# AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION

**(A Component Unit of the Commonwealth of Puerto Rico)**

## BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

**For the Year Ended June 30, 2020**

**(With Independent Auditor's Report Thereon)**

# AUTOMOBILE ACCIDENTS
# COMPENSATION ADMINISTRATION
**(A Component Unit of the Commonwealth of Puerto Rico)**

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Automobile Accidents Compensation Administration
(a Component Unit of the Commonwealth of Puerto Rico):

## Report on the Financial Statements

We have audited the accompanying financial statements of the Automobile Accidents Compensation Administration (a Component Unit of the Commonwealth of Puerto Rico) (the "Administration"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's 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 auditor's 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administration as of June 30, 2020, and the changes in its financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 thru 10 and required supplementary information by GASB Statements No. 73 and 75 on pages 70 thru 71 and the schedule of ten – years claims development information on page 72, 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 June 9, 2022, on our consideration of the Administration'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Carolina, Puerto Rico

June 9, 2022

Aquino, De Córdova, Alfaro & Co., LLP
by
Lic. #3171

Stamp number E492437
of the Puerto Rico CPA Society
has been affixed to the
original report

This section of the financial report of the Automobile Accidents Compensation Administration (A Component Unit of the Commonwealth of Puerto Rico) (hereinafter referred to as the "Administration"), represents a narrative overview and analysis of the financial performance and activities for the fiscal years ended June 30, 2020 and 2019. The information presented herein should be read in conjunction with the attached Basic Financial Statements, including the notes thereto.

Summarized Basic Financial Statements information, relevant financial and operational indicators operational budgets and other management tools were used for purpose of this analysis.

## Background

The Administration was created by Law No. 138 of 1968 (as amended) to provide death, disability and health benefits for victims of automobile accidents, subject to certain limitations and conditions. The annual premium amounts to $35 per vehicle and is paid during the vehicle's registration renewal. This premium was established in 1968 and has remained unchanged since then. New vehicles pay a fee of $37.50 during the first year. The insurance premium is collected by the Puerto Rico Treasury Department (from now on "PRTD"), which charges the Administration a service fee of 5% on the premiums collected. The service charge for fiscal years ended June 30, 2020 and 2019 amounted to approximately $3.8 million and $4 million, respectively.

## Financial Highlights

- The Administration experienced an operating income from insurance operations of approximately $25.6 million in 2020. During fiscal year 2019, the Administration had net operating loss from insurance operations of $75.6 million. This was mainly due to the implementation in 2019 of the Governmental Accounting Standards Board (GASB) Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68", for which a pension expense of $103.7 million was recorded (for 2020, pension expense was $9.8 million, for a reduction of $93.9 million). In addition, due to the effects of the COVID-19 event and the lockdown issued by the Governor of the Commonwealth of Puerto Rico starting on March 15, 2020, death and funeral, disability benefits and accident and health benefits paid were reduced, from $28.9 million in 2019 to $24.6 million in 2020, for a reduction of $3.7 million.

- Net position for the year ended June 30, 2020 increased by $22.8 million, or 11.28%. This reduction (Net Position - Deficit) is mainly due, as explained before, to the reduction of pension expense of $93.9 million, and the effects of the COVID-19 event on benefits paid.

- Operating revenues decreased from $82.0 million in 2019 to $79.9 million in 2020, or 2.63%. Again, this reduction was due to the effects of the COVID-19 lockdown.

- Operating expenses amounted to approximately $54.2 million in 2020. This represents a net decrease of $103.4 million as compared to the previous year 2019 (balance of $157.7 million), which was an increase of $94.3 million. This outcome was mainly due to reduction in pension expense for $93.9 million, the reduction of benefits payments of $3.7 million due to the COVID-19 lockdown, and a reduction in total unpaid claims reserve, from $60 million in 2019 to $52.8 million in 2020.

**(Continued)**

- During fiscal year 2020, the Administration recorded interest and dividend income of approximately $2.6 million (2019 - $2.4 million). Furthermore, the realized loss on sales of investments were $509,544 in 2020 and a realized gain of $921,241 for 2019; and an unrealized loss due to changes in market value of investments for $739,645 in 2020 and an unrealized gain of $1.2 million in 2019.There was also an impairment loss on investments of $3.0 million, during 2020.

- The Administration's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by approximately $179.5 million as of June 30, 2020, ($202.3 million in 2019) representing a deficit decrease of $22.8 million when compared to 2019, which was a deficit increase of $75.2 million.

**Overview of the Financial Report**

The Administration is a component unit of the Commonwealth of Puerto Rico (hereinafter referred to as the Commonwealth) and is presented in the Commonwealth's government-wide financial statements as an enterprise fund.

The Basic Financial Statements provide information about the Administration's activities. The Basic Financial Statements are prepared in accordance Accounting Principles Generally Accepted in the United States of America (US GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The Administration's Basic Financial Statements are presented, attached to this document, and represent the financial position of the Administration as of June 30, 2020, and the results of operations for the fiscal year then ended.

The Basic Financial Statements consist of the: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. The Basic Financial Statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with GAAP.

**Statement of Net Position**

The Statement of Net Position presents the Administration's financial position as of June 30, 2020, showing information that includes all of the Administration's assets and liabilities, as well as the net position. An evaluation of the overall financial health of the Administration would extend to other external factors, such as the quality of the portfolio of investments and their related market conditions, the experience of gains and losses that may be affected by demographic variables, the inflationary increase of medical costs, and actuarial assumptions used for purposes of estimating the Reserve for Future Benefits.

**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position shows how the Administration's net assets changed during the fiscal year. All current fiscal year revenues and expenses are recognized using the accrual method of accounting, which consists of recognizing such revenues and expenses when earned and incurred, respectively, regardless of when the cash is received or paid.

**(Continued)**

**Statement of Cash Flows**

The Statement of Cash Flows presents the sources and uses of cash flows divided in categories: operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

The statement reconciles net cash and cash equivalents at the beginning and end of the year and reconciles the net operating gain (loss) with the cash provided by operating activities to provide an explanation of cash and non-cash activities within the statements of revenues, expenses and changes in net position.

**Notes to the Financial Statements**

The notes to the financial statements are an integral part of the Basic Financial Statements and describe the significant accounting policies, deposits and investments, capital assets, long-term liabilities, retirement plans and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the Management Discussion and Analysis and the Basic Financial Statements.

**New Significant Accounting Standards Implemented**

During fiscal year 2019-2020, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB), were adopted by the Administration, when applicable:

1-In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO's, including obligations that may not have been previously reported. The requirements of this statements are effective for financial statements for periods beginning after June 15, 2018.

2-In March 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". This statement will improve the information that is disclosed in notes of governmental 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. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

3-Governmental Accounting Standards Board (GASB) Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance". This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after December 15, 2019 or later.

These are further explained on Note 2(V) to the basic financial statements.

**Required Supplementary Information - Employee's Retirement System**: the annual financial report includes the required supplementary schedule after the notes to the Basic Financial Statements, which is the Schedule of Proportionate Share of the Total Pension Liability, as the result of the implementation of GASB Statement No. 73.

**Required Supplementary Information - Postemployment Benefits Other Than Pensions (OPEB)**: the annual financial report includes the required supplementary schedule after the notes to the Basic Financial Statements, which is the Schedule of Proportionate Share of the Other Postemployment Benefits Liability, as the result of the implementation of GASB 75.

**(Continued)**

**Detailed Financial Analysis of the Administration**

**The Administration was created in 1968 by virtue of Law No. 138 as a public corporation of the** Commonwealth of Puerto Rico. It operates a system of compulsory insurance for vehicles licensed for the use within the Commonwealth. The insurance covers bodily injuries caused by automobile accidents and has an annual premium, which was established in 1968, of $37.50 for new vehicles and $35 for renewals. The Administration, therefore, is responsible for managing the risks of insurance established in the Law and provides adequate resources for insured beneficiaries by managing premiums, claims and expenses.

The following table reflects condensed net position of the Administration as of June 30, 2020 and 2019 as follows:

**Statement of Net Position**

The following represents major changes in the Statement of Net Position items:

| | 2020 | 2019 |
|---|---|---|
| **Assets:** | | |
| Current Assets | $ 52,995,654 | $ 34,003,109 |
| Restricted Asset | 728,237 | 274,670 |
| Capital Assets, Net | 4,337,129 | 4,727,723 |
| Other Noncurrent Assets | 103,795,386 | 109,756,197 |
| Total Assets | 161,856,406 | 148,761,699 |
| Deferred Outflows of Resources | 28,332,896 | 20,830,942 |
| Total Assets and Deferred Outflows of Resources | $ 190,189,302 | $ 169,592,641 |
| **Liabilities:** | | |
| Current Liabilities | $ 82,612,061 | $ 85,617,755 |
| Noncurrent Liabilities | 273,064,834 | 271,853,165 |
| Total Liabilities | 355,676,895 | 357,470,920 |
| Deferred Inflows of Resources | 14,038,543 | 14,478,186 |
| Net Position: | | |
| Investment in Capital Assets | 4,337,129 | 4,727,723 |
| Unrestricted (Deficit) | (183,863,265) | (207,084,188) |
| | (179,526,136) | (202,356,465) |
| Total Liabilities, Deferred Inflows of Resources and Net Position | $ 190,189,302 | $ 169,592,641 |

**(Continued)**

**Current Assets**

Total current assets increased by $19.0 million or 55.9%. This increase is directly attributable to an increase in cash and cash equivalents, of $8.7 million in unrestricted cash balances, or 34.21%. Also, there was an increase in receivables from premiums from the Puerto Rico Treasury Department. Balance was $3.8 million in 2019 and $16.0 million in 2020, for an increase of $12.2 million, or 319%.

**Capital Assets**

During the year ended June 30, 2020, capital assets decreased by $390,594, mostly due to the net effect of additions of $314,462, retirement of assets with a book value of $74,916 and depreciation expense for the year of $630,140.

**Other Assets**

During the year ended June 30, 2020, there was a decrease in other noncurrent assets, mostly due to a decrease the fair value of investments of $4.3 million, as well as to realized, unrealized losses, and an impairment.

**Deferred Outflows of Resources Related to Pension Plan**

Deferred outflows of resources amounted to $28.3 million in 2020, for an increase of $7.5 million, when compared to balance of $20.8 million during the year ended June 30, 2019. This represents an increase of 36.0%.

**Current Liabilities**

Total current liabilities decreased from $85.6 million as of June 30, 2019 to $82.6 million as of June 30, 2020. Major changes are as follows:

- **Unpaid Claims Liability and Reserve for Future Benefits**

  The reserve for future benefits is an estimate of unpaid benefits on any given date. The estimate of the reserve for future benefits is an actuarial function involving the current financial evaluation of future contingent events. The total reserve amount for fiscal year ended June 30, 2020 shows a decrease of approximately $7.2 million, mainly due to the use of funds and therefore, represents a cash outflow: The decrease in the medical reserve liability implies that the ACAA has paid the claims it owes. It also represents the fact that while claims payments have decreased significantly over the past years, claims processing expenses have not decreased accordingly. As of June 30, 2019, the current portion of the unpaid claim liability was $17.5 million and as of June 30, 2020, the current portion was $14.5 million, for a decrease of $3.0 million, or 17%.

  According to the actuarial report, the Unpaid Claims Liability and Reserve for Future Benefits is segregated into various major areas: benefits for death, funeral, disability, dismemberment and medical/hospital coverage with basic (less than two years) and extended (over two years) benefits. It also includes the incurred but unpaid claim liability, and the loss adjustment expenses. Each major area is evaluated separately, and a reserve is estimated for each. It should be noted that most payments for funeral, dismemberment and disability benefits are settled within two years, while other benefits settlements may depend on the composition and age distribution of the beneficiaries and on the severity of the accident and related trauma.

**(Continued)**

- **Unearned Premium Reserve**

  This balance shows a reduction, from $38.0 million as of June 30, 2019 to $33.3 million as of June 30, 2020, for a decrease of $4.7 million, or 12%. The insurance offered by the Administration has an annual premium, which is collected in advance, when the vehicle is purchased or when the vehicle's registration is renewed. The Administration records the premium as unearned revenue and amortizes if for the twelve-month period of its duration.

- **Total Pension Liability and Total OPEB Liability**

  As of June 30, 2019, the Administration implemented the requirements of GASB Statement No. 73, as explained before, resulting in an increase in debt for the employer proportionate share and Total Pension Liability. Current portion of the Total Pension Liability is $12,522,062 for 2020, in comparison to $12,335,993 for 2019, for an increase of $186,069, or 1.51%. The current portion of the Total OPEB Liability is $389,248 for 2020, in comparison to $406,629 for 2019, for a decrease of $17,381, or .4.27%. They represent the benefits paid subsequent to measurement date.

  GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. As the Puerto Rico Government Employee Retirement System (PRGERS) is a multiple employer plan and the benefits are not funded by a pension trust, GASB Statement No. 73 applies to the pension benefits provided to each participating employer's own employees. This recording is made as shown by the Actuarial Report of the PRGERS.

