KPMG

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

(An Agency of the Commonwealth of Puerto Rico)

Financial Statements and Required Supplementary Information

June 30, 2021

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

(An Agency of the Commonwealth of Puerto Rico)

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KPMG LLP
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Independent Auditors' Report

The Comptroller of Puerto Rico
Office of the Comptroller:

We have audited the accompanying financial statements of the governmental activities, the General Fund of the Office of the Comptroller (the Office), an agency of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Office of the Comptroller, an agency of the Commonwealth of Puerto Rico, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

An Agency of the Commonwealth of Puerto Rico

As discussed in Note 1, the financial statements of the Office, an agency of the Commonwealth, are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the General Fund of the Commonwealth that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the Commonwealth as of June 30, 2021, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-9 and the schedule of the Office's proportionate share of total pension liability and related ratios, schedule of the Office proportionate share of OPEB liability and related ratios, and schedule of revenues, expenditures and budgetary information on pages 32 through 36 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 March 8, 2023, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Office'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 Office's internal control over financial reporting and compliance.

KPMG LLP

San Juan, Puerto Rico
March 8, 2023

Stamp No. E519746 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

The Office of the Comptroller (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico (the Commonwealth), offers to the readers of the financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2021. The Office has the constitutional duty to ascertain that all revenues, accounts, and disbursements of the Commonwealth and all operations involving public funds and public property were performed as stated in Article III of the Constitution of the Commonwealth, Act No. 9 of July 24, 1952, as amended.

Financial Highlights

- Total liabilities of the Office's governmental at the close of the fiscal year ended June 30, 2021 amounted to approximately $148,042,000 comprising primarily of the total pension liability of approximately $126,641,000.
- The liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by approximately $117,090,000.
- The Office's total assets and deferred outflows of resources increased by approximately $13,761,000.
- The Office's net position increased by approximately $3,263,000 in fiscal year 2021 when compared to prior year net position of approximately $120,353,000, mainly as a result of the increased in the deferred outflows of resources, current assets, and a decrease in deferred inflows offset by an increase in long-term liabilities.
- The Office's net investment in capital assets decreased by approximately $144,000.
- The final budget of the Office for fiscal year 2020-2021 was $43,387,000.

The Office's budgetary basis revenues and other financing sources exceeded its budgetary basis expenditures by approximately $2,532,000 for the fiscal year 2020-2021.

Overview of the Basic Financial Statements

This Management's Discussion and Analysis section is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements on all of the activities of the Office, 2) fund financial statements, and 3) notes to basic financial statements.

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 to 31 of this report.

Financial Analysis of the Governmental Activities

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

Net Position

The statement of net position serves as an indicator of the Office's financial position at the end of fiscal year. The Office's net position includes net investment in capital assets of approximately $1,870,000 and an unrestricted deficit of approximately $118,960,000. The following is condensed summary information for fiscal years ended June 30, 2021 and 2020.

	Condensed Information - Net Position		
	2021	**2020**	**Change**
Current assets	$ 11,420,522	9,950,310	1,470,212
Capital assets, net	1,870,030	2,013,570	(143,540)
Total assets	13,290,552	11,963,880	1,326,672
Deferred outflows of resources	23,789,747	11,355,093	12,434,654
Other liabilities	416,080	1,061,999	(645,919)
Long-term liabilities	147,625,219	135,830,422	11,794,797
Total liabilities	148,041,299	136,892,421	11,148,878
Deferred inflows of resources	6,129,224	6,779,893	(650,669)
Net position:			
Net investment in capital assets	1,870,030	2,013,570	(143,540)
Unrestricted – deficit	(118,960,254)	(122,366,911)	3,406,657
Total net position	$ (117,090,224)	(120,353,341)	3,263,117

Total assets of the Office's at June 30, 2021 increased by approximately $1,327,000 when compared to the total assets as of June 30, 2020 primarily attributable to an increase of cash in commercial bank of approximately $1,470,000.

