.
 13. Participated in the Business Simulation Course offered at Universidad Ana G. Méndez-Carolina Campus held on December 1, 2017 and on March 23, 2018.
 14. Published revised versions of six publications regarding various topics as follows: General Information about OCPR (English and Spanish versions); Office of Complaints and Fiscal Intelligence; Data Analysis, Digital Forensics and Technology Division; 12 Principles to Achieve a Public Administration of Excellence; and Laws that protect the rights of whistleblowers.
 15. Prepared and published the video on *Things to consider when auditing the procurement process*.
 16. Established strategies to improve the OCPR webpage to comply with OLACEFS evaluation on SAIs transparency standards.
 17. Twenty (20) Circular letters were issued during fiscal year 2017-18. Among the most important letters are:
 - a. Circular Letter OC-18-05 dated August 11, 2017 - *Aumento de sueldo a los alcaldes*.
 - b. Circular Letter OC-18-09 dated October 24, 2017 - *Extensión del Término para el Registro de Pérdidas o Irregularidades en el Manejo de los Fondos o Bienes Públicos*.
 - c. Circular Letter OC-18-10 dated October 31, 2017 - *Remisión de Copia del Informe de los Daños o las Pérdidas Enviado a la Federal Emergency Management Agency, o a las Compañías Aseguradoras Privadas*.

- d. Circular Letter OC-18-13 dated December 15, 2017 - *Exención del envío del informe especial requerido por la Ley 273-2003 para el año fiscal 2016-17.*
- e. Circular Letter OC-18-15 dated February 15, 2018 - *Comentarios de los funcionarios principales y de los exfuncionarios sobre los hallazgos incluidos en los informes de auditoría.*
- f. Circular Letter OC-18-19 dated April 27, 2018 - *12 Principios para lograr una Administración Pública de Excelencia.*
- g. Circular Letter OC-18-20 dated June 12, 2018 - *Folleto Informativo - Leyes que protegen los derechos de las personas que denuncian actos de corrupción.*

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
 - Girls Who Leads
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 seven 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. Phase 2 of the information system service and incident management application (help desk) was completed.
2. The optimization and centralization initiatives of the Microsoft SQL Databases were implemented.
3. Phase 1 of Audit Circle Dashboard was implemented using the Power BI application.

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 2017-18, we implemented recommendations to improve the Measurement of Customer Satisfaction Process (based on a modified American Customer Satisfaction Index model); the internal data was updated and migrated 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 was upgraded. We conducted surveys and published the results to measure customer satisfaction of the orientations offered to the state and municipal legislators and mayors elected in 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. Subsequent follow up audits required by the certification requirements were postponed due to natural disasters caused by hurricanes Irma and Maria.

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, 2018, the OCPR had received 558 and evaluated 550 CAPs to ascertain compliance with the recommendations contained in the audit reports; this represents 98 percent of the evaluations. This figure includes initial CAPs and complementary reports. During fiscal year 2016-17 the OCPR received 774 and evaluated 682 CAPs, the 92 remaining were evaluated during fiscal year 2017-18. 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. The OCPR received 607 requests and submitted 4,576 copies during fiscal year 2017-18.

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

REGISTRY OF LOSSES OR IRREGULARITIES OF PUBLIC FUNDS OR PROPERTY

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

REGISTRY OF PRIVATIZATIONS

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

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 2017-18 was \$39,690,000, which represent the same amount for the previous year. Of this amount, \$2,331,000 was withheld by the Office of Management and Budget (OGP) for the payment of the Pay as you Go (PayGo) Charge of the pensioners of the Office. The PayGo was one component of *Act 106-2017*, wich the Governor signed into law on August 23, 2017. *Act 106-2017* created the legal framework to guarantee benefit payments to pensioners through the PayGo system. The OCPR spent and encumbered \$38,942,568 leaving an unexpended balance of \$747,432. 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, 2018, the Office had 532 full time occupied positions or 80 percent out of 669 authorized positions; 328 were auditors and 204 were support personnel. Support personnel consist of legal counsels, administrative staff, and other professionals (Chart 2). During 2017-18, 20 auditors and 19 support personnel resigned or retired, while 1 auditor and 3 support personnel were hired. A grand total of 825,562.25 hours were dedicated to audits, service and administrative support, information and communication systems, trainings, and prevention and anti-corruption. (Chart 3)

TRAINING

The OCPR has established through internal regulation requirements for support personnel to take a minimum of 15 hours of continued education annually. Auditors are required a minimum of 80 hours every 2 years; 24 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 2017-18, 23,367.50 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, 2018. The Independent Auditors' Report is included in the Financial Section. The OCPR received the audited financial statements on August 26, 2021.

FINANCIAL REPORTING

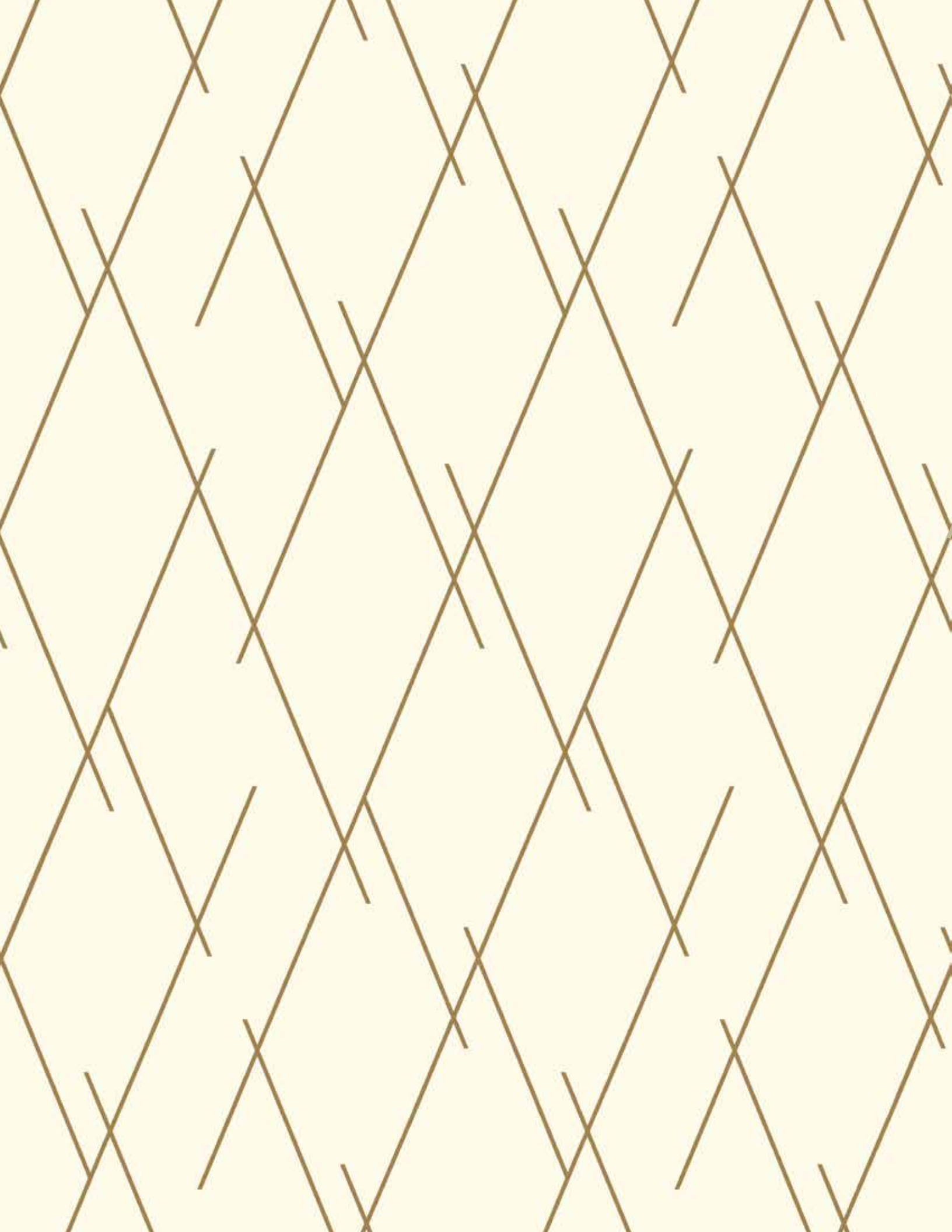
The OCPR complies with all financial reporting requirements.