  The PRGERS report is for the measurement year July 1, 2018 to June 30, 2019 and for the reporting periods ending July 1, 2019 through June 30, 2020.

**Noncurrent Liabilities**

- **Unpaid Claims Liability and Reserve for Future Benefits**

  As of June 30, 2020, the noncurrent portion of the unpaid claim liability was $38.3 million and as of June 20, 2019, the noncurrent portion was $42.5, for a decrease of $4.2 million.

- **Total Pension Liability, Total OPEB Liability and Deferred Inflows of Resources Related to Pension Plans**

  The noncurrent portion of the Total Pension Liability is $222,410,623 for 2020, in comparison to $217,340,652 for 2019, for an increase of $5.06 million. This offset the decrease in unpaid claims liability and reserve for future benefits explained above. The noncurrent portion of the Total OPEB Liability is $4,335,632 for 2020, in comparison to $4,221,454 for 2019, for an increase of $114,178, or 2.70%.

  Due to the above, the Administration recorded deferred inflows of resources related to pension plan, resulting from changes in the net pension liability not included in pension expense. Deferred inflows of resources decreased from $14.5 million in 2019 to $14.0 million in 2020 or decrease of 3.04%.

**(Continued)**

**Net Position at End of Year**

- Total Net Position for the Fiscal Year ended June 30, 2020 increased by $22.8 million. This reduction of deficit is mainly due, as explained before, to the reduction of pension expense of $93.9 million, the effects of the COVID-19 event on benefits paid, and a reduction in total unpaid claims reserve, from $60 million in 2019 to $52.8 million in 2020. Also, operating expenses decreased by $103.4 million from 2019 to 2020, or a decrease of 66%.

It should be noted that, as required by the Law that created the Administration, the excess of revenues collected during any fiscal year over the payment of benefits and operational expenses must be kept by the Administration to cover all unanticipated claims. If, in any year, the receipts and the reserves accrued are not sufficient to cover the losses and the expenses incurred, the Secretary of the Treasury shall provide, as an advance to the Administration, the sums required to remediate the deficiency. Such advance would be obtained from any funds available in the General Government Fund of the Commonwealth of Puerto Rico.

## Statement of Revenues, Expenses and Changes in Net Position

The following presents a detailed description of the Administration's revenues, expenses and changes in net position:

| | 2020 | 2019 | Variance Dollars | Variance Percentage |
|---|---|---|---|---|
| Operating Revenues | $ 79,854,580 | $ 82,008,101 | $ (2,153,521) | (2.63) % |
| Operating Expenses | 53,607,078 | 157,007,186 | (103,400,108) | (65.86) % |
| Depreciation and Amortization Expense | 630,140 | 660,762 | (30,622) | (4.63) % |
| Operating Income/(Loss) | 25,617,362 | (75,659,847) | 101,277,209 | (133.86) % |
| Nonoperating Revenue/(Expenses) | (1,691,032) | 5,123,995 | (6,815,027) | (133.00) % |
| Contributions to Other Governmental Agencies | (1,096,001) | (4,726,168) | 3,630,167 | (76.81) % |
| Net Change in Net Position | $ 22,830,329 | $ (75,262,020) | $ 98,092,349 | (130.33) % |

**Revenues from Insurance Premiums**

The premiums are earned ratably over the one-year term of coverage, and they are anticipated to remain in line with the prior year if there are no significant changes in vehicles covered. The insurance premium rate per vehicle per year is $37.50 for new vehicles and $35 for renewals and has remained the same for over 40 years.

The Administration has been able to continuously generate Net Operating Revenues on a steady basis. The average Net Operating Revenues during the last ten (10) years was $79.4 million. Net Operating Revenues are net of a 5% service fees, which amounted to approximately $3.8 million during 2020. Average covered vehicles for the past ten years amounted to approximately 2.3 million vehicles.

**(Continued)**

### General and Administrative Expenses

The general and administrative expenses remain basically constant from 2019 to 2020, with an increase of $776,506 when compared with the previous year.

### Contributions to Other Governmental Agencies

The Administration is required by legislation, to contribute to other governmental agencies funds for different Governmental programs. During the year ended June 30, 2020, the Administration contributed funds to other governmental agencies including transfers to Puerto Rico Traffic Safety (Act 33-1972) amounting to $1,096,001.

On January 23, 2017 Act No. 3-2017 named "Act to Address the Economic, Fiscal and Budgetary Crisis in Order to Guarantee the Operations of the Government of Puerto Rico" (Act No. 3-2017) was enacted by the Commonwealth of Puerto Rico in order to take temporary emergency measures so that the Commonwealth can continue its operations and be able to offer essential services to its citizens; establish certain prohibitions over the engagement of professional services, among other measures, which will be in effect until July 15, 2021. Under Act 3-2017, the Administration is required to transfer the savings resulting from the enactment of this Act to the "Fund for Services and Therapies for Special Education Students". As of June 30, 2020, no amounts were accrued by the Administration since no savings were attained.

### Contacting the Administration's Financial Management

This financial analysis (including the basic financial statements and notes thereto) is designed to provide a general overview of the Administration's finances and to comply with the financial reporting guidelines established by the Commonwealth of Puerto Rico, as well as to demonstrate the Administration's commitment to public accountability. For questions regarding this analysis and/or to request additional information, contact the Administration's Finance Department at Chardón Ave. #249, Arterial Hostos Square, Hato Rey, PR, 00918 or by calling at 787-753-8495.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF NET POSITION**
**JUNE 30, 2020**

**ASSETS:**

| | |
|---|---|
| Current Assets: | |
| Cash and Cash Equivalents | $ 34,173,643 |
| Investments | 1,416,527 |
| Accrued Interest and Dividends | 421,569 |
| Receivable from the Sale of Investments | 37,788 |
| Receivable from Premiums | 16,033,558 |
| Other Receivables, Net of Allowance of $23,448,977 | 912,569 |
| Total Current Assets | 52,995,654 |
| Noncurrent Assets: | |
| Restricted Cash | 728,237 |
| Investments | 103,674,501 |
| Other Assets | 120,885 |
| Capital Assets: | |
| Nondepreciable | 900,882 |
| Depreciable, Net | 3,436,247 |
| | 4,337,129 |
| Total Noncurrent Assets | 108,132,515 |
| Total Assets | 161,856,406 |

**DEFERRED OUTFLOWS OF RESOURCES:**

| | |
|---|---|
| Pension Related | 27,928,773 |
| Other Postemployment Benefits Related | 404,123 |
| Total Deferred Outflows of Resources | 28,332,896 |
| Total Assets and Deferred Outflows of Resources | $ 190,189,302 |

See accompanying notes which are an integral part of the Basic Financial Statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF NET POSITION (CONTINUED)**
**JUNE 30, 2020**

| | |
|---|---|
| **LIABILITIES:** | |
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities | $ 17,720,968 |
| Unearned Premiums | 33,309,007 |
| Unpaid Claim Liability and Reserve for Future Benefits | 14,477,611 |
| Payable for the Acquisition of Investments | 769,369 |
| Accrued Compensated Absences | 1,615,116 |
| Total Pension Liability | 12,522,062 |
| Total Other Postemployment Benefits Liability | 389,248 |
| Termination Benefits | 1,808,680 |
| Total Current Liabilities | 82,612,061 |
| Noncurrent Liabilities: | |
| Unpaid Claims Liability and Reserve for Future Benefits | 38,323,212 |
| Reserve for Litigations | 838,750 |
| Total Pension Liability | 222,410,623 |
| Total Other Postemployment Benefits Liability | 4,335,632 |
| Termination Benefits | 7,156,617 |
| Total Noncurrent Liabilities | 273,064,834 |
| Total Liabilities | 355,676,895 |
| **DEFERRED INFLOWS OF RESOURCES:** | |
| Pension Related | 14,038,543 |
| **NET POSITION:** | |
| Investment in Capital Assets | 4,337,129 |
| Unrestricted/(Deficit) | (183,863,265) |
| Total Net Position | (179,526,136) |
| Total Liabilities, Deferred Inflows of Resources and Net Position | $ 190,189,302 |

See accompanying notes which are an integral part of the Basic Financial Statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**
**FOR THE YEAR ENDED JUNE 30, 2020**

| | |
|---|---|
| **OPERATING REVENUES:** | |
| Insurance Premiums Earned | $ 81,308,744 |
| Less Service Fees | (3,825,610) |
| Other Income | 2,371,446 |
| Total Operating Revenues | 79,854,580 |
| **OPERATING EXPENSES:** | |
| Death and Funeral Benefits | 643,158 |
| Disability Benefits | 209,025 |
| Accident and Health Benefits | 17,717,431 |
| Beneficiary Services | 14,320,707 |
| General and Administrative Expenses | 10,394,207 |
| Pension Expense | 9,833,999 |
| Other Postemployment Benefits Expense | 488,551 |
| Depreciation and Amortization Expense | 630,140 |
| Total Operating Expenses | 54,237,218 |
| Operating Income | 25,617,362 |
| **NONOPERATING REVENUES / (EXPENSES)** | |
| Interests and Dividend Income | 2,596,062 |
| Realized Loss on Sales of Investments | (509,544) |
| Unrealized Loss on Investments | (739,645) |
| Impairment Loss on Investments | (3,037,905) |
| Contributions to Other Governmental Agencies | (1,096,001) |
| Total Nonoperating Revenues / (Expenses) - Net | (2,787,033) |
| Change in Net Position | 22,830,329 |
| Net Position at Beginning of Year | (202,356,465) |
| Net Position at End of Year | $ (179,526,136) |

See accompanying notes which are an integral part of the Basic Financial Statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2020**

| | |
|---|---|
| Cash Flows from Operating Activities: | |
| Receipts from Policyholders | $ 60,623,154 |
| Payments for Benefits to Policyholders | (24,621,344) |
| Payments to Employees and Related Benefits | (32,549,541) |
| Payments to Suppliers for Goods and Services | (1,415,453) |
| Other Receipts | 2,425,642 |
| Net Cash Provided in Operating Activities | 4,462,458 |
| Cash Flows From Noncapital Activities: | |
| Contributions to Governmental Agencies | (1,096,001) |
| Cash Flows From Capital and Related Financing Activities: | |
| Purchase of Capital Assets | (314,462) |
| Cash Flows From Investing Activities: | |
| Proceeds from Sales of Investments | 88,068,964 |
| Purchase of Investments | (84,579,295) |
| Distribution From Investments and Collection of Interest and Dividends Income | 2,623,435 |
| Net Cash Provided in Investing Activities | 6,113,104 |
| Net Increase in Cash, Cash Equivalents and Restricted Cash | 9,165,099 |
| Cash at the Beginning of the Year | 25,736,781 |
| Cash at End of Year | $ 34,901,880 |
| Summary of Cash, Cash Equivalents and Restricted Cash: | |
| Unrestricted | $ 18,073,964 |
| Cash Equivalents | 16,099,679 |
| | 34,173,643 |
| Restricted | 728,237 |
| Total Cash, Cash Equivalents and Restricted Cash | $ 34,901,880 |

See accompanying notes which are an integral part of the Basic Financial Statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF CASH FLOWS (CONTINUED)**
**FOR THE YEAR ENDED JUNE 30, 2020**

| | |
|---|---|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income | $ 25,617,362 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization | 630,140 |
| Provision for Uncollectible Accounts | 1,256 |
| Loss on Disposition of Capital Assets | 74,916 |
| Changes in Assets and Liabilities: | |
| Increase in Receivable from Premiums | (12,206,499) |
| Increase in Other Receivables | 54,196 |
| Decrease in Other Assets | 167,266 |
| Decrease in Unpaid Claim Liability an Reserve for Future Benefits | (7,262,076) |
| Decrease in Unearned Premiums Reserve | (4,653,481) |
| Increase in Accounts Payable and Accrued Expenses | 3,968,890 |
| Increase in Termination Benefits | 341,173 |
| Increase in Compensation Absences | 318,074 |
| Increase in Other Postemployment Benefits Liability | 96,797 |
| Increase in Deferred Outflows of Resources | (7,501,954) |
| Decrease in Deferred Inflows of Resources | (439,643) |
| Increase in Total Pension Liability | 5,256,041 |
| Net Cash Provided In Operating Activities | $ 4,462,458 |
| Summary of Noncash Transactions: | |
| Net Decrease in the Fair Value of Investments | $ (739,645) |
| Securities Sold, but not yet Delivered | $ 37,787 |
| Securities Purchased, but not yet Received | $ (769,369) |

See accompanying notes which are an integral part of the Basic Financial Statements.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 1. ORGANIZATION

The Automobile Accidents Compensation Administration (the “Administration” or “ACAA”) is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Law No. 138 of June 26, 1968 (as amended). The Administration operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers bodily injuries caused by automobile accidents and compensation for beneficiaries (and their dependents). The annual premium is $35 per motor vehicle (new vehicles pay a fee of $37.50 during the first year).