Deferred outflows of resources, which represents an increase in net position applicable to future reporting periods, increased by approximately $12,435,000 when compared to June 30, 2020.

Total liabilities at June 30, 2021 increased by approximately $11,149,000 when compared to total liabilities at June 30, 2020. This increase is mainly resulted from the increase in pension liability of approximately $13,181,000 when compared to accounts pension liability at June 30, 2020.

Deferred inflows of resources, which represent a decrease in net position that is applicable to future reporting periods, amounted to approximately $6,129,000 at June 30, 2021. The decrease of approximately $651,000 when compared to June 30, 2020 resulted from changes in the deferred inflows of resources from pension activities related to differences, between projected and actual earnings on pension plan investments.

(Continued)

Capital Assets

The capital assets of the Office are those assets that are used in the performance of its functions. The net investment in capital assets for the fiscal year ended June 30, 2021 amounts to approximately $1,870,000. The Office's capital assets, net decreased during 2021 by approximately $144,000.

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

- Current year's depreciation and amortization of approximately $438,000, and
- Capital asset additions of approximately $294,000.

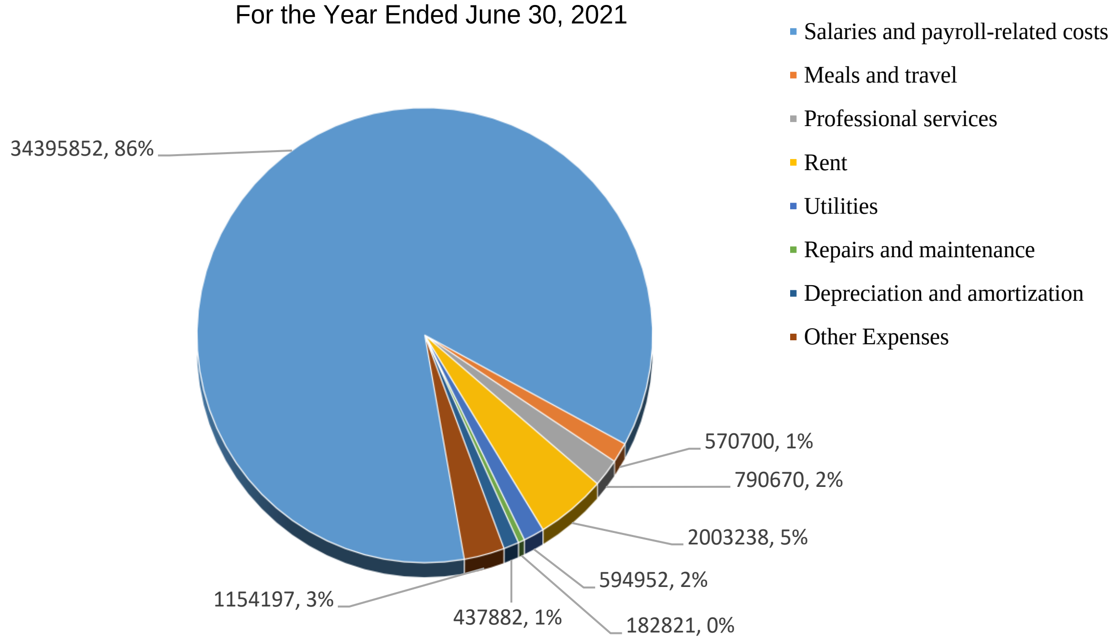
Changes in Net Position

The following condensed summary of activities reflects how the Office's net position changed during the fiscal year ended June 30, 2021.

		Condensed Information - Statement of Activities		
		2021	**2020**	**Change**
Revenues	$	6,029	63,171	(57,142)
Transfers in		43,387,240	47,072,670	(3,685,430)
Expenses		(40,130,152)	(40,038,677)	(91,475)
Change in net position	$	3,263,117	7,097,164	(3,834,047)
Net position:				
At beginning of year		(120,353,341)	(127,450,505)	7,097,164
At end of year	$	(117,090,224)	(120,353,341)	3,263,117

The following chart presents the expenses incurred by the Office during the fiscal year ended June 30, 2021.