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

Respectfully submitted,

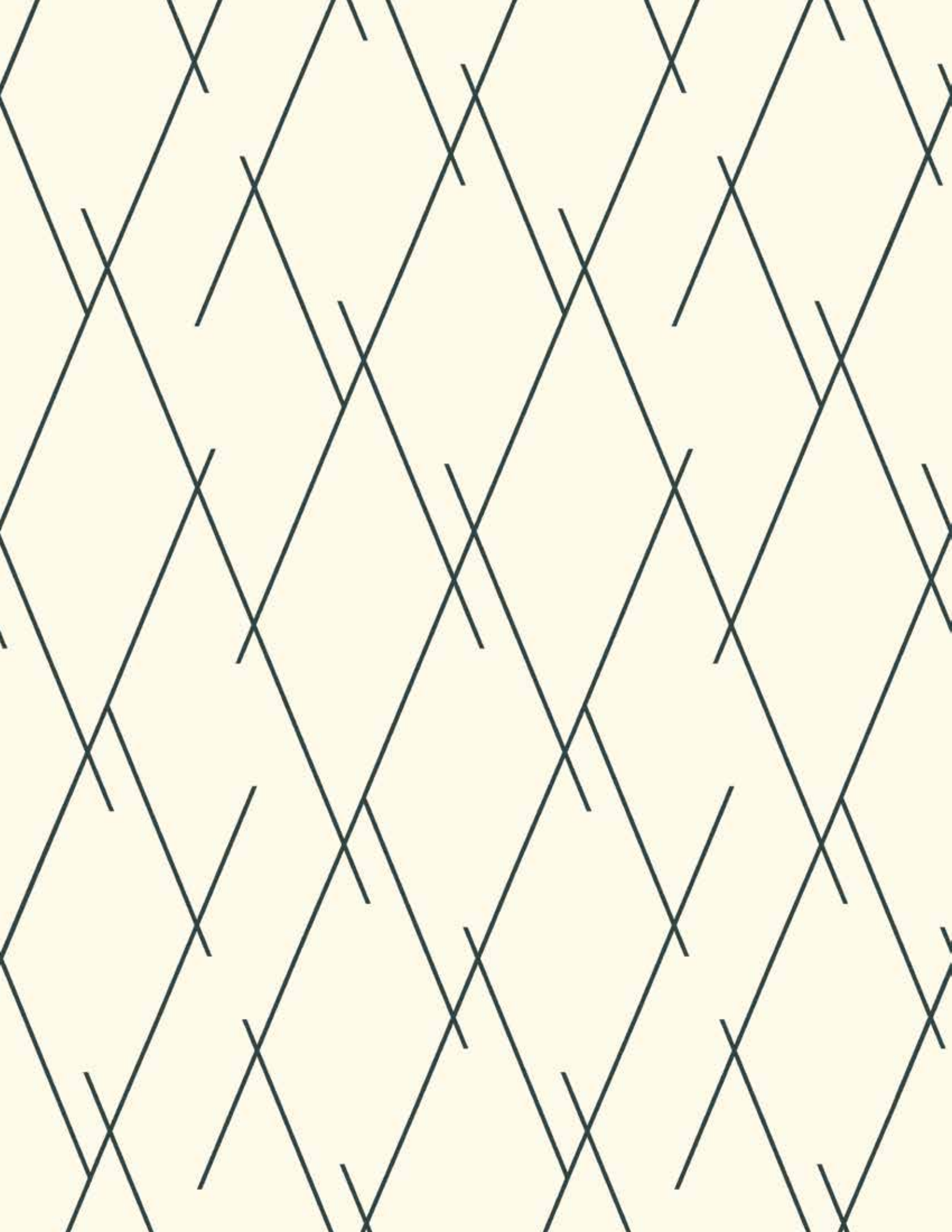


Yesmín M. Valdivieso



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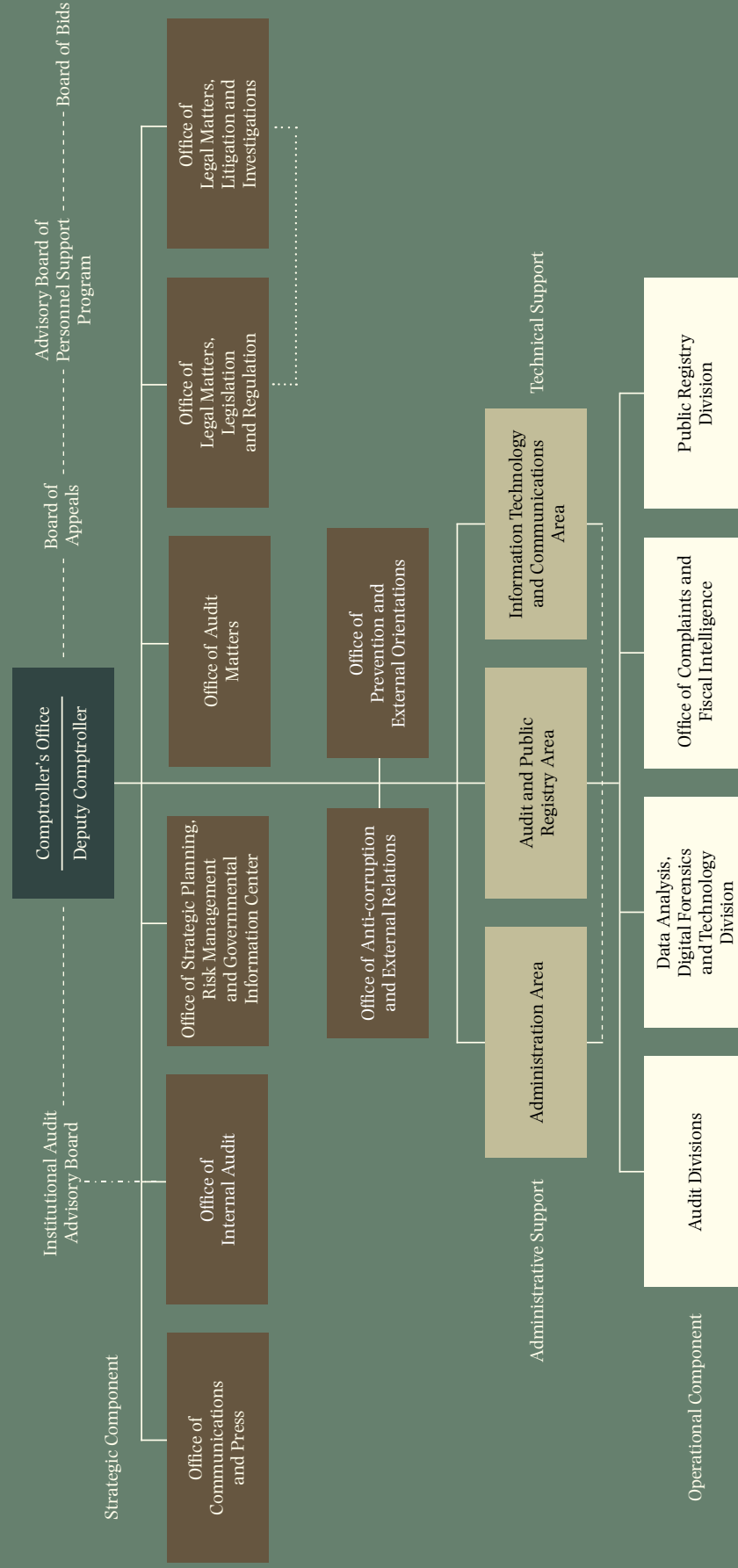
Organizational Chart