The Basic Financial Statements presented herein relate solely to the financial position and results of operations of the Administration and are not intended to present the financial position of the Commonwealth or the results of its operations or its cash flows.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting policies.

The Administration follows GASB Statement No. 76, "The Hierarchy of Generally Accepted Principles for State and Local Governments", in the preparation of its Basic Financial Statements.

The following is a description of the most significant accounting policies:

### (A) FINANCIAL REPORTING ENTITY

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

GASB Accounting Standards Codification Section 2100, "Defining the Financial Reporting Entity", describes the criteria for determining which organizations, functions, and activities should be considered part of the Authority for financial reporting purposes. Following GASB Sections 2100 and 2600 "Reporting Entity and Component Unit Presentation and Disclosure", there are two methods of presentation of the component unit in the basic financial statements: (a) blending the

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (A) FINANCIAL REPORTING ENTITY (CONTINUED)

financial data of the component units' balances and transactions in a manner similar to the presentation of the Administration's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Administration's balances and transactions.

The Administration does not have component units.

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

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

The Administration is presented as a nonmajor discretely presented component unit of the Commonwealth of Puerto Rico, and its financial statements are included in the Commonwealth of Puerto Rico's Basic Financial Statements. The Administration operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Administration is a component unit of the Commonwealth of Puerto Rico, since the Commonwealth has the ability to significantly influence rates charged by the Administration and has access to its resources, and the Governor of the Commonwealth also appoints the Administration's governing body.

### (B) BASIS OF ACCOUNTING

The Administration accounts for insurance premiums, claim costs, acquisition costs, loss contingencies and other related costs in accordance with provisions of the GASB Statement No. 10, "Accounting and Financial Reporting/or Risk Financing and Related Insurance Issues", as amended, which requires that the financial statements of the Administration be presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP).

### (C) BASIS OF PRESENTATION

The Administration's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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**(A Component Unit of the Commonwealth of Puerto Rico)**
**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (C) BASIS OF PRESENTATION (CONTINUED)

The statement of net position and the statement of revenues, expenses, and changes in net position report information on all activities of the Administration. The statement of net position presents the Administration's assets, deferred outflows of resources liabilities, and deferred inflows of resources, with the residual of all elements presented in a financial position statement reported as net position. Net position is reported in three categories:

- Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted component of net position consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. As of June 30, 2020, the Administration has no restricted component of net position.

- Unrestricted component of net position consists of net position that does not meet the definition of the preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of revenues, expenses, and changes in net position presents information on how the Administration's net position changed during the reporting period. The Administration distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from the Administration providing the services that correspond to their principal ongoing operations, which include those that result from providing insurance coverage and compensation benefits to the injured, including death benefits. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, noncapital and capital financing and investing activities, which include cash receipts and cash disbursements information.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (D) CASH AND CASH EQUIVALENTS

For Basic Financial Statements purposes, the Administration considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents as of June 30, 2020 consists of funds invested in short term bills, notes and investments funds.

### (E) INVESTMENTS

Investments mainly include U.S. government and agencies' obligations, mortgage-backed securities, and corporate debt and equity obligations. Investments are recorded at fair value in accordance with GASB Statement No. 72, "Fair Value Measurement and Application". Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Money market investments with a remaining maturity at time of purchase of one year or less are carried at cost.

Investment positions in 2a-7 from the Securities and Exchange Commission (SEC), like external investment pools are carried at the pools share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. The Administration has private equity investment, whose fair vales have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

Securities transactions are accounted for on the trade date. Realized gains or losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net increase (decrease) in fair value of investments. Realized gains or losses are computed as the difference between the proceeds of the sale and the original cost of the investment sold. Gains and losses on the sale of securities are determined based on the specific identification method.

### (F) RECEIVABLES OR PAYABLES RESULTING FROM THE SALE OR ACQUISITION OF INVESTMENTS

Investment transactions at or close to June 30, 2020, for which the settlement date occurs after the fiscal year ends, are recorded separately for Basic Financial Statements purposes.

### (G) ACCOUNTS RECEIVABLE

Receivables from premiums collected are estimates based on the amounts reported by the PRTD, which could be subject to change. Any change in estimate is recorded in the year that it is identified.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (G) ACCOUNTS RECEIVABLE (CONTINUED)

For the year ended June 30, 2020, the Administration has a receivable for remittances of premiums collected by the PRTD amounting to $16,033,558.

Receivables are unsecured and presented net of estimated allowances for uncollectible accounts. Such allowances are determined based upon past collection experience and current economic conditions.

The allowance for uncollectible accounts insurance premiums and other receivables is an amount that management believes will adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectibility of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Accrued interest and dividends represent uncollected income earned on investments.

### (H) CAPITAL ASSETS

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the respective lease terms or the estimated useful lives of the improvements, whichever is shorter. Expenditures for maintenance and repairs that do not extend the live of the assets are charged to operations, while those for renewals and improvements are capitalized. Capital assets subject to capitalization are defined by the Administration as those which have a cost of $500 or more at the date of acquisition and have an expected useful live of two or more years. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or changed to operations.

Estimated useful lives of the Capital Assets are as follows:

| Description | Estimated Useful Live |
|---|---|
| Building | 45 Years |
| Equipment | 10 - 20 Years |
| Computer and Software | 5 - 7 Years |
| Vehicles | 4 Years |
| Office Furniture and Fixtures | 5 - 10 Years |

The Administration accounts for asset impairment under the provisions of GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This statement establishes accounting and financial reporting standards for impairments of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (H) CAPITAL ASSETS (CONTINUED)

or change in circumstances are outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Administration should be reported at the lower of carrying value or fair value.

The Administration evaluated its capital assets and determined that there was no impairments as of June 30, 2020.

### (I) DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The Administration reports deferred outflows and inflows of resources in addition to assets and liabilities. A deferred outflow of resources is a consumption of net position by the Administration that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the Administration that is applicable to a future period. Pension related deferred outflows and inflows of resources may include changes in proportionate share contributions, contributions to the pension plan subsequent to the measurement date, differences between expected and actual experience in the total pension liability and net difference between projected and actual earnings on pension plan investments.

### (J) UNEARNED PREMIUMS RESERVE

The insurance offered by the Administration has an annual premium, which is collected in advance, when the vehicle is purchased or when the vehicle's registration is renewed. The Administration records the premium as unearned revenue and amortizes if for the twelve-month period of its duration.

### (K) INSURANCE PREMIUMS

Insurance premiums are collected in advance by the Treasury Department of the Commonwealth of Puerto Rico (PRTD) and recognized ratably as income during the policy year. As per Law No. 233 of September 2, 2003, as amended, named "Law to Authorize the Treasury Department Secretary to Impose Service Charges for Collection Procedures and Transactions on Behalf of Agencies, Dependencies, Corporate Entities and Other Legal Entities", the Puerto Rico Treasury Department charges a 5% service fee overall revenue collected. The service charge during the year ended June 30, 2020, amounted to $3,825,610. The portion of premiums that will be earned in the future is deferred and reported as Unearned Premiums in the accompanying Statement of Net Position.

### (L) BENEFITS EXPENSES

Benefits expenses are recorded when claims are incurred. In addition, management has established reserves to cover for the estimated cost of all future benefits related to claims incurred but not reported during the year. These reserves are adjusted annually following the advice of an independent actuary. Management believes that these reserves are reasonable and reflective of anticipated ultimate experience. Since the reserves are based on estimates, the net amounts that will ultimately be paid to settle the liability may change from the estimated amounts provided for.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (L) BENEFITS EXPENSES (CONTINUED)

The Law that created the Administration limits medical hospitalization benefits to a maximum of two years after an accident, except in severe trauma cases. The Law allows a Medical Committee to extend payment of medical benefits beyond the two-year period as deemed necessary.

In addition, the Law that created the Administration requires that the excess of revenues collected during any fiscal year over the payment of benefits and operational expenses must be kept by the Administration to cover all unanticipated claims. Also, if in any year the receipts and the reserves accrued are not sufficient to cover the losses and the expenses incurred, the Secretary of the Treasury of Puerto Rico shall provide, as an advance to the Administration the sums required to remedy the deficiency. Such advance would be obtained from any funds available in the General Fund of the Commonwealth of Puerto Rico.

Beginning on January 3, 2020, ACAA invoices through the fee for service system, following ACAA's rates manual. Based on Law Number 138 of June 26, 2018, and ruling 6911 of December 1, 2004, as amended both, the Medical Services Administration (ASEM) must deliver all payment claims using ACAA's formularies to that effect, within 120 days since services were rendered, together with all required supporting documentation. ACAA is required to pay for medical services rendered to those individuals eligible to receive such services.

### (M) ACCOUNTING FOR PENSION COSTS

The Administration implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68".

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", 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 GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68 for pension plans and pensions that are within their respective scopes. The Statement requires supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Changes in Total Pension Liability.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (M) ACCOUNTING FOR PENSION COSTS (CONTINUED)

Act No. 3 enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the Employee's Retirement System (ERS) effective on July 1, 2013. After that, and based on the fiscal crisis of the Commonwealth, was enacted the Act No. 106 of 2107 to establish a New Define Contribution Plan and create the pay-as-you-go (PayGo) scheme for payment of pensioners of the ERS and the other two retirement systems. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73. See also Note 10.

### (N) POST-EMPLOYMENT BENEFITS OTHER THAT PENSIONS (OPEB)

Other postemployment benefits (“OPEB”) expense is recognized and disclosed using the accrual basis of accounting. The Administration recognizes the total OPEB liability since the Administration’s OPEB program is funded on a pay-as-you-go basis, and not by an OPEB trust. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. The Administration accounted for postemployment benefits other than pensions (OPEB) under the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".

This Statement replaces GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", changes similar to those implemented on GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68, "Accounting and Financial Reporting for Pensions" should be made. The Statement requires supplementary information that include the Schedule of Proportionate Share of the Total OPEB Liability and Schedule of Changes in Total OPEB Liability. See also Note 11.

### (O) TERMINATION BENEFITS

The Administration accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, "Accounting for Termination Benefits". This Statement establishes accounting standards for termination benefits. Pursuant to this Statement, the Administration 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. See also Note 12.

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**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (P) COMPENSATED ABSENCES

As of the effectiveness of Act No. 8 of February 26, 2017, named “Law for the Administration and transformation of Human resources in the Government of Puerto Rico”, every government employee shall be entitled to accrue one and one-fourth (1¼) day of vacation leave for every month of service. The employees shall begin to accrue the vacation leave upon completion of a three (3) - month period and said leave shall be retroactive to the employment commencement date. Furloughed or part-time employees shall accrue vacation leave proportionately to the number of hours regularly worked.

The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year. Vacation leave is granted to employees to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which employees shall enjoy their vacation time in the manner that is more compatible with thee needs for service. Said plan shall be completed no later than on December 31st day of every year, so that it takes effect on January 1st of the following year.

The vacation policy of the Administration generally provides for the annual accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave. Vacation time and sick leave are fully vested to the employees from the first day of work. The excess of accumulated vacation over thirty (30) days and over three (3) days of sick leave is paid periodically to those employees as provided in the collective bargaining agreement. For administrative employees, any excess over fifteen (15) days of sick leave is also paid periodically. In addition, all employees are entitled, upon retirement, to a lumpsum payment equal to a day’s worth of salary for each year of service, up to (30) thirty years, as long as the last (10) ten years of service have been rendered in ACAA. As a result of Act No. 66 of June 17, 2014, some of these excess accumulations are no longer payable to the employees.

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

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, "Compensated Absences", the Administration has accrued a liability for compensated absences, which has been earned but not taken by the Administration’s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective as of June 30, 2020. All vacation pay is accrued when incurred. The current portion is the amount estimated to be used in the following year.

As of June 30, 2020, the Administration accrual for compensated absences amounts to $1,615,116 which represents the Administration’s commitment to fund such compensated absences due during the next fiscal year.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (Q) NET POSITION CLASSIFICATION

Net position represents the difference between assets and liabilities and is presented in three components as follows:

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

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

| | |
|---|---|
| Capital Assets, Net of Accumulated Depreciation | $ 4,337,129 |
| Outstanding Balance on Related Debt | - |
| Total Invested in Capital Assets | $ 4,337,129 |

- **Restricted Net Position** - consists of net position with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government; (2) law through constitutional provisions or enabling legislation. As of June 30, 2020 there is no restrictions imposed, and therefore, no restricted net position has been presented, and

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

### (R) INCOME TAXES

The Administration, as a component unit of the Commonwealth, is exempt from the payment of income taxes.