Commonwealth of Puerto Rico
Office of the Comptroller
Expenses – Governmental Activities
For the Year Ended June 30, 2021



The Office's major expense is related to salaries, benefits, and payroll taxes, which represent 86% of total expenses incurred during fiscal year ended June 30, 2021. Total expenses also increased by approximately $92,000 mainly due to increase in professional services of approximately $68,000 when compared to June 30, 2020. The decrease in transfers in of approximately $3,685,000 is mainly due to reduction in the Commonwealth appropriations.

General Fund Budgetary Highlights

The 2020-2021 General Fund Budget was $43,387,000 and actual expenses in the budgetary basis were approximately $40,862,000. Total expenditures represented 94.17% of total budget availability for the fiscal year.

The following table summarizes the operational results under the non-GAAP budgetary basis of accounting for the fiscal year ended June 30, 2021.

		Actual
Revenue and other financing sources	$	43,393,269
Expenditures		40,861,634
Unexpended balance	$	2,531,635
Expenditure rate		94.17%

The operational results present a saving on the assigned budget amounting to approximately $2,532,000 for year ended June 30, 2021.

Economic Factors and Next Year's Budget

The Office approved budget for the fiscal year 2022 is approximately $44,651,000. The Office adopted cost reduction measures that resulted in a decrease in certain employee benefits accrued in the government-wide financial statements.

On March 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island. The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and cannot

be predicted, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

On May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) that was created by the U. S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in Title III court.

On November 3, 2021, the Oversight Board filed the Eight Amended Plan (the Plan). On March 15, 2022, the Plan became effective.

Requests for Information

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

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

General Fund Balance Sheet and Statement of Net Position

June 30, 2021

	General Fund Balance Sheet	Adjustments	Statement of Net Position
Assets:			
Cash in commercial bank	$ 11,229,537	—	11,229,537
Accounts receivable – employees and other	18,764	—	18,764
Prepaid Paygo	172,221	—	172,221
Capital assets:			
Non-depreciable	—	590,190	590,190
Depreciable, net	—	1,279,840	1,279,840
Capital Assets net	—	1,870,030	1,870,030
Total assets	11,420,522	1,870,030	13,290,552
Deferred outflows of resources – Pensions		23,629,947	23,629,947
Deferred outflows of resources – OPEB	—	159,800	159,800
Total deferred outflows of resources	—	23,789,747	23,789,747
Total assets and deferred outflowsof resources	$ 11,420,522	25,659,777	37,080,299
Liabilities:			
Accounts payable and accrued liabilities	416,080	—	416,080
Total pension liability due within one year	—	5,892,658	5,892,658
Other accrued long-term liabilities, due within one year	—	6,780,604	6,780,604
Other accrued long-term liabilities, due after one year	—	14,203,631	14,203,631
Total pension liability	—	120,748,326	120,748,326
Total liabilities	416,080	147,625,219	148,041,299
Deferred inflows of resources – Pensions	—	6,129,224	6,129,224
Total liabilities and deferred inflows of resources	416,080	153,754,443	154,170,523
Fund balance/net position:			
Fund balance:			
Committed	299	(299)	—
Assigned	1,192,143	(1,192,143)	—
Unassigned	9,812,000	(9,812,000)	—
Total fund balance	11,004,442	(11,004,442)	—
Total liabilities and fund balance	$ 11,420,522		
Net position:			
Net investment in capital assets		1,870,030	1,870,030
Unrestricted		(118,960,254)	(118,960,254)
Net position		$ (117,090,224)	(117,090,224)

See accompanying notes to financial statements.