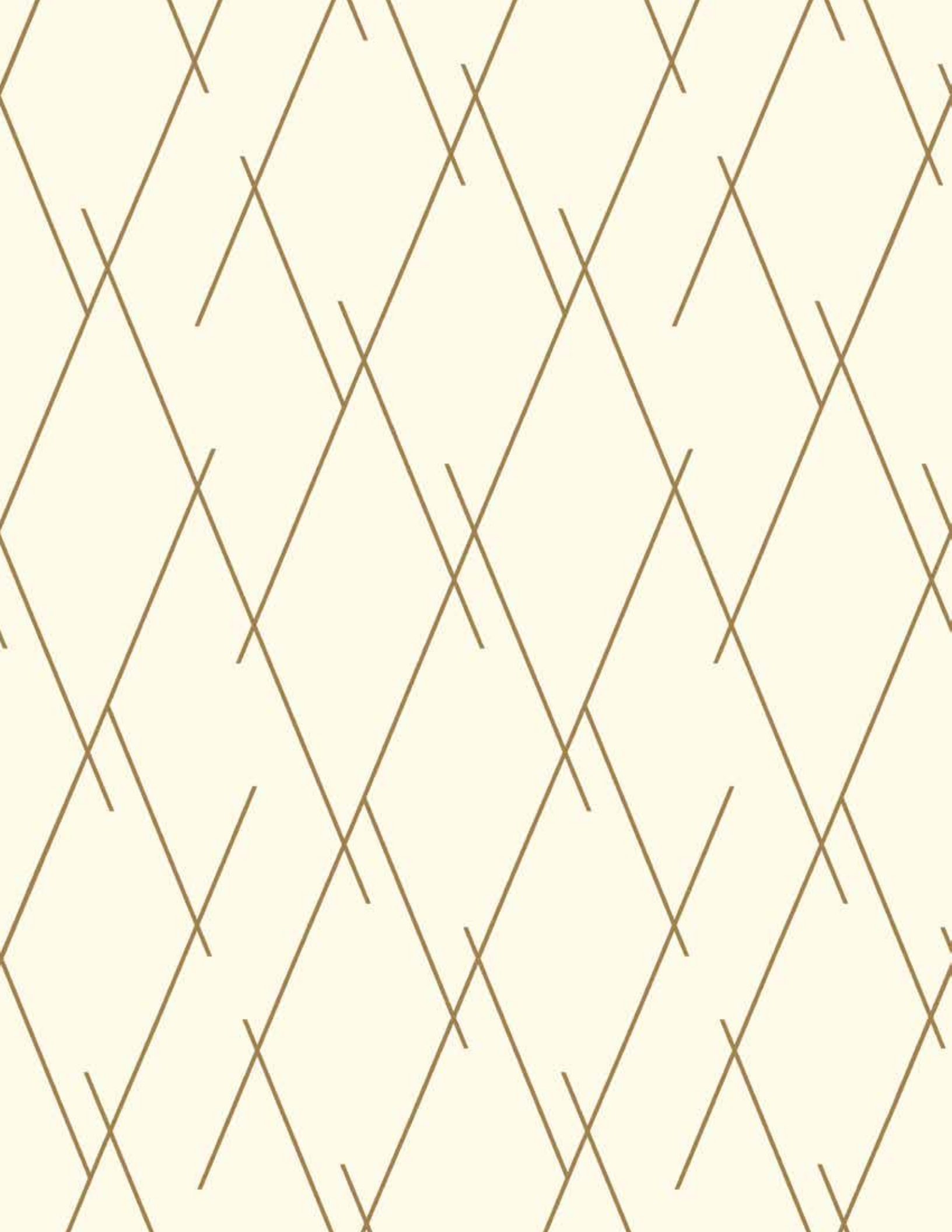




Commonwealth of Puerto Rico
Office of the Comptroller

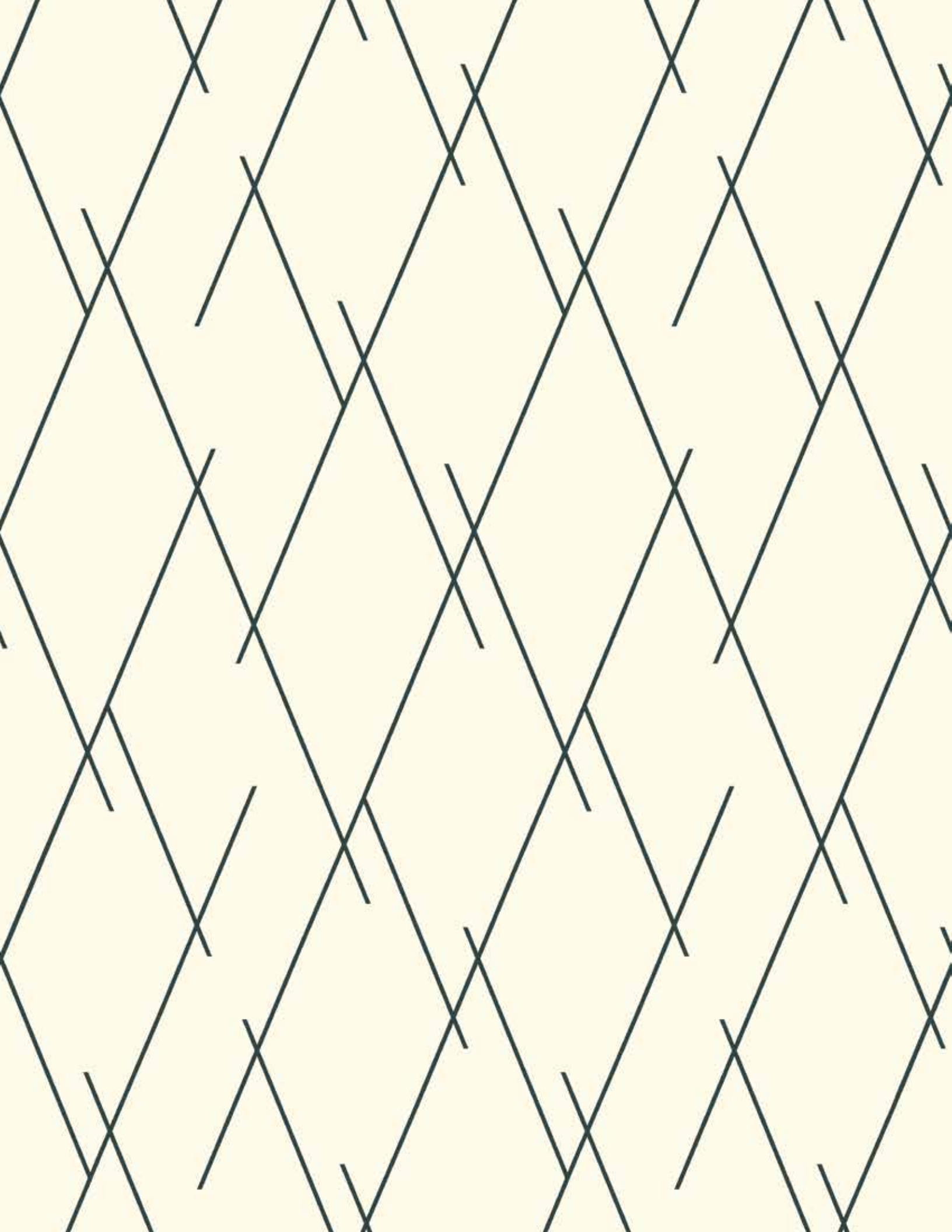
Organizational Chart







Principal Officers



Principal Officers

Office of the Comptroller

Hon. Yesmín M. Valdivieso
Comptroller

Jesús A. Rosario Morales
Deputy Comptroller

Miriam T. Contreras Amador
Assistant Comptroller
Administration Area

Miriam Díaz Viera
Director
Office of Prevention
and External Orientations

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

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

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

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

Myriam J. Flores Santiago
Director of Internal Audit

Lisandra Rivera Rivera
Director of Communications and Press

Audit and Public Registry Area

Edna Velázquez Díaz
Director
Office of Audit Matters

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

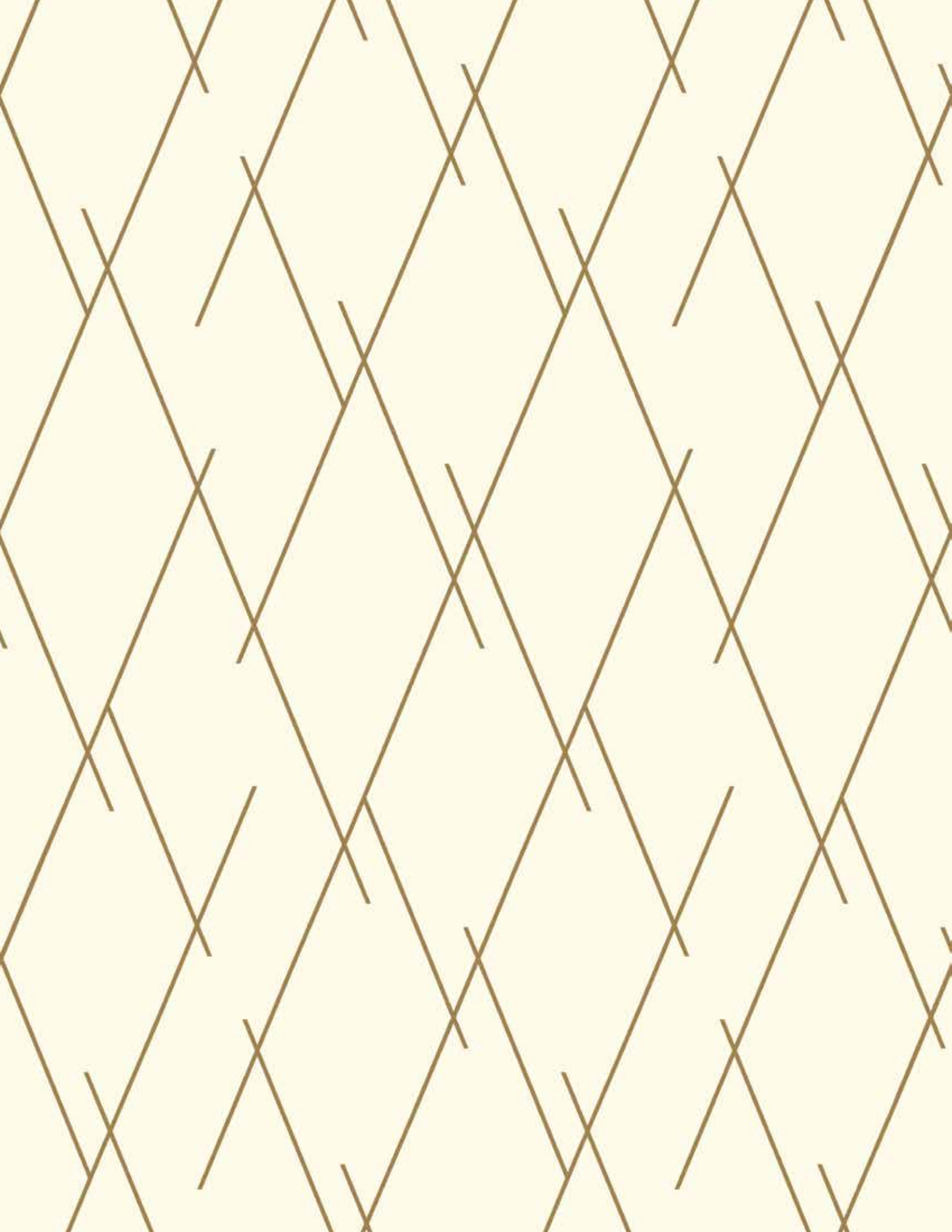
Elsa S. Páez Guerrero
Director
General Services Division

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

Carlos A. Pérez Rivera
Administrator
Public Documents
Administration Program

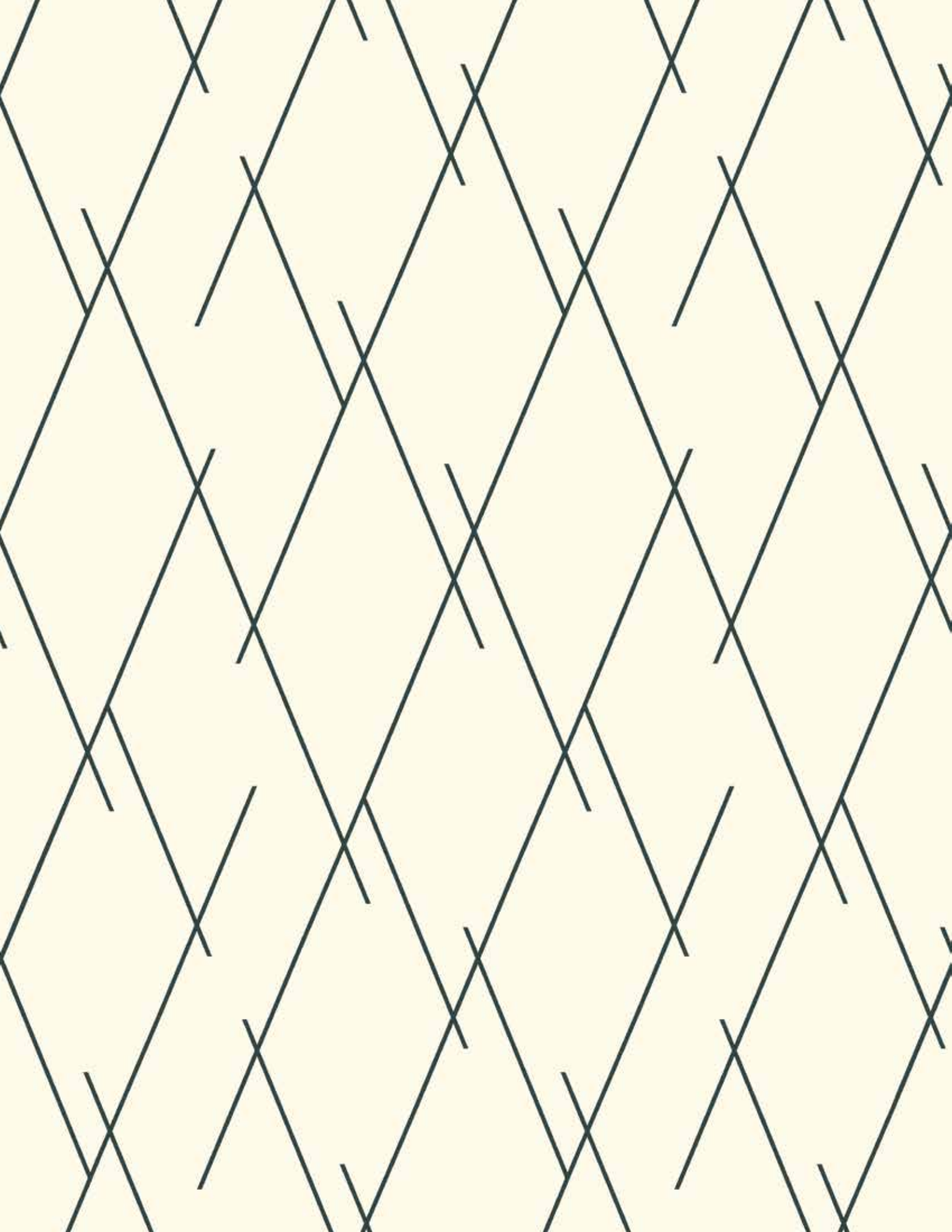
Information Technology and Communications Area

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, 2018

(With Independent Auditors' Report Thereon)

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

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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 (the Office), an agency of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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



Emphasis of Matters

An Agency of the Commonwealth of Puerto Rico

As discussed in Note 1, the financial statements of the Office, an agency of the Commonwealth, are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the Commonwealth as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Going Concern – Commonwealth of Puerto Rico

As 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 not been able to access the credit markets, and is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Management has concluded that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. 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.