### (S) STATEMENT OF CASH FLOWS

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting". The provisions of GASB Statement No. 34 requires that the direct method be used to present the funds inflows and outflows of the Administration. For purposes of the statement of cash flows, the Administration considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

### (T) RISK MANAGEMENT

The Administration is exposed to the risk of loss from torts theft, damages to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims that may arise from such matters. The commercial insurance coverage is negotiated by the PRTD and the cost is paid by the Administration. No additional payments were made after the annual insurance costs were determined.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (U) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts requiring the use of significant estimates include certain receivables, reserve for future benefits, unearned premiums reserve, useful lives of property and equipment, pension and OPEB liabilities, and deferred outflows and inflows of resources. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Therefore, Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

### (V) NEW ACCOUNTING STANDARDS

#### A. New Accounting Standards Adopted

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective for financial statements for periods beginning after June 15, 2019 (FY 2019-2020) and have been implemented when applicable during the year ended June 30, 2020:

- In November 2016, the GASB issued Statement No. 83, “Certain Asset Retirement Obligations”. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO’s, including obligations that may not have been previously reported. The requirements of this statements are effective for financial statements for periods beginning after June 15, 2018. The Administration has determined that GASB No. 83 is not applicable to its financial statements.

- In March 2018, the GASB issued Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements”. This statement will improve the information that is disclosed in notes of governmental 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. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Administration has determined that GASB No. 88 is not applicable to its financial statements.

- GASB issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance" in May 2020 effective immediately. The objective of this Statement is to provide temporary relief to governments due to the COVID-19 pandemic. This statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (V) NEW ACCOUNTING STANDARDS (CONTINUED)

#### b. Future Adoption

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2020. The Administration is currently evaluating its accounting practices to determine the potential impact on the basic financial statements for the GASB Statements:

- In January 2017, the GASB issued Statement No. 84, “Fiduciary Activities”. This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

- In June 2017, the GASB issued Statement No. 87, “Leases”. 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. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2021.

- In June 2018, the GASB issued Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period”. This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

- In August 2018, the GASB issued Statement No. 90, “Majority Equity Interests”. This statement will improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

- In May 2019, the GASB issued Statement No. 91, “Conduit Debt Obligations”. This statements is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(V) NEW ACCOUNTING STANDARDS (CONTINUED)**

- In January 2020, the GASB issued Statement No. 92, “Omnibus 2020”. This statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

- In March 2020, the GASB issued Statement No. 93, “Replacement of Interbank Offered Rates”. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after June 15, 2021.

- In March 2020, the GASB issued Statement No. 94, “Public-Private and Public-Public Partnerships and Availability Payment Arrangements”. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

- In May 2020, the GASB issued Statement No. 96, “Subscription-Based Information Technology Arrangements”. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

- In June 2020, the GASB issued Statement No. 97, “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans”. This Statement is intended to (i) increase the comparability of the reporting of fiduciary component units in circumstances where a potential component unit doesn't have a governing board; (ii) mitigate financial reporting costs associated with certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, by clarifying the financial burden criteria in Statement No. 84, Fiduciary Activities; and (iii) extends the accounting and financial reporting requirements related to pension plans, to Section 457 plans that meet the definition of a pension plan. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

- In October 2021, the GASB issued Statement No. 98, “The Annual Comprehensive Financial Report”. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (V) NEW ACCOUNTING STANDARDS (CONTINUED)

local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

- In October 2021, the GASB issued Statement No. 99, “Omnibus 2022”. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

## 3. CASH AND CASH EQUIVALENTS

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

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

As of June 30, 2020, cash and cash equivalents mainly consist of deposits in banks and short-term investments categorized as follows:

| Category | Description |
|---|---|
| 1 | Cash deposits in local banks collaterized or insured by the Federal Deposit Insurance Corporation (FDIC). |
| 2 | Uncollaterized Deposits. |

A summary of the Administration’s cash and cash equivalents by category of risk as of June 30, 2020, is shown below:

| | Credit Risk Category | | Bank Balance | Carrying Amount |
|---|---|---|---|---|
| | 1 | 2 | | |
| Unrestricted Cash | $ 19,126,601 | $ - | $ 19,126,601 | $ 18,073,964 |
| Restricted Cash | 894,202 | - | 894,202 | 728,237 |
| Cash Equivalents | - | 16,099,679 | 16,099,679 | 16,099,679 |
| | $ 20,020,803 | $ 16,099,679 | $ 36,120,482 | $ 34,901,880 |

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## 3. CASH AND CASH EQUIVALENTS (CONTINUED)

The restricted cash represents funds of the Puerto Rico Traffic Safety Commission held for custody by the Administration.

Segregated in the Statement of Net Position as:

| | |
|---|---|
| Current Unrestricted | $ 34,173,643 |
| Restricted | 728,237 |
| Total | $ 34,901,880 |

**Credit Risk**

This is the risk that an issuer or other counterpart to an investment will not fulfills its obligations. As of June 30, 2020, the Administration has invested only in cash in commercial banks approximately $20 million, which are insured by the FDIC generally up to a maximum of $250,000. As mentioned before, public funds deposited by the Administration in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage.

Also, all securities pledged as collateral are held by the Secretary of the PRTD of the Commonwealth. Therefore, the Administration's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Administration's deposits is considered low as of June 30, 2020.

**Interest Rate Risk**

This is the risk that changes in interest rates of debt and equity investments will adversely affect the fair value of an investment. The Administration manages its exposure to declines in fair values by: (1) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (2) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interests at prevailing market rates. Therefore, as of June 30, 2020, the interest risk associated with the Administration's cash and cash equivalents is considered low.

**Foreign Exchange Risk**

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Administration, the Administration is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Administration's deposits is considered low as of June 30, 2020.

## 4. INVESTMENTS

The Administration invests in stocks, bonds, real estate, United States obligations, and cash equivalents as described more fully in its investment policy. Also, it can invest in international securities.

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## 4. INVESTMENTS (CONTINUED)

The Administration’s investment policy taken as a whole requires money managers to maintain, with certain limitations, the following composition of the assets: not more than 75% and not less than 50% in fixed income securities; not more than 35%, and not less than 10% in equity securities. Also, within the equity securities position in the portfolio, not more than 15% may be invested in international markets. In addition, not more than 20% in Alternative Investment. Alternative investment includes real estate, private equity and venture capital funds, as well as hedging and tactical allocation strategies.

The investments are made based on Asset Classes that include equities of U.S. companies as well as equities of companies domiciled outside of the United States, debt or fixed income securities from U.S., Puerto Rico and non-US governments and corporations. These categories are then diversified by capitalization, issuers, investment styles, types of securities, and other diversifiers that can optimize return and volatility. Common investment strategies in private equity are venture capital, mezzanine capital, growth capital, leveraged buyouts and distressed investments. Investment in companies whose primary source of revenues is related to the alcohol industry as defined by the Standard Industry Code is expressly prohibited.

According to the Statement of Investment Policy, the Administration's cash reserve should be invested in high quality, short term investments, including commercial paper, US Treasury obligations, certificates of deposits, bankers' acceptances, and repurchase agreements collateralized by US Government securities. The Administration's Statement of Investment Policy, Objectives and Guidelines provide specific information regarding investment requirements.

The accompanying financial statements were prepared on the basis of accounting policies required by GASB Statement No. 31, “Accounting Financial Reporting for Certain Investment and For External Investments Pools”. Therefore, all investment securities are accounted for at fair market value rather than cost.

As of June 30, 2020, the investment portfolio is held primarily for the purpose of income or profit and serves as the funding for the estimated Unpaid Claim Liability and Reserve for Future Benefits presented in the noncurrent section of the statement of net position. As a result, investments were classified as current and noncurrent in the accompanying statement of net position as follows:

| | |
|---|---|
| Current Assets: | |
| Investments in Corporate Bonds and Others with Maturities Within One Year | $ 1,416,527 |
| Total Current Assets | 1,416,527 |
| Noncurrent Assets | 103,674,501 |
| Total | $ 105,091,028 |

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**4. INVESTMENTS (CONTINUED)**

During the fiscal year ended June 30, 2020, the Administration sold a number of investments as part of its investment strategy. The results of said sales are as follows:

| | |
|---|---|
| Proceeds from the Sale of Investments | $ 87,498,188 |
| Amortized Costs of Investments | (88,007,732) |
| Realized Loss on Sales of Investments | $ (509,544) |

On the accompanying Statement of Cash Flows, proceeds from sale of investments is reconciled as follows:

| | |
|---|---|
| Proceeds from Sale of Investments | $ 87,498,188 |
| Add: Investments Sold During 2019, Collected in 2020 | 608,564 |
| Less: Investments Sold in 2020, But not Yet Delivered | (37,788) |
| Proceeds from Sales of Investments per Cash Flows Statement | $ 88,068,964 |

Thus, the accompanying financial statements as of June 30, 2020 reflect changes in the market value as well as realized losses and impairment of the Administration's investment portfolio as follows:

| | |
|---|---|
| Realized Loss on Sales of Investments | $ (509,544) |
| Impairment Loss | (3,037,905) |
| Change in Fair Value of Investment | (739,645) |
| Net Change on Fair Value of Investments | $ (4,287,094) |

**Fair Value of Investments**

The Administration follows the provisions of GASB Statement No. 72 "Fair Value Measurements and Application". The Administration measures and records its investments using fair value measurement guidelines established by US GAAP. These guidelines recognize a three tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

As of June 30, 2020, the Administration had the following recurring fair value measurements:

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## 4. INVESTMENTS (CONTINUED)

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | June 30, 2020 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment Type: | | | | |
| Corporate Bonds | $ 19,394,033 | $ - | $ 19,394,033 | $ - |
| U.S. Sponsored Agencies Notes: | | | | |
| Federal Home Mortgage Corporation (FHLMC) | 912,637 | - | 912,637 | - |
| Federal Home Mortgage Association (FNMA) | 2,830,988 | - | 2,830,988 | |
| Other | 1,145,034 | - | 1,145,034 | - |
| U.S. Government Bonds | 12,601,926 | - | 12,601,926 | - |
| Mortgage and Asset-Backed Securities: | | | | |
| Government National Mortgage Association (GNMA) | 713,274 | - | 713,274 | - |
| Asset Backed Securities | 1,607,739 | - | 1,607,739 | - |
| Commercial Mortgage-Backed | 1,761,018 | - | 1,761,018 | - |
| Municipal/Provincial Bonds | 2,334,094 | - | 2,334,094 | - |
| Non-US Fixed Income | 4,603,099 | - | 4,603,099 | - |
| U.S. Corporate Stocks | 24,801,651 | 24,801,651 | - | - |
| Non-U.S. Corporate Stocks | 13,662,099 | 13,662,099 | - | - |
| Sub-Total investments | 86,367,592 | $ 38,463,750 | $ 47,903,842 | $ - |
| Invesments Measured at the Net Assets Value (NAV) | | | | |
| Private equity funds | 8,283,130 | | | |
| Alternative investments | 5,140,128 | | | |
| External investment pools | 5,300,178 | | | |
| Subtotal | 18,723,436 | | | |
| Total investments | $ 105,091,028 | | | |

The Administration's investment managers generally use the market approach to value its investment securities, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities. Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based non the securities' relationship to benchmark quoted prices.

Equity securities, namely private equity funds, classified in Level 3 are valued using financial information provided by individual capital fund managers, adjusted if deemed appropriate. As of June 30, 2020, the Administration does not have any items classified as level 3.

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## 4. INVESTMENTS (CONTINUED)

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and some take the form of limited partnerships.

The Administration values these investments based on the partnerships' audited or unaudited financial statements and/or confirmations. If June 30 statements are available, those values are used. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is rollforward from the most recently available valuation taking into account subsequent calls and distributions.

The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the Entity's alternative investments measured at NAV:

| Description | | Investments Measured at the Net Assets Value (NAV) | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|---|
| Private equity funds | 1 | Guayacán Fund Of Funds IV LP | $ 2,258,554 | $ 275,927 | N/A | N/A |
| Private equity funds | 2 | Guayacan Privte Equity Fund LP III | 337,796 | 612,394 | N/A | N/A |
| Private equity funds | 3 | Puerto Rico Fund For Growth, L.P. | 5,686,780 | 3,857,087 | N/A | N/A |
| Alternative Investment | 4 | Pluscios Fund LLC, | 390,505 | - | Quarterly | 65 business days prior notice |
| Alternative Investment | 5 | CF Kinetic Funds I, LLC, | 1,179,000 | - | Quarterly | 65 business days prior notice |
| Alternative Investment | 6 | CF X2 Alternative Dividend Alpha Fund Cl A, | 3,570,623 | - | Bi-monthly | 10 business days prior notice |
| External investment pools | 7 | CF Eaton Vance Instl Sr Loan Fund | 5,300,178 | - | Monthly | 30 business days prior notice |
| | | | $ 18,723,436 | $ 4,745,408 | | |

The fair value of investments in limited partnerships and alternative investments as of June 30, 2020 amounted to $18,723,436. An alternative investment is a financial asset that does not fall into one of the conventional equities / fixed income/ cash categories. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited or unaudited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. Pluscios Fund, LLC, CF Kinetic Funds I, LLC and X2 Alternative Dividend Alpha Fund, Inc. are a hedge fund type of investment. Hedge funds are investments that are actively management that focus on high-risk return.