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

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

June 30, 2021

	General Fund Revenue, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Expenditures/expenses:			
General government:			
Salaries and payroll-related costs	$ 35,686,378	(1,290,526)	34,395,852
Meals and travel	570,540	—	570,540
Professional services	790,670	—	790,670
Insurance	75,213	—	75,213
Rent	2,003,238	—	2,003,238
Utilities	594,952	—	594,952
Noncapitalizable equipment	27,719	—	27,719
Materials and supplies	106,351	—	106,351
Repairs and maintenance	182,821	—	182,821
Depreciation and amortization	—	437,882	437,882
Trainings and continuing professional education	85,443	—	85,443
Subscriptions and memberships	90,977	—	90,977
Outsource services:			
Security	199,689	—	199,689
Maintenance	133,307	—	133,307
Other	368,326	—	368,326
Printing services	20,746	—	20,746
Postage	15,255	—	15,255
Miscellaneous	31,171	—	31,171
Capital outlays	294,342	(294,342)	—
Total expenditures/expenses	41,277,138	(1,146,986)	40,130,152
General revenue – Interest income	6,029	—	6,029
Other financing sources – Transfers in:			
Commonwealth of Puerto Rico appropriations	43,387,000	—	43,387,000
Other Commonwealth of Puerto Rico appropriations under Joint Resolution	240	—	240
Total general revenue and transfer-in	43,393,269	—	43,393,269
Excess of revenues and transfers in over expenditures	2,116,131	(2,116,131)	—
Change in net position	—	3,263,117	3,263,117
Fund balance/net position:			
At beginning of year	8,888,311	(129,241,652)	(120,353,341)
At end of year	$ 11,004,442	(128,094,666)	(117,090,224)

See accompanying notes to financial statements.

(1) Organization and Basis of Presentation

(a) Organization

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

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

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

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

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

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

(b) The Financial Reporting Entity

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

(c) Basis of Presentation

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

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

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

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

The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2021:

Fund balance	$	11,004,442
Add capital assets, net of accumulated depreciation, as they are not financial resources and, therefore, are not reported in the General Fund		1,870,030
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future reporting periods and therefore, are not reported in the governmental funds:		
Add deferred outflows of resources		23,789,747
Less deferred inflows of resources		(6,129,224)
Less accrued compensated absences, pension liability, OPEB liability, voluntary termination benefits, and Christmas bonus, as they are not due and payable in the current period and, therefore, are not reported in the General Fund		(147,625,219)
Net position	$	(117,090,224)

The following is a reconciliation between the excess of revenues and transfers in over expenditures in the statement of General Fund revenues, expenditures, and changes in fund balance, and the change in net position in the statement of activities for the fiscal year ended June 30, 2021:

Excess of revenues and transfers in over expenditures	$	2,116,131
Add current year change in compensated absences that are recorded as a long-term liability in the government-wide financial statements:		
Compensated absences		(168,996)
Christmas bonus		(79,176)
Voluntary termination benefits		1,751,092
Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities		(437,882)
Less pension benefit payments which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported total pension liability is measured a year before the Office's report date. Pension expense, which is the change in the total pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities		(100,683)
Less OPEB benefits paid which are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported OPEB liability is measured a year before the Office's report date. OPEB expense, which is the change in the net OPEB liability adjusted for changes in deferred outflows and inflows of resources related to other postemployment benefits other than pension is reported in the statement of activities		(111,711)
Add capital outlays reported as expenditures in the General Fund that are shown as capital assets in the statement of activities		294,342
Change in net position	$	3,263,117

(d) Basis of Accounting

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

The General Fund, as a governmental fund, is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

(2) Summary of Significant Accounting Policies

(a) Capital Assets

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

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

	Years
Electronic equipment	5
Other equipment	5
Furniture	10
Purchased computer software	5
Internally developed software	3-10
Vehicles	5–10

(b) Compensated Absences

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

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

(Continued)

(c) Deferred Outflows and Inflows of Resources

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

(d) Accounting for Pension Costs

The Office accounts for pension costs under the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses.

As Act 106-2017 eliminated all contribution requirements for Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Pension Plan) and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. The Office's employees participate in the single-employer defined pension plan. Therefore, in accordance with GASB Statement No. 73, the Office reports its proportionate share of the Pension Plan's total pension liability and the related pension amounts.