Adoption of GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

As discussed in Note 4 to the financial statements, effective in July 1, 2017, the Office adopted the provisions in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, beginning net position has been restated as of July 1, 2017. 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 11 and the schedule of the Office's proportionate share of net pension liability and related ratios, schedule of employer's contributions – pension Plan, schedule of the Office's proportionate share of OPEB liability and related ratios, schedule of revenues, expenditures, and budgetary information in pages 38 through 41 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 August 26, 2021 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

KPMG LLP

San Juan Puerto Rico

Date August 26, 2021

Stamp No. E453608 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, 2018

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, 2018. The Office has the constitutional duty to ascertain that all revenues, accounts, and disbursements of the Commonwealth and all operations involving public funds and public property were performed as stated in Article III of the Constitution of the Commonwealth, Act No. 9 of July 24, 1952, as amended.

Financial Highlights

- Total liabilities of the Office's governmental at the close of the fiscal year ended June 30, 2018 amounted to approximately \$204,970,000 comprising primarily of the net pension liability of approximately \$175,615,000.
- The liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by approximately \$181,226,000, mainly resulted from the change in net pension liability, OPEB liability and voluntary termination benefits.
- The Office's total net position decreased by approximately \$11,031,000 in fiscal year 2018 when compared to prior year net position of approximately \$170,195,000, mainly as a result of the change in the pension cost and the effect of the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
- The Office's total assets and deferred outflows of resources decreased by approximately \$7,167,000.
- Pursuant to GASB Statement No. 75, which establishes that employers should recognize a liability and expense for post-employment benefits other than pension, the Office recognized a liability of approximately \$2,091,000 as of June 30, 2018.
- The Office's net investment in capital assets increased by approximately \$251,000.
- The final budget of the Office for fiscal year 2017-2018 was \$39,690,000

The Office's budgetary basis revenues and other financing sources exceeded its budgetary basis expenditures by approximately \$775,000 for the fiscal year 2017-2018.

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.

(Continued)

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis (Unaudited)

June 30, 2018

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of the Office belongs to the category of governmental funds.

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

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both, the General Fund balance sheet and the statement of General Fund revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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 14 to 36 of this report.

(Continued)

COMMONWEALTH OF PUERTO RICO
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(An Agency of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis (Unaudited)
June 30, 2018

Implementation of New Accounting Standards

As required by U.S. generally accepted accounting principles (GAAP), the Office implemented GASB Statement No. 75, *Accounting and Financial Reporting Benefits other than Pensions*.

GASB Statement No. 75 establishes the improvement of accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and 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 impact of the implementation of GASB Statement No. 75 was a decrease to the previously reported net position as of July 1, 2017 by approximately \$2,495,000.

Financial Analysis of the Governmental Activities

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

Net Position

The statement of net position serves as an indicator of the Office's financial position at the end of fiscal year. The Office's net position includes net investment in capital assets of approximately \$1,626,000 and an unrestricted deficit of approximately \$182,852,000. The following is condensed summary information for fiscal years ended June 30, 2018 and 2017.

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COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis (Unaudited)
June 30, 2018

Condensed Information - Net Position			
	2018	2017 *	Change
Current assets	\$ 6,596,030	6,206,375	389,655
Capital assets, net	1,625,798	1,374,322	251,476
Total assets	8,221,828	7,580,697	641,131
Deferred outflows of resources	37,664,355	45,472,133	(7,807,778)
Other liabilities	5,155,517	1,387,020	3,768,497
Long-term liabilities	199,814,108	218,152,691	(18,338,583)
Total liabilities	204,969,625	219,539,711	(14,570,086)
Deferred inflows of resources	22,142,862	3,708,342	18,434,520
Net position:			
Net investment in capital assets	1,625,798	1,374,322	251,476
Unrestricted – deficit	(182,852,102)	(171,569,545)	(11,282,557)
Total net position	\$ (181,226,304)	(170,195,223)	(11,031,081)

* The 2017 figures do not include the effect of the adoption of GASB Statement No. 75.

Total assets of the Office's at June 30, 2018 increased by approximately \$641,000 when compared to the total assets as of June 30, 2017 primarily attributable to an increase of cash in commercial bank of approximately \$390,000.

Deferred outflows of resources, which represents an increase in net position applicable to a future reporting period, decreased by approximately \$7,808,000 when compared to June 30, 2017. The decrease in 2018 resulted primarily from the changes in actuarial assumptions and changes in proportion and differences between employer and contributions and proportionate share of contributions of the net pension liability.

Total liabilities at June 30, 2018 decreased by approximately \$14,570,000 when compared to total liabilities at June 30, 2017. This decrease resulted mainly from the decrease in the net pension liability which totaled approximately \$175,615,00 at June 30, 2018, a decrease of approximately \$18,141,000 when compared to the net pension liability at June 30, 2017 and the net of the effect of the implementation of GASB Statement No. 75 as amended, which required the Office to recognize an OPEB liability of approximately \$2,670,000 as of July 1, 2017.

Deferred inflows of resources, which represent a decrease in net position that is applicable to a future reporting period, amounted to approximately \$22,143,000 at June 30, 2018. The increase of approximately \$18,435,000

(Continued)

COMMONWEALTH OF PUERTO RICO
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 Management's Discussion and Analysis (Unaudited)

June 30, 2018

when compared to June 30, 2017 resulted primarily 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, 2018 amounts to approximately \$1,626,000. The Office's capital assets, net increased during 2018 by approximately \$251,000.

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

- The acquisition of software including capitalization of internally developed software in the amount of approximately \$212,000,
- Current year's depreciation and amortization of approximately \$419,000, and
- The acquisition of electronic equipment and computer software at a cost of approximately \$432,000.

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, 2018.

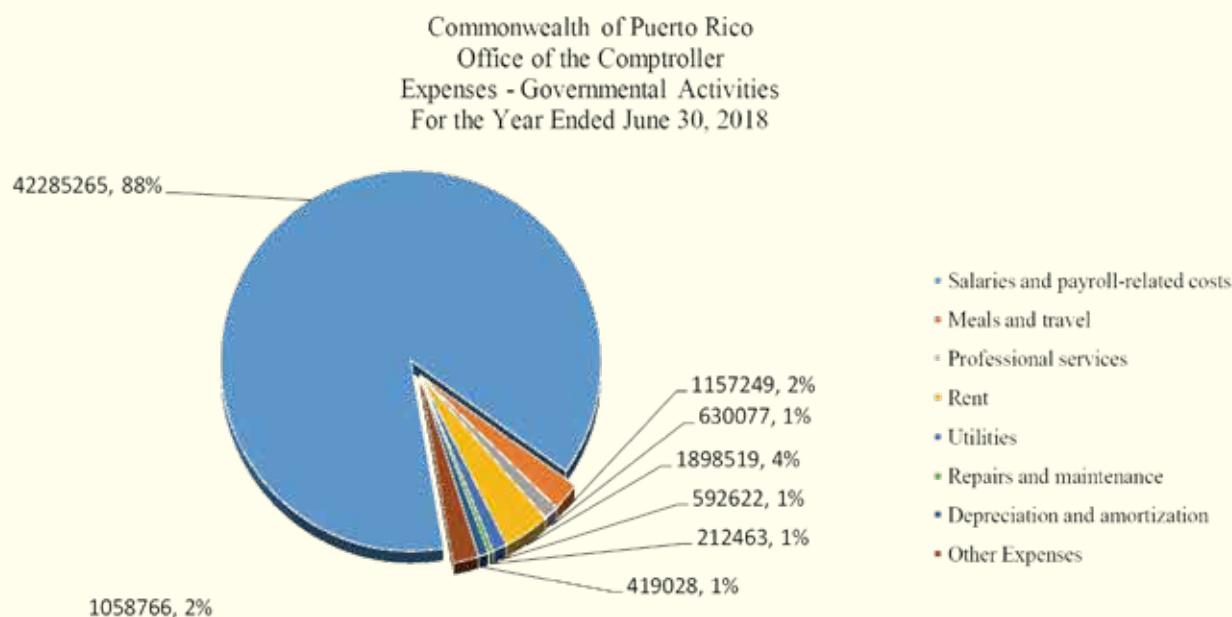
Condensed Information - Statement of Activities			
	2018	2017 *	Change
Revenues	\$ 25,509	15,664	9,845
Transfers in	39,692,003	41,153,768	(1,461,765)
Expenses	(48,253,989)	(67,285,411)	19,031,422
Change in net position	<u>\$ (8,536,477)</u>	<u>(26,115,979)</u>	<u>17,579,502</u>
Net position:			
At beginning of year	(170,195,223)	(144,079,244)	(26,115,979)
Prior period adjustment	(2,494,604)	—	(2,494,604)
At beginning of year, as restated	<u>(172,689,827)</u>	<u>(144,079,244)</u>	<u>(28,610,583)</u>
At end of year	<u>\$ (181,226,304)</u>	<u>(170,195,223)</u>	<u>(11,031,081)</u>

* The 2017 figures do not include the effect of the adoption of GASB Statement No. 75.

(Continued)

COMMONWEALTH OF PUERTO RICO
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 (An Agency of the Commonwealth of Puerto Rico)
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 June 30, 2018

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2018.



The Office's major expense is related to salaries, benefits, and payroll taxes, which represent 88% of total expenses incurred during fiscal year ended June 30, 2018. Total expenses also increased by approximately \$19,031,000 mainly due to pension and OPEB costs incurred in 2018. The decrease in transfers in of approximately \$1,462,000 is mainly due to an elimination of the annual Legislative appropriation related to employer contributions and the establishment of the pay-as-you-go method by which pensions benefits would be paid by the Commonwealth.