The investments in limited partnerships were as follows:

- During the fiscal year 2020, the Administration made contributions of $406,250 to Guayacán Fund of Funds IV, LP, a Delaware Limited Partnership organized on

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**4. INVESTMENTS (CONTINUED)**

February 23, 2015 by Grupo Guayacán, Inc. as General Partner. The net amount invested as of June 30, 2020 is $2,224,073 with a fair market value (capital balance) of $2,258,554. The Administration has a total commitment of $2.5 million. The Administration received cash return distribution of $55,243 during fiscal year 2020. The term of the Partnership shall continue until December 31, 2026 with a three (3) one-year period extensions.

- During the fiscal year 2020, the Administration made contributions of $156,549 to Guayacán Private Equity Fund, LP III, a Delaware Limited Partnership organized on October 28, 2016 by Advent Morro Equity Partners GP III, as General Partner. The original contribution of $25,000 to the partnership was made in December 2016. The Administration has a total commitment of $1,000,000. The Administration did not receive cash return during fiscal year 2020. The Partnership's purpose is to achieve superior rates of return by investing in a diversified portfolio of the United States and International private equity investment partnerships and other limited liability vehicles that operate as pooled investment vehicles that, in turn, primarily make equity and equity related investments in private businesses.

- During the fiscal year 2020, the Administration made no additional contributions to the Limited Partnership agreement for the investment in the Puerto Rico Fund for Growth (PRFG). The General Partner of PRFG is Community Development Venture Capital Alliance (CDVCA). The Capital Commitment is for $10 million and for a twelve (12) years period. Additional Capital Commitment and period could be extended in accordance with the Limited Partnership Agreement. The Investment in this fund is expected to be primarily in Economically Targeted Investment (ETI). Investment may include housing, community economic development, business development, and collective transport investment, and may also include in securities from Private Equity by local investment manager or USA committed to investing, in part, within Puerto Rico. During the fiscal year ended June 30, 2017, two original initial contributions were made for an amount close to $4.0 million, also during the fiscal year ended June 30, 2019 an additional contribution of $2,142,916 was made.

- During the fiscal year ended on June 30, 2020, a final distribution of $3,514,533 was received from the Pluscios Fund LLC, which is an alternative investment in a diversified hedge managed by Pluscios Fund LLC, a Delaware Limited Liability Corporation. The fair market value ended with a balance of $390,505. The final distribution was received on July 16, 2021.

- During the fiscal year 2020, the Kinetic Funds I, LLC a total of $211,964 were reinvested under the reinvest capital gains instructions. At the end of year 2018 and 2016 in order to maintain the target allocations in the alternative asset class, the Administration contributed a total of $4,000,000 to Kinetic Funds I, LLC, a Delaware Limited Liability Company which is part of the Kinetic Investment Group. The investment fund focuses on income generation, investment in Government Bonds, Corporate Bonds Preferred Shares, Real Estate, among others. As of June 30, 2020, this fund had a fair market value of $1,179,000. The fair market value was written

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**4. INVESTMENTS (CONTINUED)**

down, as an impairment, after learning that the Securities and Exchange Commission (SEC) was investigating Mr. Williams. Kinetic Executive Director. The investigation indicated that Mr. Williams transferred, without authorization, money from the capital investment of Kinetic Funds to the account of KCL Services, another of its related companies, from which he withdrew money in the form of loans to finance personnel and operational expenses of Kinetic International. See also Note 15(c).

- X2 Alternative Dividend Alpha Fund, Inc. (the “Fund”) is a non-diversified, open-end management investment company registered under the Puerto Rico Investment Companies Act of 1954, as amended (the “PR Investment Companies Act”) organized in 2013. During the fiscal year 2020, under the reinvest capital gains instructions, 32,923.31 shares of the Fund were purchased at an average price of $11.10. The “Fund” experienced an unfavorable result of approximately $(1,174,675) or (24.75)% decrease. The fair market value as of June 30, 2020, was $3,570,623. As of June 30, 2020, the Administration holds 481,865.47 shares in the X2 Alternative Dividend Alpha Fund at an average price of $9.40 per share. For the fiscal year ended June 30, 2020, the Administration received $365,389 in dividends. The X2 Alternative Dividend Alpha Fund invests in Class A Open and Mutual Funds.

- As of June 30, 2020, the Administration holds 633,235.24 shares in the Eaton Vance Institutional Senior Loan Fund at an average price of $8.37 per share. It received dividends and redemptions of approximately $175,126. As of June 30, 2020, this fund had accrued interest income of $15,129 and a fair market value of $5,300,179. On January 6, 2020 the Administration made an additional contribution of $2,682,500 in order to purchase 301,743.53 additional shares at an average price of $8.89. The Eaton Vance Fund is part of the alternative investment held by the Administration. Eaton Vance Management in senior secure loans managed by Eaton Vance Management and is a separate investment Fund of Eaton Vance Institutional Funds, an exempted limited liability company incorporated in the Cayman Islands. The Fund's investment objective is to provide high levels of current income as is consistent with the preservation of capital, by investing in a portfolio primarily of senior floating rate loans. The original commitment in the Eaton Vance Senior Secured Loans Funds was $3 million.

- The Administration’s investment in real estate consists of contributions to the Invesco Real Estate Fund I and II, LP, which are funds organized to invest in diversified real estate assets. The total commitments to Fund I and II, both currently on a phase-out period, required contributions of $10,000,000 for each fund. For both funds, during the fiscal year ended on June 30, 2020, there was a realized loss of $1,111. The final distribution of $34,190 related to Invesco Real Estate Fund II, LP was received during August 2019. The net asset value of these funds as of June 30, 2020, amounted to $ -.

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## 4. INVESTMENTS (CONTINUED)

The estimated market value of the investments as of June 30, 2020, by contractual maturity is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call penalties:

| | Contracted Maturity | | | | | |
|---|---|---|---|---|---|---|
| Investment Type: | Within One Year | After One to Five Years | After Five to Ten Years | After Ten Years | Without Maturity | Total |
| Corporate Bonds | $ 466,731 | $ 8,250,857 | $ 7,485,240 | $ 1,739,114 | $ 6,752,270 | $ 24,694,212 |
| U.S. Sponsored Agencies Notes: | | | | | | |
| Federal Home Mortgage Corporation (FHLMC) | - | 71,418 | - | 841,219 | - | 912,637 |
| Federal Home Mortgage Association (FNMA) | 310 | - | 545,665 | 1,753,338 | 531,675 | 2,830,988 |
| Other | - | 159,701 | 721,264 | 264,069 | - | 1,145,034 |
| U.S. Government Bonds | 567,288 | 6,846,482 | 3,523,640 | 1,664,516 | - | 12,601,926 |
| Mortgage and Asset-Backed Securities: | | | | | | |
| Government National Mortgage Association (GNMA) | - | - | - | 713,274 | - | 713,274 |
| Asset Backed Securities | - | 1,341,451 | 125,552 | 140,736 | - | 1,607,739 |
| Commercial Mortgage-Backed | - | - | - | 1,761,018 | - | 1,761,018 |
| Municipal/Provincial Bonds | 135,825 | 953,957 | 1,128,540 | 115,772 | - | 2,334,094 |
| Hedge Fund | - | - | - | - | 5,140,128 | 5,140,128 |
| Venture Capital and Partnerships | - | - | - | - | 8,283,130 | 8,283,130 |
| Non-US Fixed Income | 246,339 | 1,995,614 | 684,232 | 45,197 | 1,631,716 | 4,603,098 |
| U.S. Corporate Stocks | 34 | - | - | - | 24,801,617 | 24,801,651 |
| Non-U.S. Corporate Stocks | - | - | - | - | 13,662,099 | 13,662,099 |
| Total investments | $ 1,416,527 | $ 19,619,480 | $ 14,214,133 | $ 9,038,253 | $ 60,802,635 | $ 105,091,028 |

As of June 30, 2020, investment maturities as a percentage of total investments are as follows:

| Maturity | Maturity % |
|---|---|
| Within One Year | 1.3 % |
| After One to Five Years | 18.7 % |
| After Five to Ten Years | 13.5 % |
| After Ten Years | 8.6 % |
| Without Maturity | 57.9 % |

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## 4. INVESTMENTS (CONTINUED)

The following is a summary of the credit quality rating for the investment securities portfolio estimated market value as of June 30, 2020:

| | Credit Risk Rating 2020 | | | | |
|---|---|---|---|---|---|
| Investment Type: | AAA to A | BBB+ to B | CCC to CC | Not Rated | Total |
| Corporate Bonds | $ 10,935,909 | $ 6,629,226 | - | $ 7,129,077 | $ 24,694,212 |
| U.S. Sponsored Agencies Notes: | | | | | |
| Federal Home Mortgage Corporation (FHLMC) | 346,516 | - | - | 566,121 | 912,637 |
| Federal Home Mortgage Association (FNMA) | 25,000 | - | - | 2,805,988 | 2,830,988 |
| Other | 985,333 | - | - | 159,701 | 1,145,034 |
| U.S. Government Bonds | 12,601,926 | - | - | - | 12,601,926 |
| Mortgage and Asset-Backed Securities: | | | | | |
| Government National Mortgage Association (GNMA) | - | - | - | 713,274 | 713,274 |
| Asset Backed Securities | 1,607,739 | - | - | - | 1,607,739 |
| Commercial Mortgage-Backed | 1,668,048 | - | - | 92,970 | 1,761,018 |
| Municipal/Provincial Bonds | 2,317,670 | - | - | 16,423 | 2,334,093 |
| Hedge Fund | - | - | - | 5,140,128 | 5,140,128 |
| Venture Capital and Partnerships | - | - | - | 8,283,130 | 8,283,130 |
| Non-US Fixed Income | 1,147,615 | 1,047,152 | - | 2,408,332 | 4,603,099 |
| U.S. Corporate Stocks | - | - | - | 24,801,651 | 24,801,651 |
| Non-U.S. Corporate Stocks | - | - | - | 13,662,099 | 13,662,099 |
| Total Investments | $ 31,635,756 | $ 7,676,378 | $ - | $ 65,778,894 | $ 105,091,028 |

The credit risk related to investments is the risk that debt securities in the Administration's portfolio will decline in price or fail to make principal and interest payments when due because the issuer of the security experiences a decline in the financial condition. The Administration limits its credit risk by investing principally in high quality investments (rated BBB or better, according to Standard and Poor's or other equivalent rating agencies when maturities are longer than a year). In addition, the Administration restricts investment in certain securities to avoid concentration and/or increase duration. Also, mitigates this risk by maintaining a diversified investment portfolio.

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## 4. INVESTMENTS (CONTINUED)

The custody of these investments is held by a custodial bank in the name of the Administration. The investments portfolio is managed by more than 10 asset management firms and external consultants, and the internal cash position is managed by the Director of Finance, Planning and Budgeting.

Interest risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Administration manages its exposure to declines in fair value by (1) maintaining a diversified portfolio of debt and equity investments and (2) diversifying the weighted average maturity of its investments in debt securities.

Foreign exchange risk is the risk that changes in exchanges rates will adversely affect the value of an investment or a deposit. According to the investment guidelines the Administration's investing in foreign securities (or any other types of investments for which foreign exchange risk exposure may be significant) is limited to 15% of the total portfolio. Accordingly, management has concluded that the foreign exchange risk related to the Administration's investments is considered low as of June 30, 2020.