(e) Post-employment Benefits Other than Pensions

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

(f) Fund Balance

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

- Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2021.

- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation. There was no restricted fund balance as of June 30, 2021.
- The Office's highest decision-making level of authority rests with the Commonwealth's Legislature. Fund balance is reported as committed when the Legislature passes a law that places specified constraints on how resources may be used. The law can modify or rescind a commitment of resources through passage of a new law.
- Resources that are constrained by the Office's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Comptroller.
- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Office for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the Office's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

(g) Net Position

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

(i) Net investment in capital assets– This consists of capital assets, less accumulated depreciation and amortization.

(ii) Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2021.

(iii) Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(h) Commonwealth Appropriations

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

(i) Risk Management

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

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

(j) Termination Benefits

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

(k) Use of Estimates

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

(l) Accounting Pronouncements Issued but not yet Effective

The GASB has issued the following accounting standards that have effective dates after June 30, 2021:

(i) GASB Statement No. 87*, Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2021. The Office is currently evaluating the impact of this statement.

(3) Deposits

The Office follows the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about the deposits of the Office at June 30, 2021.

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2021 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, non-depreciable:				
Computer software being developed	$ 527,255	142,494	(79,559)	590,190
Capital assets depreciable:				
Equipment	765,483	16,603	—	782,086
Electronic equipment	2,814,210	60,224	—	2,874,434
Furniture	1,125,078	4,681	—	1,129,759
Computer software	1,861,180	114,709	(143,069)	1,832,820
Vehicles	399,485	35,190	—	434,675
Total capital asset, depreciable	6,965,436	231,407	(143,069)	7,053,774
Less accumulated depreciation and amortization for:				
Equipment	697,273	11,991	—	709,264
Electronic equipment	2,232,215	296,745	—	2,528,960
Furniture	714,650	16,428	—	731,078
Computer software	1,530,646	96,618	(143,069)	1,484,195
Vehicles	304,337	16,100	—	320,437
Total accumulated depreciation and amortization	5,479,121	437,882	(143,069)	5,773,934
Total capital asset depreciable	1,486,315	(206,475)	—	1,279,840
Capital assets, net	$ 2,013,570	(63,981)	(79,559)	1,870,030

(5) Long-Term liabilities

Long-term liability activity for the year ended June 30, 2021 was as follows:

	Beginning balance June 30, 2020	Additions	Reductions	Ending balance June 30, 2021	Due within one year	Long-term portion
Accrued compensated absences	$ 11,817,179	5,842,179	(5,673,183)	11,986,175	4,195,979	7,790,196
Accrued Christmas bonus	571,277	650,452	(571,277)	650,452	650,452	—
Voluntary termination benefits	8,087,169	—	(1,751,091)	6,336,078	1,774,373	4,561,705
OPEB liability	1,894,419	273,911	(156,800)	2,011,530	159,800	1,851,730
Total pension liability	113,460,378	19,156,350	(5,975,744)	126,640,984	5,892,658	120,748,326
	$ 135,830,422	25,922,892	(14,128,095)	147,625,219	12,673,262	134,951,957

(6) Lease Commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2024. Rent expense under such lease agreements for the year ended June 30, 2021 amounted to approximately $1,998,000.

Future minimum lease payments as of June 30, 2021 are as follows:

Year Ending June 30:	
2022	$ 1,958,933
2023	1,958,933
2024	1,153,252
	$ 5,071,118

(7) Contingencies

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

(8) Voluntary Termination Benefits

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

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

a) Sixty percent (60%) of their average compensation as of December 31, 2015, until they attain age sixty-one (61).

b) Payout of unused vacation and sick leaves accrued as of the time of enrollment in the Program, in accordance with the limits established in the applicable legislation or regulations, exempt from income taxes.