General Fund Budgetary Highlights

The 2017-2018 General Fund Budget was \$39,690,000 and actual expenses in the budgetary basis were approximately \$38,943,000. Total expenditures represented 98.05% of total budget availability for the fiscal year.

(Continued)

COMMONWEALTH OF PUERTO RICO
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 June 30, 2018

The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2018.

	<u>Actual</u>
Revenue and other financing sources	\$ 39,717,512
Expenditures	<u>38,942,568</u>
Unexpended balance	\$ <u>774,944</u>
Expenditure rate	98.05%

The operational results present a saving on the assigned budget amounting to approximately \$775,000 for year ended 2018.

The Commonwealth Going Concern

The Office's management believes that as of June 30, 2018 there is substantial doubt as to the ability of the Commonwealth to continue as a going concern in accordance with the Governmental Accounting Standard Board (GASB) *Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Audit Standards*. The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk.

The Commonwealth has incurred recurring deficits, has a negative financial condition, has experienced further deterioration of its economic condition, has not been able to access the credit markets, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which was signed by the U.S. President on June 30, 2016. PROMESA grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a Fiscal Oversight and Management Board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

The Commonwealth's Primary Government reflects a net deficit of approximately \$72.8 billion as of June 30, 2018 (the most recent audited financial information). The Commonwealth's General Fund had a fund deficit of approximately \$7.0 billion as of June 30, 2018.

Detailed information about the Commonwealth's conditions and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plans are disclosed in the notes of the Commonwealth's 2018 audited basic financial statements.

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COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER
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Management's Discussion and Analysis (Unaudited)
June 30, 2018

Economic Factors and Next Year's Budget

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

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 2019 is \$39,133,000. The Office adopted cost reduction measures that resulted in a decrease in certain employee benefits accrued in the government-wide financial statements.

On March 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island. On March 15, 2020, the Governor issued an executive order enacting an island-wide lock-down by ordering a 9 p.m. to 5 a.m. curfew that will run through March 2021, and ordered all non-essential businesses be closed through March 30. Public and private schools and universities have temporarily limited access to their facilities in accordance with such executive order.

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, 2018

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets:			
Cash in commercial bank	\$ 6,565,581	—	6,565,581
Accounts receivable – employees and other	30,449	—	30,449
Capital assets:			
Non-depreciable	—	304,512	304,512
Depreciable, net	—	1,321,286	1,321,286
Capital Assets net	—	1,625,798	1,625,798
Total assets	6,596,030	1,625,798	8,221,828
Deferred outflows of resources - Pensions	—	37,504,406	37,504,406
Deferred outflows of resources - OPEB	—	159,949	159,949
Total deferred outflows of resources	—	37,664,355	37,664,355
Total assets and deferred outflows of resources	\$ 6,596,030	39,290,153	45,886,183
Liabilities:			
Accounts payable and accrued liabilities	5,155,517	—	5,155,517
Other accrued long-term liabilities, due within one year	—	7,542,412	7,542,412
Other accrued long-term liabilities, due after one year	—	16,656,805	16,656,805
Net pension liability	—	175,614,891	175,614,891
Total liabilities	5,155,517	199,814,108	204,969,625
Deferred inflows of resources - Pensions	—	22,142,862	22,142,862
Total liabilities and deferred inflows of resources	5,155,517	221,956,970	227,112,487
Fund balance/net position:			
Fund balance:			
Committed	299	(299)	—
Assigned	458,998	(458,998)	—
Unassigned	981,216	(981,216)	—
Total fund balance	1,440,513	(1,440,513)	—
Total liabilities and fund balance	\$ 6,596,030		
Net position:			
Net investment in capital assets		1,625,798	1,625,798
Unrestricted		(182,852,102)	(182,852,102)
Net position		\$ (181,226,304)	(181,226,304)

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, 2018

	General Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures/expenses:			
General government:			
Salaries and payroll-related costs	\$ 36,876,154	5,409,111	42,285,265
Meals and travel	1,157,249	—	1,157,249
Professional services	630,077	—	630,077
Insurance	35,590	—	35,590
Rent	1,898,519	—	1,898,519
Utilities	592,622	—	592,622
Noncapitalizable equipment	36,752	—	36,752
Materials and supplies	69,858	—	69,858
Repairs and maintenance	212,463	—	212,463
Depreciation and amortization	—	419,028	419,028
Loss on disposition of assets	—	336	336
Trainings and continuing professional education	116,497	—	116,497
Subscriptions and memberships	102,540	—	102,540
Outsource services:			
Security	182,805	—	182,805
Maintenance	124,559	—	124,559
Other	346,233	—	346,233
Printing services	24,042	—	24,042
Postage	472	—	472
Miscellaneous	19,082	—	19,082
Capital outlays	670,840	(670,840)	—
Total expenditures/expenses	<u>43,096,354</u>	<u>5,157,635</u>	<u>48,253,989</u>
General revenue – Interest income	25,509	—	25,509
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	<u>2,003</u>	<u>—</u>	<u>2,003</u>
Total general revenue and transfer-in	<u>39,717,512</u>	<u>—</u>	<u>39,717,512</u>
Excess of revenues and transfers in over expenditures	<u>(3,378,842)</u>	<u>3,378,842</u>	<u>—</u>
Change in net position	—	(8,536,477)	(8,536,477)
Fund balance/net position:			
At beginning of year	4,819,355	(175,014,578)	(170,195,223)
Prior period adjustment, see note 4	<u>—</u>	<u>(2,494,604)</u>	<u>(2,494,604)</u>
At beginning of year, as restated, see note 4	<u>4,819,355</u>	<u>(177,509,182)</u>	<u>(172,689,827)</u>
At end of year	<u>\$ 1,440,513</u>	<u>(182,666,817)</u>	<u>(181,226,304)</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, 2018

(1) Organization and Basis of Presentation

(a) Organization

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

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

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

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

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

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

(b) The Financial Reporting Entity

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

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

Notes to Financial Statements

June 30, 2018

(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, 2018:

Fund balance	\$ 1,440,513
Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund	1,625,798
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future reporting periods and therefore, are not reported in the governmental funds:	
Add deferred outflows of resources	37,664,355
Less deferred inflows of resources	(22,142,862)
Less accrued compensated absences, net pension liability, OPEB liability, voluntary termination benefits, and Christmas bonus, as they are not due and payable in the current period and, therefore, are not reported in the General Fund	(199,814,108)
Net position	\$ <u>(181,226,304)</u>

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

Notes to Financial Statements

June 30, 2018

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, 2018:

Excess of revenues and transfers in over expenditures	\$ (3,378,842)
Add current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements	
Compensated absences	326,506
Christmas bonus	34,274
Voluntary termination benefits	1,928,072
Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities	(419,028)
Less loss on disposal of assets that were not capitalized in the General Fund	(336)
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	(8,261,356)
Add OPEB benefits paid which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported OPEB liability is measured a year before the Office's report date. OPEB expense, which is the change in the net OPEB liability adjusted for changes in deferred outflows and inflows of resources related to other postemployment benefits other than pension is reported in the statement of activities	563,393
Add capital outlays reported as expenditures in the General Fund that are shown as capital assets in the statement of activities	670,840
Change in net position	\$ <u>(8,536,477)</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

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

(2) Going Concern – Commonwealth of Puerto Rico

As described in note 1 the Office is an agency of the Commonwealth. The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) of June 30, 2016. PROMESA grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of the Financial Oversight and Management Board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

The most recent fiscal plan of the Commonwealth was certified by the Oversight Board on April 23, 2021 (the Fiscal Plan). There is no certainty that the Fiscal Plan (as currently or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in the future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

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.

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.

(3) Summary of Significant Accounting Policies

(a) Capital Assets

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

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

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

(b) *Compensated Absences*

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

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

(c) *Deferred Outflows and Inflows of Resources*

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

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(d) Accounting for Pension Costs

The Office accounts for pension costs under the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*.

The Office's employees participate in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (the ERS), a cost sharing multiple-employer plan. Therefore, in accordance with GASB Statement No. 68, the Office reports its proportionate share of ERS's net pension liability and the related pension amounts.

(e) Post-employment Benefits Other than Pensions

Effective July 1, 2017, the Office adopted the guidance in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Qualified retired employees of the Office participate in the Other Post-employment Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employee's Retirement System (the OPEB Plan). The OPEB Plan is an unfunded, single-employer defined benefit other postemployment healthcare benefit plan. The OPEB Plan is administered on a pay-as-you-go basis. Therefore, in accordance with GASB Statement No. 75, the Office reports its proportionate share of OPEB liability and the related OPEB amounts.

(f) Fund Balance

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

- Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2018.
- 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, 2018.
- 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,

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and both restricted and unrestricted resources are available, it is the Office's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

(g) Net Position

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

- (i) Net investment in capital assets— This consists of capital assets, less accumulated depreciation and amortization.
- (ii) Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2018.
- (iii) Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(h) Commonwealth Appropriations

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

(i) Risk Management

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

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

(j) Termination Benefits

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

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expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with the expendable available financial resources.

(k) Use of Estimates

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

(l) Accounting Pronouncements Issued but not yet Effective

The GASB has issued the following accounting standards that have effective dates after June 30, 2018:

- (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*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, but was not applicable to the Office prior to July 1, 2018 because the Office's employees participated in a plan that was covered by GASB 68 until June 30, 2018. GASB Statement No. 73 is expected to be applicable to the Office effective July 1, 2017 because of the effect of Act No. 106 of August 23, 2017 as further discussed in Note 11. The Office is currently evaluating the potential impact of this statement in subsequent years.
- (ii) GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. The Office is currently evaluating the impact of this statement.

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- (iii) 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, 2019. The Office is currently evaluating the impact of this statement.

(4) Adoption of New Accounting Pronouncement

Effective July 1, 2017, The Office adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 addresses accounting and financial reporting for other post-employment benefits provided to the Office's employees. The Statement also requires various notes disclosures and required supplementary information. As a result, the previously reported beginning net position has been restated as follows:

	<u>Governmental Activities</u>
Beginnign net position, as previously reported at June 30, 2017	\$ (170,195,223)
Prior period adjusment - Implementation of GASB Statement No. 75	
Beginning OPEB liability	(2,669,825)
Beginning deferred outflows of resources, benefits paid after measurement date	<u>175,221</u>
Total prior period adjustment	<u>(2,494,604)</u>
Net position, as restated, July 1, 2017	<u>\$ (172,689,827)</u>

(5) 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, 2018.

