GOVERNMENT OF PUERTO RICO
PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE
COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS REQUIRED BY THE *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE)

Year Ended June 30, 2019

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Executive Director of
Puerto Rico Traffic Safety Commission
(An Executive Agency of the Commonwealth
of Puerto Rico)
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ('the Commission"**) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **Commission'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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 opinions.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions

<u>**Opinion Unit**</u>	<u>**Type of Opinion**</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund	Unmodified

Basis for Qualified Opinion on the Governmental Activities

Noncompliance with GASB Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No.68"* and GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2019. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Commission's** governmental activities has not been determined. Also, the **Commission's** financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the **Commission's** pension plan administrator has not provided the **Commission** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (**Commission's** measurement date), necessary to comply with the requirements of GASB No. 75 *"Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions"*, as of June 30, 2019. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Qualified Opinion on the Governmental Activities

In our opinion, except for the effect of the matter discussed in the "Basis for Qualified Opinion" paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the **Commission**, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the **Commission**, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in **Note 11,** the United States Department of Transportation (USDT) issued a request to the Commonwealth of Puerto Rico (CPR) and the **Commission** for the reimbursement of certain funds. A formal response to this reimbursement request was issued by the Secretary of the Department of Transportation of Puerto Rico (DTOP) to the USDT. No final determination has been issued by NHTSA in regard to this matter. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **5** through **14** 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 the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **Commission's** basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Management, Cost Principles and Audit Requirement for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, presented in page **43,** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2020, on our consideration of the **Commission's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 **Commission's** internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
March 6, 2020

Stamp No. 2758890 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

The following discussion and analysis of the financial performance and activity of the **Puerto Rico Traffic Safety Commission, An Executive Agency of the Commonwealth of Puerto Rico, ("the Commission")** provides an introduction and understanding of the basic financial statements of the **Commission** for the fiscal year ended June 30, 2019. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

- Total assets as of June 30, 2019, amounted to $3,431,697 and total liabilities amounted to $3,353,219.
- Net position at June 30, 2019 amounted to $78,478.
- Net position (deficit) increased by $323,563, from $(245,085) in 2018 to $78,478 in 2019.

The **Commission's** basic financial statements consist of two kinds of statements, each with a different view of the **Commission's** finances. The Government-Wide Financial Statements provide both long-term and short-term information about the **Commission's** overall financial position. The Fund Financial Statements focus on major aspects of the **Commission's** operations, reporting those operations in more detail than the government-wide statements.

Overview of the Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the **Commission's** basic financial statements. The **Commission's** basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the **Commission's** finances, in a manner similar to a private sector business. The statement of net position presents information on all of the **Commission's** assets and liabilities, 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 **Commission** is improving or deteriorating.

Government-wide financial statements (Continued)

The statement of activities presents information showing how the **Commission'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. The Government-Wide Financial Statements of the **Commission** can be found on pages **15** and **16** of this report.

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 **Commission**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the **Commission** are included in the 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, governmental fund financial statements focus on near- term inflows and outflows of spendable resources, as well on balances of spendable 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 funds 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 **Commission's** near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The **Commission** maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Special Revenue Fund.

The **Commission** received annual appropriated funds from the Commonwealth of Puerto Rico Automobile Accidents Compensations Administration (AACA) for its planning and administration expenditures in the General Fund.

Fund financial statements (Continued)

The Special Revenue Fund accounts for all funds received under federal grants from the U.S. Department of Transportation and restricted to specific programs.

The **Commission's** basic governmental fund financial statements can be found on pages **17** and **19** of this report.

Also, the reconciliation of the balance sheet of governmental funds to the statement of net position and the reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities can be found on pages **18** and **20**, respectively.

Notes to the financial statements

The notes to the 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 **21** through **40** of this report.

Government-wide overall financial analysis

Net position

As described before, net position over time, may serve as a useful indicator of a government's financial position at the end of the fiscal year. In the case of the **Commission**, the balance of total assets of the **Commission's** governmental activities exceeded the balance of total liabilities by $78,478 at June 30, 2019, resulting in a increase of $323,563 when compared to the net position (deficit) of $(245,085) as of June 30, 2018. As of June 30, 2019, the **Commission's** net position (deficit) includes an investment in capital assets amounting to $108,733 and a deficit of $(30,255).