c) While the employee is enrolled in the Program, beneficiary account under the Defined Contribution Hybrid Program shall continue receiving the total amount of the individual contribution that the pre-retiree would have contributed, paid in full by the Office, at a rate of ten percent (10%) of the beneficiary average compensation as of December 31, 2015.

d) The Office shall continue to make employer contributions on account of Social Security (6.2%) and Medicare (1.45%) corresponding to sixty percent (60%) of the participant's gross income. However, equal percentages corresponding to individual contributions shall be deducted from the participant's compensation.

e) Keep health insurance coverage or medical service program, or employer contribution for health insurance, that the employee enjoyed at the time of making an election to enroll in the Voluntary Pre-Retirement Program up to two (2) years, as of the enrollment date or until beneficiary enters the Retirement System, or until the participant is eligible to receive health insurance coverage in another employment, or by any other source of coverage, whichever comes first.

f) May request the Office to deduct and withhold from the sixty percent (60%) of the compensation they will receive, contributions on account of savings, loan payments, insurance premiums, or any other applicable payment at the time, as provided in Act No. 9-2013, as amended known as the "Commonwealth of Puerto Rico Employee Association Act of 2013," but in no case the savings contributions shall be mandatory. Likewise, participants may choose to withdraw their savings from AEELA, insofar as they are not securing any debt with such entity.

g) If a pre-retiree dies while participating in the Program, participation in the Program shall automatically end and beneficiaries or heirs, as the case may be, shall receive the same benefits they would have received under Act No. 447 of May 15, 1951, as amended, and any other benefit to which they would have been entitled under any special law if the pre-retiree was an active employee of the Commonwealth of Puerto Rico; and

h) Once a pre-retiree attains age sixty-one (61), participants shall enter the Retirement System and receive the benefits to which beneficiary is entitled as a pensioner of the Commonwealth of Puerto Rico, in accordance with Chapter 5 of Act No. 447 of May 15, 1951, as amended; provided, that

Program participants shall be guaranteed, at the time of their retirement, a minimum benefit of fifty percent (50%) of their average compensation as of June 30th, 2013, if the combination of annuities of the contributions frozen as of June 30th, 2013, and the contributions made to the Hybrid Program account do not reach such minimum percentage.

The Office Program started on January 2017 and the benefits are expected to be provided until October 2030. The methodology used an alternative method of projecting future cash outlays for benefits and discounting projected benefits to present value and allocating the present value of benefits to periods using a cost method. A total of 42 eligible employees are participating in the Program and at June 30, 2021, unpaid long-term benefits granted in Act No.211 were discounted at 0.05% interest rate.

(9) Pension Plan

(a) Plan Description

General Information about the Pension Plan

The Office's employees participate in the Pension Plan, a defined benefit pension plan, which covers only eligible full-time employees. The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 of May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017 all employer contributions were eliminated pursuant to Act No. 106-2017 and the Office implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the Plan was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

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

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by Legislature with Governor's approval or by court decision.

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

- Members of Act No. 447 are generally those members hired before April 1, 1990. (contributory, defined benefit program)

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

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accruable under the defined contribution formula used for the System 2000 program participants.

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 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the defined contribution hybrid account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants, the service retirement annuity benefit is not available.

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

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

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

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

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

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

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

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

As an employer in the Plan, the Commonwealth is allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocate its proportionate share to various internal organizations, including the Office. At June 30, 2021, the Office recorded a liability of $126,640,984 for its proportionate share of the Commonwealth’s collective total pension liability. The collective total pension liability for the plan was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020. The Office’s proportionate share for allocation of the Commonwealth’s total pension liability was based on the ratio of the Office’s actual benefit payments for allocation of approximately $5,976,000 for the year ended June 30, 2020, relative to the Commonwealth’s total benefit payments for allocation of approximately $1,324,515,000. At June 30, 2020, the Office’s proportionate share of the Commonwealth’s allocation was 0.45116%, which decreased by 0.005% when compared to the proportionate share as of June 30, 2019 of 0.45657%.