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

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(6) Capital Assets

Capital assets activity for the year ended June 30, 2018 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	\$ 92,050	212,462	—	304,512
Capital assets depreciable:				
Equipment	851,850	10,829	(37,653)	825,026
Electronic equipment	2,557,114	365,755	(347,216)	2,575,653
Furniture	1,127,326	15,152	(8,627)	1,133,851
Computer software	1,688,026	66,642	—	1,754,668
Vehicles	353,715	—	—	353,715
Total capital asset, depreciable	6,578,031	458,378	(393,496)	6,642,913
Less accumulated depreciation and amortization for:				
Equipment	770,902	27,308	(37,652)	760,558
Electronic equipment	2,084,773	186,578	—	2,271,351
Furniture	1,048,775	30,359	(346,881)	732,253
Computer software	1,098,349	161,766	(8,627)	1,251,488
Vehicles	292,960	13,017	—	305,977
Total accumulated depreciation and amortization	5,295,759	419,028	(393,160)	5,321,627
Total capital asset depreciable	1,282,272	39,350	(336)	1,321,286
Capital assets, net	\$ 1,374,322	251,812	(336)	1,625,798

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(7) Long-Term liabilities

Long-term liability activity for the year ended June 30, 2018 was as follows:

	Beginning balance June 30, 2017 (as restated)	Additions	Reductions	Ending balance June 30, 2018	Due within one year	Long-term portion
Accrued compensated absences	\$ 10,105,813	4,949,510	(5,276,016)	9,779,307	4,880,884	4,898,423
Accrued Christmas bonus	618,708	584,434	(618,708)	584,434	584,434	—
Voluntary termination benefits	13,672,388	—	(1,928,072)	11,744,316	1,974,463	9,769,853
OPEB liability	2,669,825	—	(578,665)	2,091,160	102,631	1,988,529
Net pension liability	193,755,782	31,261,164	(49,402,055)	175,614,891	—	175,614,891
	<u>\$ 220,822,516</u>	<u>36,795,108</u>	<u>(57,803,516)</u>	<u>199,814,108</u>	<u>7,542,412</u>	<u>192,271,696</u>

(8) Lease Commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2019. Rent expense under such lease agreements for the year ended June 30, 2018 amounted to approximately \$1,900,000.

(9) 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.

(10) 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:

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

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The Office Program started on January 2017 and the benefits are expected to be provided until October 2030. The methodology used an alternative method of projecting future cash outlays for benefits and discounting projected benefits to present value and allocating the present value of benefits to periods using a cost method. A total of 48 eligible employees are participating in the Program and at June 30, 2018, unpaid long-term benefits granted in Act No.211 were discounted at 0.087% interest rate.

(11) Pension Plan

(a) Plan Description

General Information about the Pension Plan

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

All regular employees hired for the first time on or after July 1, 2013 and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment.

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In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accruable under the defined contribution formula used for the System 2000 program participants.

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

Service Retirement Annuity Benefits

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

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

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

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

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excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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

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

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

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 (Article 5-105 of Act No. 447, as amended)*

Member contributions consisted of 10% of compensation until June 30, 2017. Effective July 1, 2017, contributions by members consist of 8.5% of compensation. Members may voluntarily make additional contributions to their hybrid contribution account.

- 2) *Employer Contributions (Article 2-116 of Act No. 447, as amended, eliminated on July 1, 2017 by Act No 106-2017)*

The employer contribution rate effective July 1, 2017 was 16.775%. Act No. 106-2017 eliminated the employer contributions to the ERS as of July 1, 2017.

- 3) *Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3, eliminated on July 1, 2017 by Act No 106-2017)*

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Effective July 1, 2013, the ERS receives a supplemental contribution of \$2,000 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 was to be paid by the Commonwealth's General Fund, public corporations with its own treasuries, and municipalities. The additional uniform contribution was eliminated in June 2017.

Additional information on 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) Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Office recorded a liability of \$175,614,891 for its proportionate share of the collective net pension liability. The net pension liability for the plan in total was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 that was rolled forward to June 30, 2017, and assuming no gains and losses. The Office's proportionate share for allocation of the total net pension liability was based on the ratio of the Office's contributions for allocation of \$3,656,027 for the year ended June 30, 2017, relative to the total contributions for allocation of \$690,933,522 from all participating employers. The required contributions include approximately \$574,000 that were paid by the Puerto Rico Office of Management and Budget (OMB) on behalf of the Office. At June 30, 2017, the Office's proportionate share was 0.51322%, which increased by 0.00074 basis points when compared to the proportionate share as of June 30, 2016 of 0.51396%.

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

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	<u>The Office</u>	<u>All Employers</u>
Actual contributions	\$ 3,081,915	\$ 921,536,601
Included (excluded) for allocation		
Early retirement incentives and other	(508,452)	(31,111,284)
Additional Uniform Contribution	-	(199,491,795)
Contributions payable by OMB	<u>1,082,564</u>	<u>-</u>
Employer contributions for allocation	<u>\$ 3,656,027</u>	<u>\$ 690,933,522</u>

For the year ended June 30, 2018, the Office recognized a pension expense of \$14,552,989.

At June 30, 2018, 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 of resources due to:		
Difference between expected and actual experience	\$ 119,369	\$ 3,127,144
Changes of assumptions	23,099,123	17,983,575
Net difference between projected and actual earnings on pension plan investments	—	1,032,143
Changes in proportion and differences between Employer contributions and proportionate share of contributions	8,042,672	—
Employer contributions and benefits paid subsequent to the measurement date	<u>6,243,242</u>	<u>—</u>
Total	<u>\$ 37,504,406</u>	<u>\$ 22,142,862</u>

\$6,243,242 reported as deferred outflows of resources to pensions resulting from contributions paid subsequent to the measurement date will be recognized during the year ended June 30, 2019 as a reduction of the net pension liability. Other amounts reported as collective deferred (inflows) / outflows of resources are scheduled to be recognized in pension expense as follows:

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Notes to Financial Statements

June 30, 2018

Year ending June 30:

2019	\$ 5,206,752
2020	5,451,430
2021	2,839,532
2022	(696,122)
2023	(3,683,290)
	<u>\$ 9,118,302</u>

(c) Actuarial Assumptions

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

Measurement Date	June 30, 2017
Actuarial cost method	Entry age normal
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.
Cost-of-Living Increases	Not assumed.
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year, and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.
	100% of deaths while in active service are assumed to be occupational members covered under Act No. 127.

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June 30, 2018

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. 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-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

Most other demographic assumption used in the June 30, 2017 valuation were based on the results of a 2009 actuarial experience study using data as of June 30, 2003, 2005 and 2007.

(d) Changes in Assumptions

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

Based on GASB Statement No. 67 parameters and the depletion of ERS assets, the discount rate is based on the bond market index. ERS has selected the Bond Buyer General Obligation 20Bond Municipal Bond Index for this purpose. The index rate increased from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017. The investment return assumption is no longer applicable.

(e) Plan Changes that are Not Yet Effective

Effective July 1, 2017, the Commonwealth of Puerto Rico, its component units and municipalities were required to implement a "pay-as-you-go" (PayGo) system for the payment of pensions pursuant to Circular Letter No 1300-46-17 issued by the Department of Treasury of the Commonwealth of Puerto Rico (CL-1300-46-17). Act No. 106 of August 23, 2017 (Act No. 106-2017) provided the legal framework for the Commonwealth of Puerto Rico to implement the PayGo system. Pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Also, the employers' contributions and the Additional Uniform Contribution were eliminated. Because the System uses a measurement date of beginning of the year, the effect of these events will be considered effective July 1, 2018 for employer reporting purposes.

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June 30, 2018

(f) Discount Rate

The ERS is in a deficit position. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20 Bond Municipal Bond Index) was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate used to measure the ERS total pension liability was 3.58% as of June 30, 2017.

(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, 2018, calculated using the discount rate of 3.58%, as well as what the net pension liability would be if it was calculated assuming a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than current rate:

		At 1% decrease (2.58%)	At current discount rate (3.58%)	At 1% increase (4.58%)
Net pension liability	\$	199,139,641	175,614,891	156,674,651

(12) Other Postemployment Healthcare Benefit Plan

(a) General Information about the OPEB Plan

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

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

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(b) *Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2018, the Office reported deferred outflows of resources related to OPEB of \$159,949, resulting from contributions paid subsequent to the measurement date that will be recognized during the year ended June 30, 2019 as a reduction of the total OPEB liability.

(c) *Actuarial assumptions and methods*

The total OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Measurement Date	June 30, 2017
Actuarial cost method	Entry age normal
Discount rate	3.58%
Mortality Assumption	<p>Pre-retirement Mortality: For general employees not covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.</p> <p>Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Series AAP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p> <p>Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

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June 30, 2018

The discount rate for June 30, 2017 was 3.58%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index.

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

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

At June 30, 2018 the Office recorded a liability of \$2,091,160 for its proportionate share of 0.22717% of the OPEB liability of \$ 920,517,428. For the year ended June 30, 2017, the Office recognized OPEB expense of \$403,445.

At June 30, 2017, the employer reported deferred outflows of resources of \$159,949 resulting from amounts associated with transactions subsequent to the measurement date that will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019.

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

The following presents the proportionate share of the Office's OPEB liability as of June 30, 2018, calculated using the discount rate of 3.58%, as well as what the total OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than current rate:

		At 1% decrease (2.58%)	At current discount rate (3.58%)	At 1% increase (4.58%)
Net OPEB liability	\$	2,302,785	2,091,160	1,912,479

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June 30, 2018

(13) General Fund – Fund balance

At June 30, 2018, portions of the General Fund balances were committed and assigned for specific amounts as follows:

<u>Fund balance</u>	<u>Amount</u>
Committed:	
Repair of vehicles due to collision	\$ 299
Assigned:	
Professional services	458,998
	458,998
Unassigned	981,216
	\$ 1,440,513

(14) Subsequent Events

The Office has evaluated subsequent events through August 26, 2021, the date that the financial statements were available to be issued.