## 5. OTHER RECEIVABLES

Other receivables as of June 30, 2020 consisted of:

| | |
|---|---|
| **Governmental Entities:** | |
| State Insurance Fund Corporation | $ 1,070,045 |
| Puerto Rico Safety Traffic Commission | 1,033,596 |
| | 2,103,641 |
| Less: Allowance for Doubtful Accounts | (1,888,959) |
| Total Other Receivables - Governmental Entities | 214,682 |
| **Others** | |
| Recoveries from Beneficiaries | 20,300,394 |
| Insurance Companies | 1,410,111 |
| Others | 547,400 |
| | 22,257,905 |
| Less: Allowance for Doubtful Accounts | (21,560,018) |
| Total Other Receivables | 697,887 |
| Total Other Receivables - Net | $ 912,569 |

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## 6. CAPITAL ASSETS

Capital assets consisted of the following:

| Description | Beginning Balance | Additions | Adjustments/ Retirements | Ending Balance |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | |
| Land | $ 900,882 | $ - | $ - | $ 900,882 |
| | 900,882 | - | - | 900,882 |
| Capital Assets Being Depreciated: | | | | |
| Building | 6,975,930 | - | (149) | 6,975,781 |
| Equipment | 937,876 | - | - | 937,876 |
| Computer and Software | 6,270,048 | - | (106,456) | 6,163,592 |
| Motor Vehicles | 203,926 | - | - | 203,926 |
| Furniture and Fixtures | 1,527,016 | - | (95) | 1,526,921 |
| Building and Leasehold Improvements | 4,525,211 | 314,462 | 31,540 | 4,871,213 |
| | 20,440,007 | 314,462 | (75,160) | 20,679,309 |
| Less: Accumulated Depreciation and Amortization | | | | |
| Buildings and Leasehold Improvements | (8,463,522) | (291,351) | 149 | (8,754,724) |
| Others | (8,149,644) | (338,789) | 95 | (8,488,338) |
| | (16,613,166) | (630,140) | 244 | (17,243,062) |
| Total Capital Assets, Net | $ 4,727,723 | $ (315,678) | $ (74,916) | $ 4,337,129 |

## 7. UNPAID CLAIMS LIABILITY AND RESERVE FOR FUTURE BENEFITS

The balance of the estimated liabilities for the payment of unpaid claims and future benefits as of June 30, 2020, consists of:

| | |
|---|---|
| Current | $14,477,611 |
| Noncurrent | 38,323,212 |
| Total | $52,800,823 |

The activity in the liability for unpaid, losses and loss adjustment expenses for the year ended 2020 is summarized as follows:

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## 7. UNPAID CLAIMS LIABILITY AND RESERVE FOR FUTURE BENEFITS (CONTINUED)

| | |
|---|---|
| Death and Funeral: | |
| Death | $ 5,638,286 |
| Funeral | 105,872 |
| Disability | 597,329 |
| Accident and Health: | |
| Medical Hospitalization - Basic: | |
| Unpaid Claims Liability | 7,335,046 |
| Medical Hospitalization - Extended: | |
| Unpaid Claims Liability | 30,273,026 |
| Dismemberment | 51,127 |
| Loss Adjustment Expenses | 8,800,137 |
| | $ 52,800,823 |

The activity in the unpaid claims liability and reserve for future benefits for the year ended June 30, 2020, is as follows:

| | |
|---|---|
| Unpaid Claims Liability and Reserve for Future Benefits at the Beginning of the Year, Presented Based on the Undiscounted Method | $ 60,062,899 |
| Less - Loss Adjustment Expenses | (10,010,483) |
| Net Claims at the beginning of the Year | 50,052,416 |
| Insured Claims: | |
| Provision for Insured Events of Current Year | 18,569,614 |
| Payment of Claims: | |
| Current Year Insured Events | (12,728,318) |
| Prior Year Insured Events | (11,893,026) |
| Total Payment of Claim | (24,621,344) |
| Net Claims at End of Year | 44,000,686 |
| Plus - Loss Adjustment Expenses | 8,800,137 |
| Unpaid Claims Liability and Reserve for Future Benefits at End of Year, Presented Based on the Undiscounted Method | $ 52,800,823 |

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## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of June 20, 2020 accounts payable and accrued liabilities consisted of:

| | |
|---|---|
| Accounts Payable: | |
| Governmental Agencies - Commonwealth of Puerto Rico: | |
| Puerto Rico Safety Traffic Commission | $ 610,909 |
| Education Department | 8,387,541 |
| Employees' Retirement System | 5,597,949 |
| Employee's Association | 2,331 |
| Total Governmental Agencies | 14,598,730 |
| Suppliers, Professional Services and Others | 2,388,802 |
| Total Accounts Payable | 16,987,532 |
| Accrued Liabilities: | |
| Accrual for Christmas Bonus and Other Fringe Benefits | 733,436 |
| Totals | $ 17,720,968 |

## 9. LEASE COMMITMENTS

The Administration leases certain facilities for its regional offices, as well as certain office equipment. Office facilities are leased under noncancelable lease agreements, which expire on various dates through the fiscal year 2026. The lease agreements include scheduled rent increases over the lease term that are intended to cover economic factors relating to the property, such as the anticipated effects of cost increases or property appreciation. GASB Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases", requires governmental entities to account for operating leases with scheduled rent increases by using the terms of the lease contract when the pattern is systematic and rational. Therefore, the Administration is recording the rent expense in accordance with the terms of the lease agreements.

Future minimum rental payments under noncancelable operating leases in force are as follows:

| Fiscal Year Ending June 30, | Amounts |
|---|---|
| 2021 | $ 453,666 |
| 2022 | 372,219 |
| 2023 | 279,272 |
| 2024 | 132,971 |
| 2025 | 132,971 |
| 2026 | 44,324 |
| | $ 1,415,423 |

## 9. LEASE COMMITMENTS (CONTINUED)

Rent expense for the year ended June 30, 2020 was approximately $576,400, included as part of general and administrative expenses. See also Note 15(e).

## 10. PENSION PLAN

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) is a multi-employer defined benefit plan administered by the Retirement System Board.

The Corporation accounts for pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2019). The Corporation retirement plan were administered as trusts following the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. Defined benefit pension plan assets also are legally protected from creditors of the plan members.

On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan for the Commonwealth, ERS, and PBA. The Eighth Amended Plan preserves all accrued pension benefits for current retirees and employees at ERS. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

### (A) ERS

Plan Description – Prior to Act No. 106-2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost sharing, multiemployer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member's date of hire. Substantially all fulltime employees of the Commonwealth and its instrumentalities (the Commonwealth, 78 municipalities, and 55 public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Act No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

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

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit

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**10. PENSION PLAN (CONTINUED)**

Program).

- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) were generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 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, became members of the Contributory Hybrid Program as a condition to their employment. In addition, participant employees of previous programs as of June 30, 2013, became part of the Contributory Hybrid Program on July 1, 2013. Pursuant to a settlement incorporated into the Eighth Amended Plan, on the effective date of the Eighth Amended Plan, all participants in the System 2000 Program will receive a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017 (discussed below). Upon the payment of these refunds, all claims related to the System 2000 Program will be discharged.

The Commonwealth, through Act No. 106-2017, created a "New Defined Contribution Plan" that consisted of a trust fund, not subject to the provisions of Act No. 219-2012, known as "The Trusts Act", that will maintain an individual account for each participant of the Retirement Systems that becomes a participant of the plan.

The following employees will participate in the New Defined Contribution Plan:

- All active participants of the ERS as of July 1, 2017,
- New hires entering the public service workforce after July,1 2017, and
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan.

Enrollment in the New Defined Contribution Plan is optional for the chiefs of public corporations and for employees of public corporations of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

i. Service Retirements

(a) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; and (3) any age with 30 years of credited service. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

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**10. PENSION PLAN (CONTINUED)**

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

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

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(b) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service and (2) attainment of age 65 with 10 years of credited service.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service.

(c) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below otherwise.

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

(d) Eligibility for Members Hired after June 30, 2013: Attainment of age 67.

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**10. PENSION PLAN (CONTINUED)**

ii. Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was $10,000 or less, it would have been paid as a lump sum instead of as an annuity.

(a) Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members: The accrued benefit as of June 30, 2013 was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

If the Act No. 447-1951 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 the Coordination Plan, the benefit was recalculated 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. 447-1951 member had less than 30 years of credited service as of June 30, 2013 and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 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 was recalculated 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. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service were 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. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. For participants selecting the Coordination Plan, the basic benefit is recalculated 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. The benefit was actuarially reduced for each year payment commences prior to age 58.

**10. PENSION PLAN (CONTINUED)**

(b) Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

iii. Compulsory Retirement

All Act No. 447-1951 were required to retire upon attainment of age 58 and 30 years of credited service.

iv. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is $10,000 or less.
Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

b. Deferred Retirement

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

v. Death Benefits

a. Pre-retirement Death Benefit
Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

b. High Risk Death Benefit under Act No. 127-1958

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

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**10. PENSION PLAN (CONTINUED)**

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

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

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

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

The cost of these benefits was paid by the Commonwealth.

c. Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

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

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

i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No. 158 of 2003.

ii. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than $1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. See Article 2-113 of Act No. 447-1951, as amended by Act No. 524-2004.

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**10. PENSION PLAN (CONTINUED)**

(d) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

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

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

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

vi. Disability Benefits

a. Disability

Eligibility: All members are eligible upon the occurrence of disability.
Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.

b. High Risk Disability under Act No. 127-1958

Eligibility: Employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended).

The cost of these benefits was paid by the Commonwealth.

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

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**10. PENSION PLAN (CONTINUED)**

vii. Special Benefits

a. Minimum Benefits

i. Past Ad hoc Increases: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by ERS.

ii. Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007, and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth 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. The increase in the minimum monthly benefit from $300 per month to $400 per month was to be paid by ERS 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.

iii. Coordination Plan Minimum Benefit: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

b. Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Under the Eighth Amended Plan, these COLAs will be eliminated from and after the Effective Date. As of the date hereof, the Effective Date has not yet occurred. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

**10. PENSION PLAN (CONTINUED)**

c. Special “Bonus” Benefits

(i) Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of $200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. The funding of the special benefits was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

viii. Contributions

Contributions by members consists, as a minimum, of an 8.5% of their compensation directly deposited by the Puerto Rico Department of Treasury in the individual member accounts under the New Defined Contribution Plan created pursuant to Act No. 106-2017. Also, as of that date, System’s participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS.

Participating employers are responsible for the payment of the PayGo fee to the accumulated pension benefits payment account, which is computed based on the amount of actual benefits paid to retirees, disabled and beneficiaries of each participating employer.

ix. Early Retirement Programs

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees’ monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65

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**10. PENSION PLAN (CONTINUED)**

for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund of the Commonwealth will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211-2015), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106-2017 repealed Act No. 211-2015, while creating an incentives, opportunities, and retraining program for public workers.

**Total Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

**1) Total Pension Liability and Actuarial Information**

The Administration's total Pension Liability for each plan program is measured as the proportionate share of the total Pension Liability. The Total Pension Liability of each of the plan program was measured as of July 1, 2018, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation as of July 1, 2018, rolled forward to June 30, 2019 using standard update procedures. The Administration's proportion of the total Pension Liability was based on a projection of the long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2020, the Administration's used the proportion of .94539%, which was the June 30, 2019 base, as required by GASB No. 73:

| | |
|---|---|
| Proportion - June 30, 2018 | 0.93786 % |
| Proportion - June 30, 2019 | 0.94539 % |
| Change - Increase | 0.00753 % |

As of June 30, 2020, the Administration reported $234,932,685 as Total Pension Liability for its proportionate share of the Total Pension Liability of ERS, as follows:

| | Total | Proportion (.94539%) |
|---|---|---|
| Total Pension Liability | $ 28,026,444,581 | $234,932,685 |

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## 10. PENSION PLAN (CONTINUED)

### 2) Pension Expense

For the fiscal year ended June 30, 2020, the Administration recognized pension expense of $9,833,999. Pension expense represents the change in the method of benefits payment from "pay-as-you-go" system.

### 3) Deferred Outflows/Inflow of Resources

As of June 30, 2020, the Administration reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| | Deferred Outflows Of Resources | Deferred Inflows Of Resources |
|---|---|---|
| Pension Benefits Paid Subsequent to Measurement Date | $ 12,522,062 | $ - |
| Differences Between Actual and Expected Experience | - | 7,964,904 |
| Changes in Assumptions | 7,109,768 | 6,073,639 |
| Change in Employer's Proportion and Differences Between The Employer's Contributions and the Employer's Proportionate Share of Contributions | 8,296,943 | - |
| Net Differences Between Projected and Actual Earnings on Plan Investments | - | - |
| | $ 27,928,773 | $ 14,038,543 |

Pension benefits paid subsequent to measurement date of $12,522,062, reported as deferred outflows of resources, will be recognized as a reduction of total pension liability in the year ending June 30, 2021.

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

| Year Ending June 30, | Amounts |
|---|---|
| 2021 | $ 273,633 |
| 2022 | 273,633 |
| 2023 | 273,633 |
| 2024 | 273,633 |
| 2025 | 273,636 |
| Total | $ 1,368,168 |

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## 10. PENSION PLAN (CONTINUED)

### Actuarial Methods and Assumptions

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

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2020 is provided below. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

The actuarial valuation used the following actuarial assumptions:

| | |
|---|---|
| Inflation Rate | Not Applicable |
| Actuarial Cost Method | Entry Age Normal |
| Municipal Bond Index | 3.50%, based on Bond Buyer General Obligation 20 - Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. |
| Discount Rate | 3.50% |
| 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. |
| Mortality | Pre-Retirement Mortality: for general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 on a 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 for members covered under Act 127-1958.<br><br>Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from UP-1994 Mortality Table for females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. |

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**10. PENSION PLAN (CONTINUED)**

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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

**Discount Rate**

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015. After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS.

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

The discount rate on June 30, 2019 was as follows:

| | **June 30, 2019** |
|---|---|
| Discount Rate | 3.50% |
| Long-term expected rate of return net of investment expense | N/A |
| Municipal bond rate * | 3.50% |

* Bond Buyer General Obligation 20-Bond Municipal Bond Index.

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**10. PENSION PLAN (CONTINUED)**

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2016, as the tax-free municipal bond index applies in all years, and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability.