A reconciliation of actual benefits paid and those considered for allocation for the year ended June 30, 2019 is as follows:

		The Office	Commonwealth
Actual benefit payments	$	6,171,610	1,348,124,674
Included (excluded) for allocation:			
Early retirement incentives and other		(195,866)	(23,609,339)
Employer benefit payments for allocation	$	5,975,744	1,324,515,335

For the year ended June 30, 2021, the Office recognized a pension expense of approximately $6,556,000.

At June 30, 2021, the Office reported deferred outflows of resources and deferred inflows of resources from the following sources:

		Deferred Outlows of Resources	Deferred Inflows of Resources
Balance of deferred outflows and inflows of resources due to:			
Difference between expected and actual experience	$	261,215	2,850,804
Changes of assumptions		15,898,528	2,173,881
Changes in proportion		1,577,546	1,104,539
Employer pension benefits paid subsequent to the measurement date		5,892,658	—
Total	$	23,629,947	6,129,224

(Continued)

$5,892,658 reported as deferred outflows of resources to pensions resulting from pension benefits paid subsequent to the measurement date will be recognized during the year ended June 30, 2022 as a reduction of the total pension liability. Other amounts reported as deferred (inflows) / outflows of resources are scheduled to be recognized in pension expense as follows:

Year ending June 30:		
2022	$	2,902,016
2023		2,902,016
2024		2,902,016
2025		2,902,017
	$	11,608,065

(c) Actuarial Assumptions

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

Measurement Date	June 30, 2020
Actuarial cost method	Entry age normal
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.
Cost-of-Living Increases	Not assumed.
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, PubG-2010 Employee Mortality Rates, adjusted 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.
	100% of deaths while in active service are assumed to be occupational members covered under Act No. 127.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

(d) Discount Rate

The discount rate for June 30, 2020 was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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

The following presents the total pension liability of the Office as of June 30, 2020, calculated using the discount rate of 2.21%, as well as what the total pension liability would be if it was calculated assuming a discount rate that is 1-percentage point lower (1.21%) or 1-percentage point higher (3.21%) than current rate:

	At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Total pension liability	$ 145,267,713	126,640,984	111,620,293

(10) Other Postemployment Healthcare Benefit Plan

(a) General Information about the OPEB Plan

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). 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 Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No.75, the Office is considered to be one employer and is classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

The Plan covers a payment up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013. The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from the Office on a monthly basis for the corresponding amount of the Plan payments made by the Commonwealth in relation to the Office retirees. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of healthcare insurance premium not covered by the Office contribution. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

(b) Actuarial assumptions and methods

The total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Measurement Date	June 30, 2020
Actuarial cost method	Entry age normal.
Discount rate	2.21%
Mortality Assumption	Pre-retirement Mortality: For general employees not covered under Act 127, PubG-2010 Employee Mortality Rates, adjusted 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

The discount rate for June 30, 2020 was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index.

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

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

As an employer in the Plan, the Commonwealth is allocated its proportionate share of pension amounts as of the measurement date. The Commonwealth allocate its proportionate share to various internal organizations, including the Office. At June 30, 2021 the Office recorded a liability of approximately $2,011,000 for its proportionate share of 0.2299% of the Commonwealth’s total OPEB liability of approximately $874,628,000. For the year ended June 30, 2021, the Office recognized OPEB expense of approximately $274,000. The collective OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020. The Office's proportionate share for allocation of the Commonwealth's OPEB liability was based on the ratio of the Office's actual benefit payments for allocation of approximately $157,000 for the year ended June 30, 2020, relative to the Commonwealth's total benefit payments for allocation of approximately $68,178,000.

At June 30, 2021, the employer reported deferred outflows of resources of $159,800 resulting from amounts associated with benefits paid subsequent to the measurement date that will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2022.