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

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

COMMONWEALTH OF PUERTO RICO
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 Required Supplementary Information (Unaudited)

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

June 30, 2018

	2018*	2017*	2016*	2015*	2014*
Employer's Proportion of the Net Pension Liability	0.51322%	0.51396%	0.50902%	0.48881%	0.48747%
Employer's Proportionate Share of the Net Pension Liability	\$ 175,614,891	\$ 193,755,782	\$ 169,692,545	\$ 146,917,907	\$ 126,121,006
Employer's Covered-Employee Payroll	23,364,012	24,064,999	24,397,683	24,175,133	24,826,542
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	751.65%	805.14%	695.53%	607.72%	508.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	-6.57%	-3.47%	-2.05%	0.27%	2.47%

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 notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO
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Required Supplementary Information (Unaudited)
Schedule of Employer's Contributions – Pension Plan
June 30, 2018

Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	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	14.28%
June 30,2017	\$ 4,164,479	\$ 3,081,915	\$ 1,082,564	\$ 23,364,012	13.19%
June 30,2018 *	\$ -	\$ -	\$ -	\$ -	N/A

*All employer contributions were eliminated in 2018 as a result of Act 106-2017. Therefore, the information related to covered payroll and related contributions is omitted for 2018.

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

The amounts presented in the schedule are determined as of the most recent fiscal year of the Office.

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

COMMONWEALTH OF PUERTO RICO
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Required Supplementary Information (Unaudited)

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

June 30, 2018

	<u>2018*</u>	<u>2017*</u>
Employer's Proportion of the Net OPEB Liability	0.22717%	0.22528%
Employer's Proportionate Share of the Net OPEB Liability	\$ 2,091,160	\$ 2,669,825

*Currently, there are no active participants in this plan. Therefore, the information related to coverage payroll is omitted.

The 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 notes to required supplementary information and independent auditors' report.

COMMONWEALTH OF PUERTO RICO
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Required Supplementary Information (Unaudited)

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

June 30, 2018

	Original budget	Final budget	Actual amounts (Budgetary basis)	Variance- favorable (unfavorable)
Revenue:				
Interest income	\$ —	—	25,509	25,509
Other income	—	—	2,003	2,003
	<u>—</u>	<u>—</u>	<u>27,512</u>	<u>27,512</u>
Expenditures:				
Salaries and payroll-related expenditures	32,967,059	33,237,059	33,013,126	223,933
Facilities and payments of public services	694,000	694,000	592,497	101,503
Purchased services	3,054,045	3,054,045	2,766,504	287,541
Transportation expenditures	1,480,300	1,280,300	1,132,883	147,417
Professional services	889,796	819,796	954,200	(134,404)
Other expenditures	228,000	228,000	193,038	34,962
Materials and supplies	316,800	316,800	233,260	83,540
Capital outlays	50,000	50,000	47,141	2,859
Announcements and media communications required by law	10,000	10,000	9,919	81
	<u>39,690,000</u>	<u>39,690,000</u>	<u>38,942,568</u>	<u>747,432</u>
Other financing sources – transfers in:				
Commonwealth appropriations	<u>39,690,000</u>	<u>39,690,000</u>	<u>39,690,000</u>	<u>—</u>
Excess of revenue and other financing sources over expenditures	\$ <u>—</u>	<u>—</u>	<u>774,944</u>	<u>774,944</u>

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

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 Notes to Required Supplementary Information

June 30, 2018

(1) Changes of benefit terms and assumptions

On August 23, 201, the Governor of the Commonwealth signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No 106-2017 established the pay as you go mechanism effective July 1, 2017 for all the Commonwealth's pension plans.

(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, 2018 for operational appropriations of \$37,359,000.

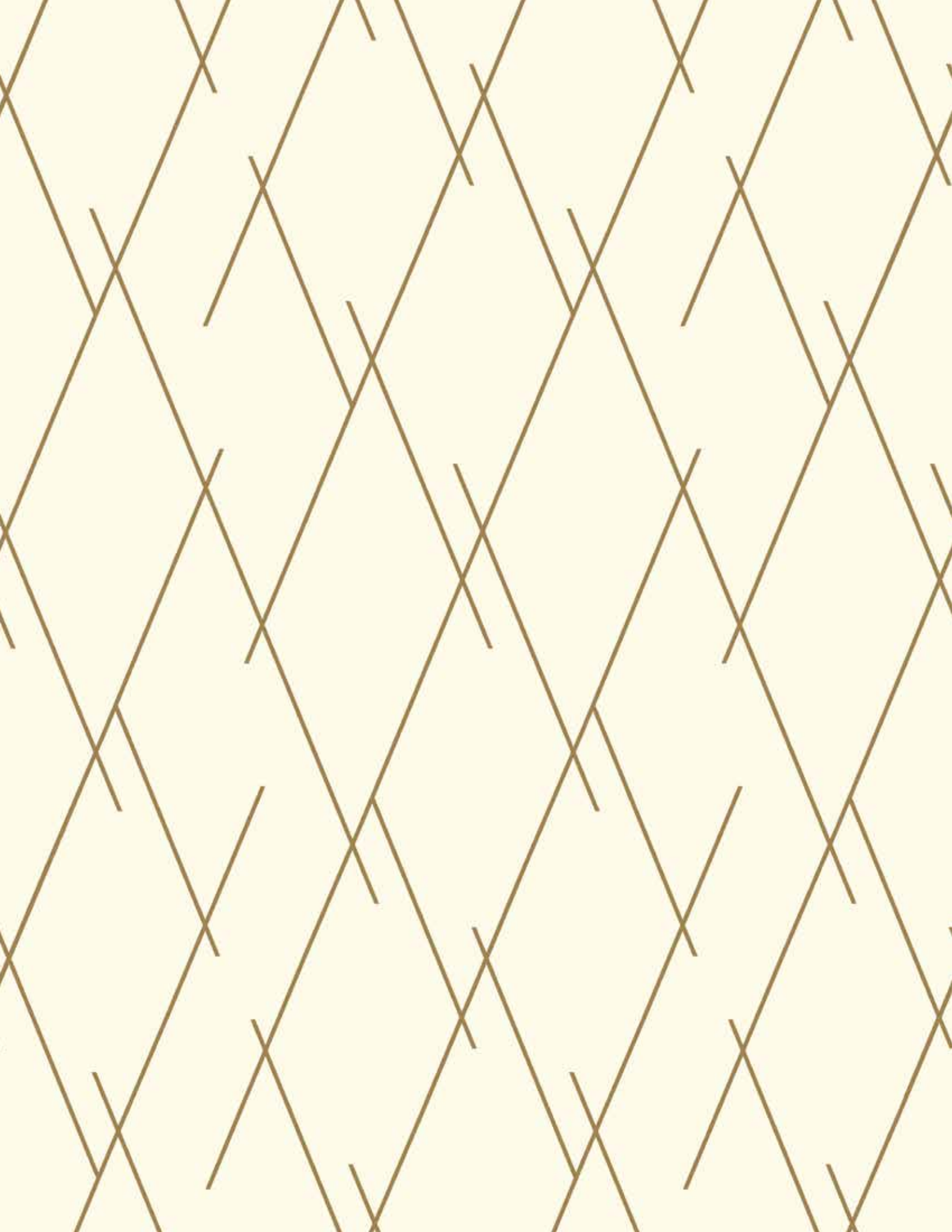
The primary difference between the budgetary basis and the modified accrual basis under U.S. generally accepted accounting principles (GAAP basis) is the encumbrances that are presented as expenditures under the budgetary basis.

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	\$ 774,944
Plus current year encumbrances not recorded as expenditures under the modified-accrual basis	341,558
Less expenditures recorded against unencumbered appropriations carried forward from prior year	(4,195,570)
Less prior year encumbrances recorded as expenditures under the modified accrual basis	<u>(299,774)</u>
Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	<u>\$ (3,378,842)</u>

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June 30, 2018

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, 2017-18 and 2016-17.

DESCRIPTION	2017-18		2016-17	
	APPROPRIATION	PERCENT	APPROPRIATION	PERCENT
Salaries and Payroll Related Expenditures	\$33,237,059	83.7	\$33,008,801	83.2
Transportation Expenditures	1,280,300	3.2	1,333,652	3.3
Other Purchased Services	1,155,526	3.0	1,063,238	2.7
Professional Services	819,796	2.1	828,203	2.1
Facilities and Payments of Public Services	694,000	1.7	659,509	1.7
Rent	1,898,519	4.8	2,179,057	5.5
Materials and Supplies	316,800	.8	326,951	.8
Other Expenditures	238,000	.6	239,589	.6
Capital Outlays	50,000	.1	51,000	.1
TOTAL	\$39,690,000	100	\$39,690,000	100

CHART 2 – HUMAN CAPITAL

This chart shows the distribution of human capital by auditor and support personnel for fiscal years 2017-18 and 2016-17.