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

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

The following presents the Administration's proportionate share of the Total Pension Liability, calculated using the discount rate of 3.50%, as well as what the Administration's proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the current rate:

| | 1% Decrease 2.50% | Current Discount Rate 3.50% | 1% Increase 4.50% |
|---|---|---|---|
| Total Pension Liability as of June 30, 2019 | $267,142,601 | $234,932,685 | $208,771,499 |

**Pay-As-You-Go Funding**

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106), which reformed the Commonwealth Retirement Systems. Act. No. 106 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106 modified the ERS's governance. Under Act No. 106, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

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**10. PENSION PLAN (CONTINUED)**

Act No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

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

- Contributions to ERS are primarily based on statutory percentage of payroll.

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

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

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

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

- And how would the impacts of specific management decisions be handled.

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

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## 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

### Program Description and Membership

The Administration provides postemployment benefits other than the pension benefits described in Note 10, for its retired employees (the “OPEB Program”). The plan is an unfunded, single-employer defined benefit other postemployment healthcare and insurance coverage benefit plan. The plan 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 the Postemployment Benefits Other Than Pensions".

The Administration agreed to provide medical, pharmacy, dental, cancer and death insurance coverage to eligible retirees, its spouses and dependants, for a two-year period after retirement.

### Funding Policy

The obligations of the Plan members’ employer are established by action of the Administration pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Administration currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Administration.

### Relationship Between Valuation Date, Measurement Date and Reporting Date

The valuation date is July 1, 2018. This is the date as of which the actuarial valuation is performed. The measurement date is June 30, 2019. This is the date as of which total OPEB liability is determined. The reporting date is the Administration's fiscal year ending date. This report is for measurement year July 1, 2018 to June 30, 2019 for reporting periods ending June 30, 2019 through June 30, 2020.

### Significant Changes

There have been no significant changes between the valuation date and measurement year end.

### Total OPEB Liability, Expense and Deferred Outflows/Inflows of Resources

As permitted by GASB, the Administration’s proportionate share of the total OPEB liability as of June 30, 2020 of approximately $4,724,880 was measured at June 30, 2019 by an actuarial valuation as of that date. An expected total OPEB liability was determined as of June 30, 2019, the valuation date, using standard roll back techniques. The roll back calculation begins with the total OPEB liability, as of the measurement date, June 30, 2019, adds the expected benefit payments for the year, deducts interest at the measurement date, June 30, 2019, adds the expected benefit payments for the year, deducts interest at the discount rate for the year, and then subtracts the annual normal cost (also called the service cost).

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## 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")(CONTINUED)

For the year ended June 30, 2020, the Administration recognized an OPEB expense of $488,551, included as part of other postemployment benefits expense in the accompanying Statement of Revenues, Expenses and Change in Net Position.

As of June 30, 2020, the Administration reported deferred outflows of resources from OPEB activities as follows:

| Source | |
|---|---|
| Other Postemployment Benefits Paid Subsequent to the Measurement Date | $ 389,248 |
| Differences Between Expected and Actual Experience | - |
| Changes in Assumptions or Other Inputs | 14,875 |
| Total Deferred Outflows | $ 404,123 |

Deferred outflows of resources related to OPEB resulting from the Administration's benefits paid subsequent to the measurement date which amounted to $404,123 as of June 30, 2020 is recognized as a reduction of the total OPEB liability in the year ending June 30, 2021. Therefore, it is presented as current portion of the Total OPEB Liability in the Statement of Net Position.

The Administration’s proportion of the OPEB liability used was as follows:

| | |
|---|---|
| Proportion - June 30, 2019 | 0.56774 % |
| Proportion - June 30, 2018 | 0.54955 % |
| Change - Increase | 0.01819 % |

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## 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")(CONTINUED)

### Discount Rate

The discount rate as of June 30, 2019 was as follows:

| | June 30, 2019 |
|---|---|
| | |
| Discount Rate | 3.50% |
| 20 Year Tax-Exempt Municipal Bond Yield | 3.50% |

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

### Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability as of June 30, 2019 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

| | |
|---|---|
| Measurement Date | June 30, 2019 |
| Valuation Date | July 1, 2018 |
| Actuarial Cost Method | Entry Normal Age |
| Medical Trend Rate | Not Applicable |
| Salary Increases | Current General Economy |
| Mortality | <u>Pre-Retirement Mortality</u> - For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a 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 for members covered Under Act 127. <u>Post-Retirement Healthy Mortality</u> - 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 the UP-1994 Mortality Table for |

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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-2019 on a generational basis. As a generational table, it reflects mortality improvement both before and after the measurement date.

Post-retirement Disable Mortality - Rates which vary by gender are assumed for disable retirees based on a study of plan's experience 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. No provision was made for future improvement for disabled retirees.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and actuarial value of assets.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability calculated using the discount rate of 3.50%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower (2.50%) or 1 percent-point higher (4.50%) than the current rate:

| | **1% Decrease 2.50%** | **Current Discount Rate 3.50%** | **1% Increase 4.50%** |
|---|---|---|---|
| Total OPEB Liability as of June 30, 2019 | $5,178,229 | $4,724,880 | $4,339,297 |

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## 12. VOLUNTARY TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows: Article 4(a) provides economic incentive based on the following parameters:

| Years of Services in Public Sector | Incentive Gross Amount |
|---|---|
| Up to 1 Year | 1 Month of Salary |
| From 1 Year and One Day Up to 3 Years | 3 Months of Salary |
| from 3 Years and One Day and Up | 6 Months of Salary |

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payments are based on the following parameters:

| Credited Years of Service | Pension Payment (As a % of salary) |
|---|---|
| 15 | 37.5% |
| 16 | 40.0% |
| 17 | 42.5% |
| 18 | 45.0% |
| 19 | 47.5% |
| 20 to 29 | 50.0% |

The Administration will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments. However, after July 1, 2017, and based on Retirement System's Circular Letter No. 2019-01 of October 29, 2018, the applicable employer and employee contributions being made by the Administration were eliminated.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing

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## 12. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

The Administration has 37 participants in the plan, and termination benefits are measured at the discount present value of expected future benefit payments. Benefits are based on 50% of average pay (meaning the highest annual average salary of the participant during any of three years of credited services), in addition to social security and Medicare computed at 7.65%, retirement benefits based on a percentage ranging from 25.5250% to 30.5250% from 2016 to 2028, and $618 of the medical plan through fiscal year 2020. Termination benefits will be completed during fiscal year 2027-2028.

As of June 30, 2020, the present value of future incentive payments reported as a liability amounted to approximately $8,965,297. The noncurrent portion of the early termination obligation amounted to $7,156,617 with a current portion of $1,808,680. Such amounts are disclosed respectively, as current and noncurrent liabilities in the accompanying Statement of Net Position. The liability under this program was discounted at approximately 2.10%.

## 13. CONTRIBUTIONS TO OTHER GOVERNMENTAL AGENCIES

Contributions to other governmental agencies during the year ended June 30, 2020, are as follows:

| Description | Amount |
|---|---|
| Puerto Rico Traffic Safety Commission (Act 33-1972) | $ 1,096,001 |

Act No. 33, “Prevention of Traffic Accidents” of May 25, 1972, as amended, provides that the Administration should contribute to the Puerto Rico Traffic Safety Commission (the Commission) the funds needed for the Commission’s operational expenses. For the year ended June 30, 2020, the Administration contributed to the Commission the amount of $1,096,001.

On January 23, 2017, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 3-2017, named "Act to Address the Economic, Fiscal, and Budgetary Crisis in order to Guarantee the Operations of the Government of Puerto Rico". This Act requires that all instrumentalities, entities, agencies and public corporations of the Commonwealth of Puerto Rico reduce their operating expenses, specifically those related to payroll, professional services, contracted services and leases, among others measures that will be in effect until July 1, 2021. Among the measures, Act 3-2017 imposes a hiring freeze for new employees, freezes vacant positions, and orders a 20% reduction in positions of trust (political appointees). Act 3-2017 also orders a 10% reduction of operational expenses, limits and/or prohibits the use of governmental vehicles, credit cards, trips outside Puerto Rico, cellphones and other technological services, limits vacations and sick leave, and requires a review of all lease agreements with a view towards terminating or renegotiating them. The Administration is required to transfer the savings resulting from the enactment of this Act to Department of Education.

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## 13. CONTRIBUTIONS TO OTHER GOVERNMENTAL AGENCIES (CONTINUED)

For the fiscal year ended June 30, 2020, the Administration do not accrue any balance to such fund because there were no budgetary savings to accrue such balance.

## 14. CONTINGENCIES

### a. Lawsuits

The Administration acts as defendant in various legal proceedings or claims mainly to insurance companies, from suppliers, employees and others, that arise in the ordinary course of its operations. Management, based on the opinion of its legal advisors, believes that the ultimate liability resulting from these legal proceedings and actions in the aggregate will not have a material effect on the Administration's financial statements.

### b. Comptroller's Office of Puerto Rico Reports

The Administration is subject to audits by the Comptroller’s Office of Puerto Rico (COPR).

## 15. SUBSEQUENT EVENTS

### a. Administrative Bulletin No. OE-2021-003

On January 2, 2021, the newly elected governor of the Commonwealth of Puerto Rico, issued Administrative Bulletin No. OE-2021-003 named "Executive Order to Issue Fiscal Responsibility and Expense Control Measures, and to repeal Administrative Bulletin No. OE-2017-001".

The executive order declares a fiscal emergency state in the government of Puerto Rico. It orders all governmental agencies in Puerto Rico to implement the necessary measures in order to reduce operational expenses, without adversely affect those services necessary to protect the citizens health, security and wellness.

Among the most significant measures required by the executive order are:

1) **Vacancies** - All regular career, transitory and irregular positions, which are vacant at executive order's date, or which becomes vacant after the effective date of the executive order, will be subject to a need assessment. The governmental agencies are also not allowed to fill any vacant positions by any means (like promotion, merit, mobility, transfer and others), unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (OGP),
2) **Prohibition to Create New Positions** - Governmental agencies are not allowed to create new regular career, transitory and irregular positions, unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (OGP),
3) **Reduction in Positions of Confidence** - All governmental agencies are required a 20% reduction in posts of confidence,
4) **Reduction in Operational Expenses** - All governmental agencies are required reductions in operational expenses, as part of the expense reduction measures,

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**NOTES TO THE BASIC FINANCIAL STATEMENTS**
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**15. SUBSEQUENT EVENTS (CONTINUED)**

**a. Administrative Bulletin No. OE-2021-003 (Continued)**

5) **Credit Cards** - The use of official credit cards, paid through with public funds, is prohibited, unless it is done is strict compliance with applicable and outstanding regulations,
6) **Traveling outside Puerto Rico** - The order prohibits the use, by officers and employees of the governmental agencies, of public funds for traveling outside Puerto Rico, unless they are strictly essential to perform the duties of the position, and only when authorized by the Secretary of the agency and the Secretary of the Commonwealth of Puerto Rico. Also, if authorized, should be done in strict compliance with applicable and outstanding regulations,
7) **Cellular Phones and Other Technological Services** - The order prohibits the use of public funds for payment of celullar phones, personal digital assistants (PDA's), personal internet service equipment and other technological services, for exclusive use of the Officers and employees of the agencies. OGP Director is allowed to offer waivers to these requirements, considering, among other things, the service needs of public employees related to remote working. Agencies are required to obtain authorization from OGP and the Puerto Rico Innovation and Technology Service (PRITS), for any plan related to the acquisition of these technological equipments or services,
8) **Reduction in Energy and Water Consumption** - All agencies directors are required to reduce consumption of public utilities, like electric power and water. Regarding electric power, the agencies are required to implement all necessary measures to reach a minimum annual reduction of 5%. As for water consumption, those agencies, for which operational expenses are subsidized, in whole or in part, with funds from the Commonwealth's Central Government, must reduce water consumption by 5% annually, during years 2020-2021, 2021-22, and 2022-23, so it can reach a reduction of 15% in the three-year period. Percentage reduction will be measured from water consumption expense during year 2019-20 as base year,
9) **Reduction in Contract Amounts** - Each agency must reduce expenses for services (purchased and/or professional) by 10% annually,
10) **Contracting for Services** - It is prohibited to make a contract for purchased or professional services over $10,000 (and below $10,000,000) in the same fiscal year, without the written authorization from OGP. For this purpose, the Director of OGP will verify funds availability in the budget assigned to the agency. For contracts in excess of $10,000,000, in the same fiscal year, must be authorized together by the Director of OGP and the the Secretary of the Commonwealth of Puerto Rico, or the person designated by him for such purpose, and
11) **Lease Contracts** - Agencies must submit to OGP, within 30 days after the effective date of this executive order, a list of all outstanding lease contracts, amount contracted, and the reasons to justify the contract. OGP is authorized to deny the renewal of these contracts, or to modify its terms when due, unless it is necessary for the services given to citizens. OGP can consolidate operations in various agencies in a single lease premise, and renegotiate monthly fees and other clauses, in order to attain better terms.