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

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

The following presents the proportionate share of the Office's total OPEB liability as of June 30, 2021, calculated using the discount rate of 2.21%, as well as what the total OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.21%) or 1-percentage point higher (3.21%) than current rate:

		At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Total OPEB liability	$	2,217,693	2,011,530	1,837,331

(11) General Fund – Fund balance

At June 30, 2021, portions of the General Fund balances were committed and assigned for specific amounts as follows:

Fund balance		Amount
Committed:		
Repair of vehicles due to collision	$	299
Assigned:		
PayGo		989,688
Professional services		202,455
		1,192,143
Unassigned		9,812,000
	$	11,004,442

(12) Subsequent Events

The Office has evaluated subsequent events through March 8, 2023, the date that the financial statements were available to be issued.

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

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

On May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) that was created by U. S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in Title III Court.

On November 3, 2021, the Oversight Board filed the Eighth Amended Plan (Plan). On March 15, 2022, the Plan became effective.

For further information, refer to the final versions of the Eight Amended Plan, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Required Supplementary Information (Unaudited)

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

June 30, 2021

	2021*	**2020***	**2019***
Office's Proportion of the Commonwealth's Total Pension Liability	0.45116%	0.45657%	0.45159%
Office's Proportionate Share of the Commonwealth's Total Pension Liability	$126,640,984	$113,460,378	$110,591,530
**Office's covered-employee payroll	—	—	—
**Office's proportionate share of the Commonwealth's total pension liability as a percentage of the Office's covered-employee payroll	0.00%	0.00%	0.00%

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

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

**The Office has no practical way to determine the Office's covered-employee payroll for fiscal year ended on June 30, 2021.

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

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

Required Supplementary Information (Unaudited)

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

June 30, 2021

	2021*	**2020***	**2019***	**2018***	**2017***
Office's Proportion of the Commonwealth's total OPEB Liability	0.22999%	0.22763%	0.22867%	0.22717%	0.22528%
Office's Proportionate Share of the Commonwealth's total OPEB Liability	$2,011,530	$1,894,419	$1,925,752	$2,091,160	$2,669,825

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

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

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

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

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

Required Supplementary Information (Unaudited)

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

June 30, 2021

		Original budget	Final budget	Actual amounts (Budgetary basis)	Variance- favorable (unfavorable)
Revenue:					
Interest income	$	—	—	6,029	6,029
Other income		—	—	240	240
		—	—	6,269	6,269
Expenditures:					
Salaries and payroll-related expenditures		36,415,000	36,322,475	35,623,880	698,595
Facilities and payments of public services		671,000	671,000	594,952	76,048
Purchased services		3,171,000	3,171,000	2,963,905	207,095
Transportation expenditures		1,488,000	1,414,400	555,381	859,019
Professional services		994,000	994,000	656,688	337,312
Other expenditures		256,000	256,000	142,600	113,400
Materials and supplies		322,000	322,000	193,985	128,015
Capital outlays		50,000	123,600	116,029	7,571
Announcements and media communications required by law		20,000	20,000	14,214	5,786
		43,387,000	43,294,475	40,861,634	2,432,841
Other financing sources – transfers in:					
Commonwealth appropriations		43,387,000	43,387,000	43,387,000	—
Excess of revenue and other financing sources over expenditures	$	—	92,525	2,531,635	2,439,110

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

(1) Changes of benefit terms and assumptions

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

Changes in assumptions

In the revised June 30, 2020 actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019 actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

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

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

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

(2) Budgetary Control

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

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

The budgeted revenue presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Non-GAAP Budgetary Basis, consisted of a Legislative Appropriation, for the year ended June 30, 2021 for operational appropriations of $43,387,000.

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

The reconciliation of the expenditures between the budgetary basis and the GAAP basis is as follows:

Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Non–GAAP Budgetary Basis – General Fund	$	2,531,635
Plus current year encumbrances not recorded as expenditures under the modified-accrual basis		99,015
Less expenditures recorded against unencumbered appropriations carried forward from prior year		(407,477)
Less prior year encumbrances recorded as expenditures under the modified accrual basis		(107,041)
Change in Fund Balance according to the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	$	2,116,132

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