The largest portion of the **Commission's** assets are the accounts receivable from federal grants, which represents 78.17% of total assets as of June 30, 2019. The **Commission** is the administrator of the National Highway Traffic Safety Administration (NHTSA) grants received from the US Department of Transportation as a pass-through agency. The **Commission** delegates funds to many agencies and municipalities of the Commonwealth of Puerto Rico and has the obligation of monitoring the proper use of those funds by sub-recipients.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A condensed summary of the statement of net position (deficit) of the governmental activities of the **Commission** as of June 30, 2019 and 2018 is as follows:

CONDENSED STATEMENTS OF NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2019 AND 2018

	2019	2018
Assets:		
Current assets	$ 3,322,964	$ 2,703,149
Capital assets, net	108,733	108,166
Total assets	3,431,697	2,811,315
Liabilities:		
Accounts payable and accrued liabilities	2,867,337	2,516,303
Accrued compensated absences and bonus	485,882	540,097
Total liabilities	3,353,219	3,056,400
Net position (deficit):		
Net invested in capital assets	108,733	108,166
Unrestricted (deficit)	(30,255)	(353,818)
Total net position (deficit)	$ 78,478	$ (245,085)

Total assets increased by $620,382 or 22.07% compared with prior fiscal year. This result was mainly caused by the effect of an increase in accounts receivable by $75,936 and the increase in cash and equivalents by $543,879. The largest portion of the **Commission's** assets are the accounts receivable from federal grants, which represent 78.17% of total assets as of June 30, 2019.

Changes in Net Position (Deficit)

The change in net position (deficit) of the **Commission's** governmental activities amounted to $323,563 during the year ended June 30 2019. Total revenues increased by $2,328,277 (29.89%), and total expenses increased by $2,105,974 (27.39%) in comparison with fiscal year 2018. Both increases are related to the increase of federal assistance to finance the operations of certain **Commission's** operational programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

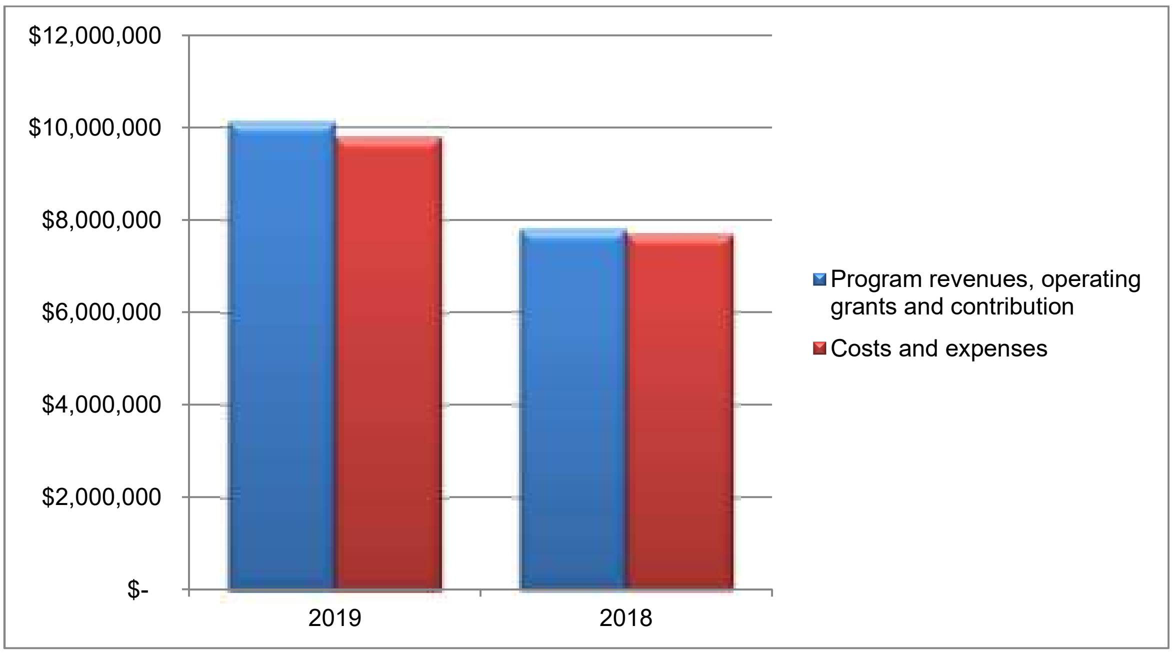
The following table presents a summary of revenues and expenses and changes of financial position (deficit) of governmental activities for the fiscal years ended June 30, 2019 and 2018.

CONDENSED STATEMENTS OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018	Change
Program Revenues:			
Operating grants and contributions	$ 10,117,607	$ 7,789,330	$ 2,328,277
Expenses:			
Planning and administration	1,579,832	1,880,493	(300,661)
Impaired driver	1,632,648	731,953	900,695
Youth impaired driver	655,744	499,012	156,732
Police traffic safety	386,290	371,171	15,119
Occupant protection	533,520	466,534	66,986
Community programs	668,759	657,842	10,917
Non-occupant safety	48,713	6,828	41,885
Traffic engineering	20,575	296,847	(276,272)
Paid media	3,280,980	2,000,162	1,280,818
Motorcycle safety	28,577	25,811	2,766
Fatality analysis reporting system	55,467	49,290	6,177
Traffic records	691,990	497,972	194,018
Distracting driving	210,949	204,155	6,794
Total expenses	9,794,044	7,688,070	2,105,974
Change in net position	323,563	101,260	222,303
Net position (deficit) at beginning of year	(245,085)	(346,345)	101,260
Net position (deficit) at end of year	$ 78,478	$ (245,085)	$ 323,563

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table shows the **Commission's** program revenues, operating grants and contributions for the fiscal years ended June 30, 2019 and 2018. Also, shows the costs and expenses incurred for those fiscal years.