The executive order discloses that all these control measures are the first ones to be implemented to face the fiscal crisis, and that it should not be understood that they are the only ones to be implemented. All agencies must evaluate its operations in order to detect additional measures of control, savings and expense reduction.

The Administration has not yet determined the effects these measures will have on the basic financial statements and the results of operations.

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## 15. SUBSEQUENT EVENTS (CONTINUED)

### b. Effects of the Coronavirus Disease

During the month of December 2019, a respiratory disease started to spread, caused by a novel virus called “Coronavirus” or COVID-19. The World Health Organization (WHO) declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic.

The Governor of the Commonwealth of Puerto Rico issued a lock-down starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lockdown effective May 24, 2021. On July 5, 2021, all Administrative Orders related to the COVID-19 disease were eliminated. Nevertheless, due to increase in the number of cases of contagion form the disease, new Administrative Orders have been issued, most recently, Administrative Order OE-2021-065 dated August 30, 2021, to implement emergency measures to slow the recent increase in the spread of the disease. The effectiveness of this Administrative Order was extended with Administrative Order OE-2021-070, issued on September 20, 2021, until a new order is issued in accordance with the public health and safety needs. On November 15, 2021, Administrative Order OE-2021-075 was issued to eliminate Administrative Orders O58, O62, O63 and O64 previously issued and to implement new initiatives against COVID-19 disease. This new Administrative Order will be also in force until a new order is issued in accordance with the public health and safety needs. Finally, on March 7, 2022, Administrative Order OE-2022-019 was issued to eliminate OE-2021-075 and most of the restrictions imposed before due to the pandemic.

The Administration was not affected by the full lock - down because services are provided remotely to customers as it is in normal times; also, all employees were available to work remotely too. Also, the Administration cannot predict the exact impact on our activities in the reminder of 2021 and for 2022 and thereafter. Depending on the duration of the COVID-19 crisis and continued negative impact on the individuals, local and global economic activity, we might experience additional negative results, although, as of the basic financial statements issuance date, this is not expected.

### c. Investment in Kinetic Funds I, LLC

On December 28, 2018, in order to maintain the target allocations in the alternative asset class, the Administration contributed an additional $2,000,000 to Kinetic Funds I, LLC, a Delaware limited liability company which is part of the Kinetic Investment Group. It should be noted that a $2 million initial investment in Kinetic Funds I, LLC was made on December 1, 2016.

On February 20, 2020, the Securities and Exchange Commission (SEC) filed a complaint in the United States Court, Middle District of Florida, against defendants Kinetic Investment Group, LLC (the Group), their management and related entities. The defendant is accused, among other things, of using funds from investors for personal use and to cover operational expenses of their personal businesses.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

## 15. SUBSEQUENT EVENTS (CONTINUED)

### c. Investment in Kinetic Funds I, LLC (Continued)

On March 6, 2020, the United States District Court, Middle District of Florida, entered an order appointing Mark A. Kornfeld as Receiver over the assets of the Defendant Kinetic Investment Group, LLC.

On November 5, 2020 the Court issued an order establishing a Claim Bar Date for all claims, approving the Proof of Claim Form, along with the basic procedures to administer any claims and to distribute recovered assets.

On February 8, 2021, a Proof of Claim on the Kinetic Investment Group, LLC case number 8:20-cv-394 was submitted in order to comply with the Courts instructions. The Administration claimed that it had invested a total amount of $4,000,000 in the Kinetic Investment Group, LLC. The Administration learned that the receiver is giving all parties an opportunity to object to the claim's determination process, and the deadline for objections is August 2021.

During December 2021, the Administration collected $1,600,000 from the legal proceedings against the defendant. Thus, it collected close to 40% out of the total $4,000,000 originally invested in Kinetic Funds I, LLC. According to Mark A. Kornfeld, the Receiver over the assets of the Defendant Kinetic Investment Group, LLC. additional distributions in the future might be granted by the Court.

### d. Investment in Pluscios Fund LLC

A final distribution of $3,514,533 was received from the Pluscios Fund LLC, which is an alternative investment in a diversified hedge managed by Pluscios Fund LLC, a Delaware Limited Liability Corporation. The fair market value ended with a balance of $390,505. The final distribution was received on July 16, 2021.

### e. Rent Commitments

The Administration renewed some of its regional offices rent contracts after June 30, 2020, as follows: 1) One of its Regional Offices in the Municipality of Ponce, contract was signed on November 13, 2020, for $87,480.00 annually, with a monthly payment of $7,290.00. The Contract is due on June 30, 2025, 2) One of its Regional Offices in the Municipality of Aguadilla, contract was signed on July 1, 2021, for $96,000.00 annually, with a monthly payment of $9,600.00. The Contract is due on June 30, 2022, 3) One of its Regional Offices in the Municipality of Humacao, contract was signed on July 1, 2021, for $26,362.50 for five (5) months. The Contract is due on December 30, 2021. The contract was then renewed in December 27, 2021 through December 31, 2026.

### f. Law 111 of August 14, 2020 Named "Law on Social Protection for Motor Vehicle Accidents"

On August 14, 2020, Law Number 111 was approved named "Law on Social Protection for Motor Vehicle Accidents", in order to establish a system of insurance and compensation for traffic accidents through a mandatory premium for any authorized motor vehicle, to provide a

## 15. SUBSEQUENT EVENTS (CONTINUED)

### f. Law 111 of August 14, 2020 Named "Law on Social Protection for Motor Vehicle Accidents" (Continued)

cover for health services to any person who suffers bodily injury, illness or death as a result of a traffic accident; recognize the existence, continuity and legal personality of the public corporation known as the "Automobile Accident Compensation Administration (ACAA, the Administration)"; revoke Law Number No. 138 of 26 June 1968, as amended, known as the "Law on Social Protection for Automobile Accidents"; and for other purposes.

The Legislative Assembly of the Commonwealth of Puerto Rico considered necessary to revoke Law Number 138, and to adopt a new law so that the Administration can adapt to current needs, without abandoning its fundamental purpose of reducing the tragic social and economic effects produced by traffic accidents on the injured, the family and other dependents. The fundamental changes included in the law are as follows:

1) Adopts and modifies definitions to bring them up to date according with current realities,
2) Specifies the functions and duties of the Board of Directors and the Executive Director,
3) Specifies and delimits the exclusions of the law,
4) Provides for the particular circumstances in which the Administration will be compensated for all expenses incurred in providing services and benefits to those injured in an accident, including compensation from insurance companies that have issued a public liability insurance policy to the person responsible for the accident.
5) Establishes the subrogation action of the Administration, in the rights of an injured person or his beneficiaries, to file a judicial claim for damages against third parties responsible for the accident as granted by the State Insurance Fund Corporation,
6) Provides for the Administration to use the analysis obtained from a chemical-toxicological tests of an injured driver claiming medical-hospital services, to determine coverage eligibility in cases where consent is given, or that the test was performed by medical judgment and in the course of medical treatment or by court order or performed by a law enforcement officer,
7) Requires medical-hospital service providers, and the Puerto Rico Department of Health, to submit a copy to the Administration of the chemical-toxicological analysis test performed on an injured driver, in the particular cases mentioned above,
8) Sets a penalty, when a person knowingly makes false statements to the Administration, presents false information in a claim, files a fraudulent claim, or files more than one claim, and
9) Accelerates the amount of payment for dismemberment benefits, from fifty dollars ($50.00) per week to one thousand dollars ($1,000.00) per month, and for death benefits from fifty dollars ($50.00) per week, per family unit, to two thousand dollars ($2,000.00) per month, without increasing the total benefits provided in the current Law.

In addition, under Article 15 of Law 111, named "Financing", the Administration shall be excluded from Law Number 233, or by any successor or subsequent Law on the same matter. No government agency shall withhold or collect from the premium paid any amount as a fee or charge to the Administration.

## 15. SUBSEQUENT EVENTS (CONTINUED)

### f. Law 111 of August 14, 2020 Named "Law on Social Protection for Motor Vehicle Accidents"

The objective of this measure is to adopt a new law that fosters an agile, modern and dynamic institution, with an effective control of expenses, to maintain cost-efficient operations, that facilitate quality and excellence services aimed at satisfying the needs of the injured and promoting the prevention of motor vehicle accidents. In addition, the principle of social protection contracted 50 years ago, of providing compulsory, universal, uniform insurance with benefits and services for all insured persons, without representing an increase in the premium currently charged to the insured, is maintained.

The Administration's management evaluated subsequent events until June 9, 2022, date in which the basic financial statements are available to be issued.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| Last 10 Years (1) | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| Proportion of Total Pension Liability | 0.94539 % | 0.93786 % | 0.90207 % |
| Proportionate Share of Total Pension Liability | $234,932,685 | $229,676,645 | $254,425,628 |

**Benefit Changes:** Beginning on July 1, 2017, the pension benefits were paid through pay-as-you-go method. Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required apply the guidance on GASB Statement No. 73.

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

**Notes to the Schedule:**

**(1)** Fiscal year 2019 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.

**(2)** There are no assets accumulated in a trust for payment of defined pension benefits participants, and the plan is not administered through a trust or equivalent arrangement.

See accompanying independent auditor's report.

**AUTOMOBILE ACCIDENTS COMPENSATION ADMINISTRATION**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| Last 10 Years (1) | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Proportion of the Total OPEB Liability | 0.56774 % | 0.54955 % | 0.49802 % | 0.45728 % |
| Proportionate Share of Total OPEB Liability | $ 4,724,880 | $ 4,628,083 | $ 4,584,332 | $ 5,419,328 |

**Notes to the Schedule:**

**(1)** Fiscal year 2018 was the first year of implementation. The schedule will be expanded to show 10 years once the information becomes available in the future. Amounts presented have a measurement date of the previous fiscal year end.

**(2)** There are no assets accumulated in a trust for payment of OPEB related benefits, and the plan is not administered through a trust or equivalent arrangement.

See accompanying independent auditor's report.

**TEN YEARS CLAIMS DEVELOPMENT INFORMATION**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

| | Health Care Benefits | | | | Financial Benefits | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Basic Benefits | | Extended Benefits | | | | | | | |
| | Hospital Medical | RX | Hospital Medical | RX | Death | Disability | Funeral | Disbursements | Total | Net Premiums Collected |
| **2010-11** | 31,529,015 | 986,955 | 1,743,031 | 365,417 | 2,327,270 | 2,013,826 | 247,682 | 105,450 | 39,318,646 | 78,000,000 |
| **2011-12** | 31,622,586 | 792,305 | 1,639,443 | 196,737 | 2,106,389 | 1,782,017 | 311,880 | 99,326 | 38,550,683 | 78,000,000 |
| **2012-13** | 29,242,340 | 748,620 | 1,218,498 | 173,729 | 1,989,081 | 1,693,708 | 279,598 | 90,199 | 35,435,773 | 78,000,000 |
| **2013-14** | 48,630,487 | 572,344 | 2,548,784 | 142,682 | 1,776,160 | 1,103,061 | 220,861 | 87,975 | 55,082,354 | 78,000,000 |
| **2014-15** | 38,180,025 | 447,662 | 1,736,975 | 149,833 | 1,558,570 | 812,784 | 197,590 | 80,350 | 43,163,789 | 78,000,000 |
| **2015-16** | 35,333,629 | 457,076 | 1,377,935 | 175,050 | 1,453,972 | 600,839 | 223,086 | 106,000 | 39,727,587 | 78,000,000 |
| **2016-17** | 26,679,595 | 472,227 | 1,912,464 | 169,573 | 1,409,186 | 583,923 | 191,608 | 95,900 | 31,514,476 | 78,000,000 |
| **2017-18** | 27,136,397 | 326,048 | 1,018,289 | 154,555 | 1,172,599 | 317,225 | 130,272 | 89,200 | 30,344,585 | 69,492,464 |
| **2018-19** | 25,473,331 | 351,382 | 1,017,862 | 156,835 | 1,171,570 | 427,603 | 183,505 | 77,250 | 28,859,338 | 78,398,389 |
| **2019-20** | 21,720,342 | 237,472 | 968,688 | 141,356 | 1,013,404 | 355,544 | 123,988 | 60,550 | 24,621,344 | 60,573,468 |
| **Totals** | $315,547,747 | $5,392,091 | $15,181,969 | $1,825,767 | $15,978,201 | $9,690,530 | $2,110,070 | $892,200 | $366,618,575 | $754,464,321 |

Aquino, De Córdova, Alfaro & Co., LLP
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Automobile Accidents Compensation Administration
(A Component Unit of the Commonwealth of Puerto Rico)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Automobile Accidents Compensation Administration (the Administration), , as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated June 9, 2022.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we reported to Administration's management in a separate letter dated June 9, 2022.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

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objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Carolina, Puerto Rico
June 9, 2022

Aquino, De Córdova, Alfaro & Co., LLP
by [illegible]
Lic. #3171

Stamp number E492438
of the Puerto Rico CPA Society
has been affixed to the
original report