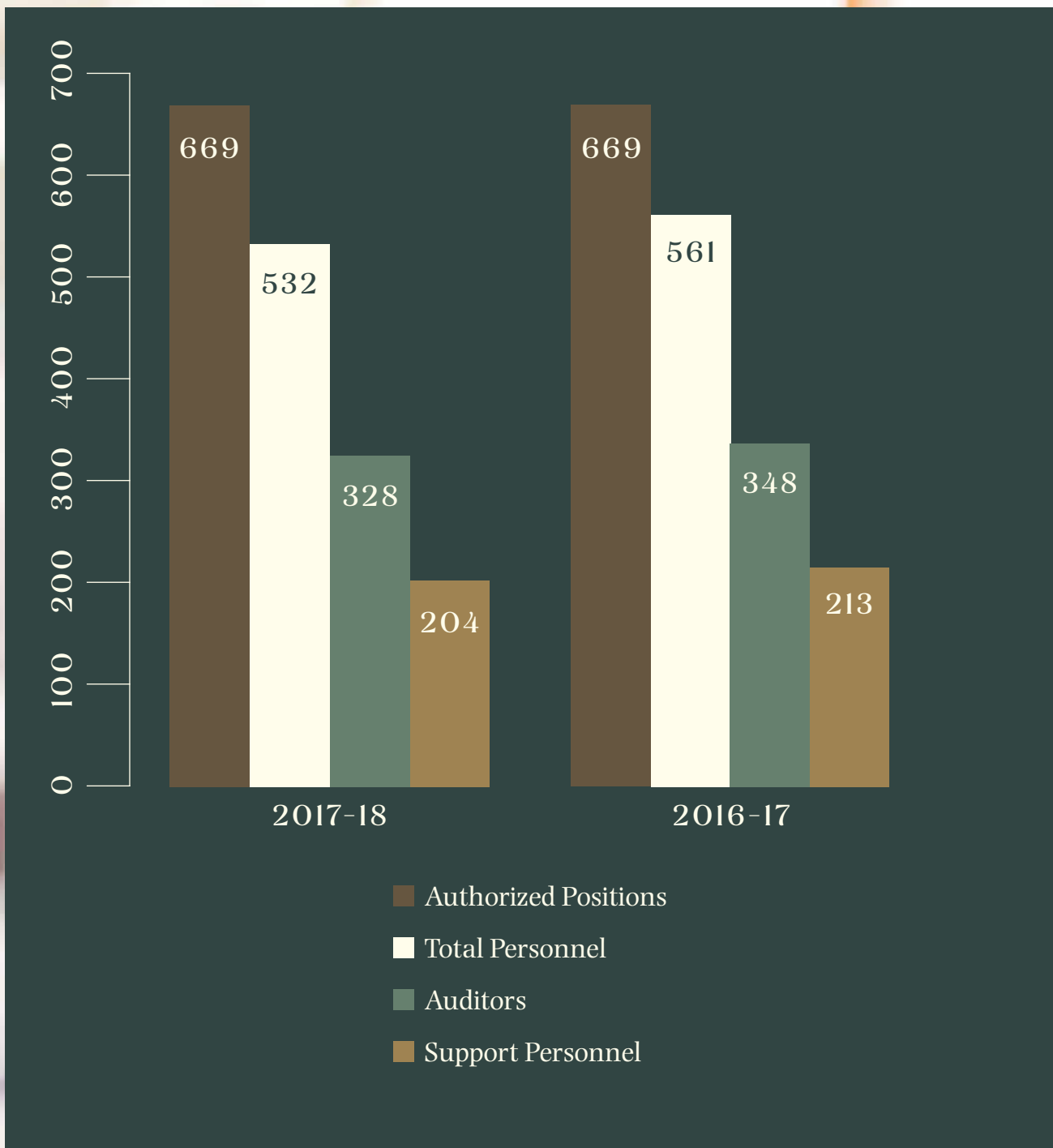


CHART 3 – TIME DISTRIBUTION

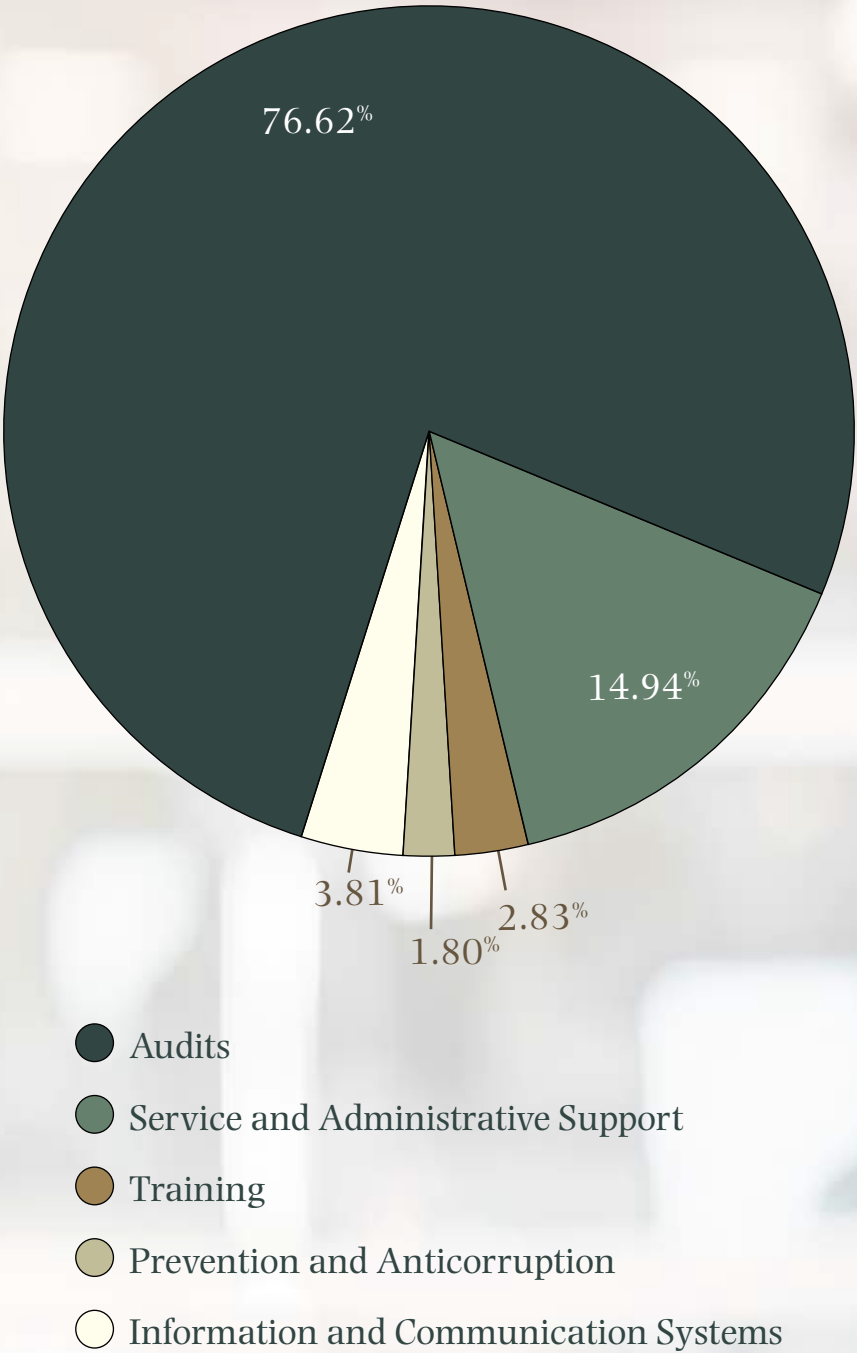


CHART 4 – MOST IMPORTANT FINDINGS INCLUDED IN AUDIT REPORTS

CLASSIFICATION	QUANTITY
Purchasing, accounts payable and disbursements	258
Planning-Administrative controls	179
Others	171
Cash	157
Building and improvements	125
Professional services	114
General controls - Computers	101
Personnel	69
Property	52
Revenues and receivables	25
Applications controls	17
Donations	4
Microcomputers controls	1
Privatizations	1
TOTAL	1,274

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

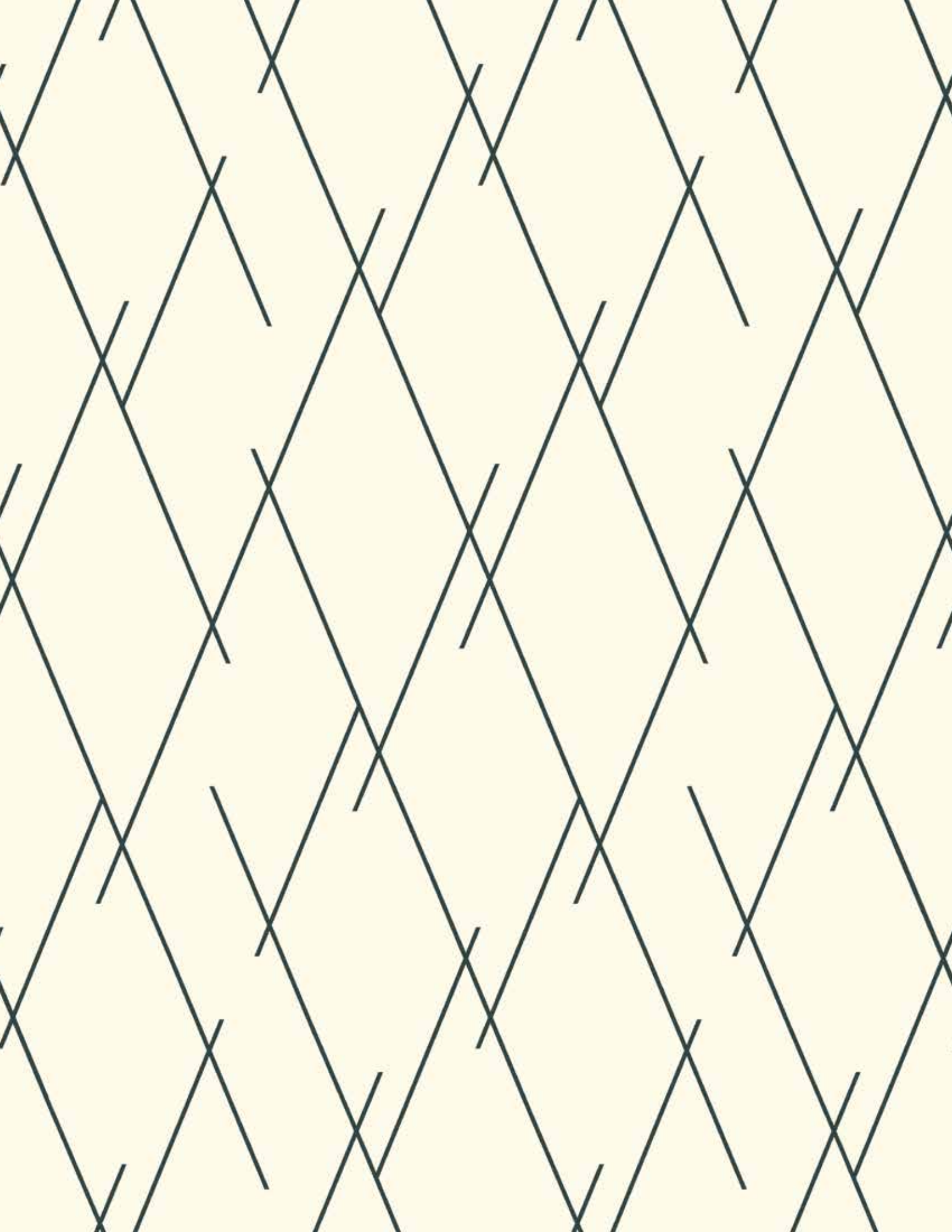
Acts No. 426 of November 7, 2000 and No. 14 of April 11, 2001, provide protection and prohibit disclosure of public employees and officials, complainants or witnesses for reporting alleged illegal acts or corruption actions.

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 P U B L I S H E D







Comptrollership At Your Services...