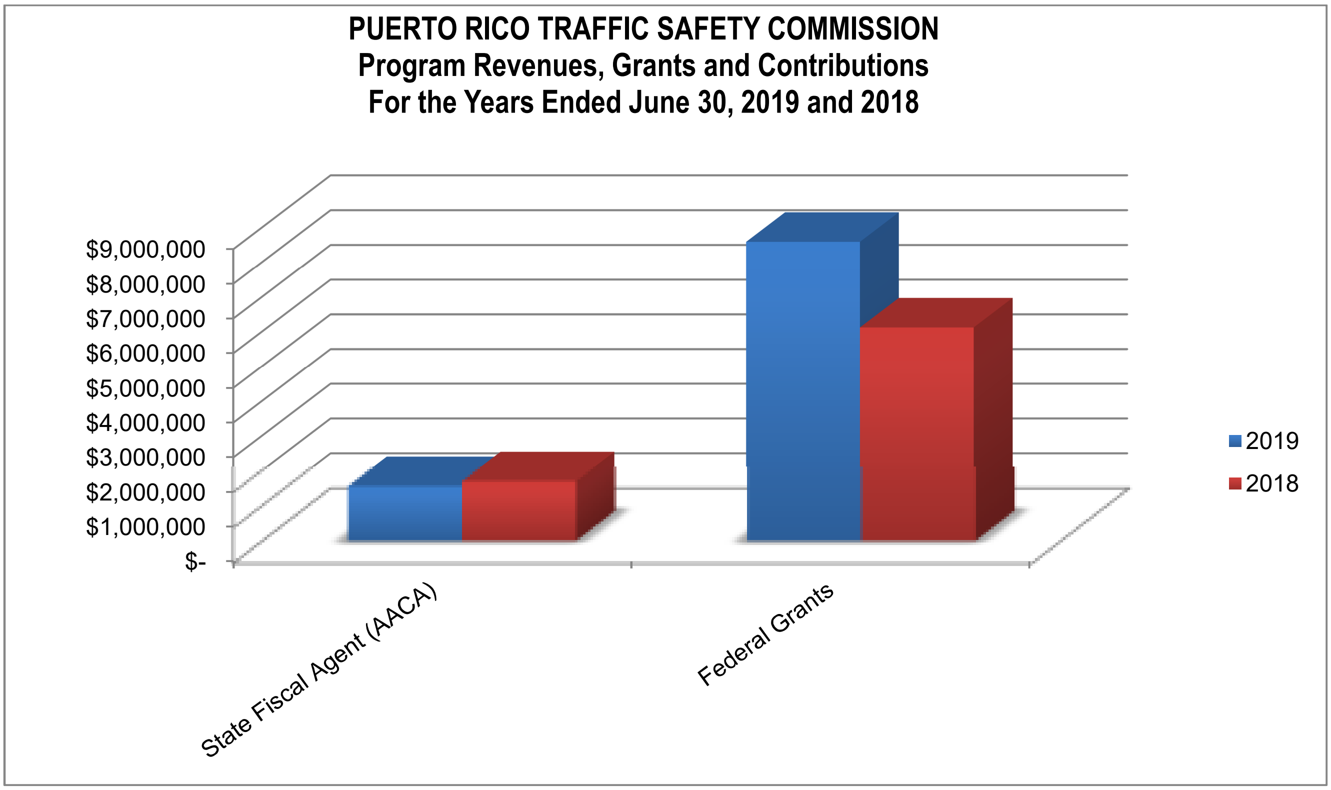
Program revenues and operating grants consist of state funds in the amount of $1,537,168, federal awards received from the NHTSA in the amount of $8,576,185 and other income amounting to $4,254. All of the **Commission's** programs are financed with federal awards received from NHTSA.

During the year ended June 30, 2019 total revenues increased by $2,328,277. The increase in total revenues was caused by an increase in federal awards by $2,467,300, a decrease in state funds by $131,164 and a decrease in other revenues by $7,859.

Also, total expenses increase by $2,105,974. This increase was mainly caused by the increase in impaired driver program by $900,695, the increase in paid media by $1,280,818, the increase in traffic record by $194,018, and the net decrease in other expenses incurred by $269,557.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

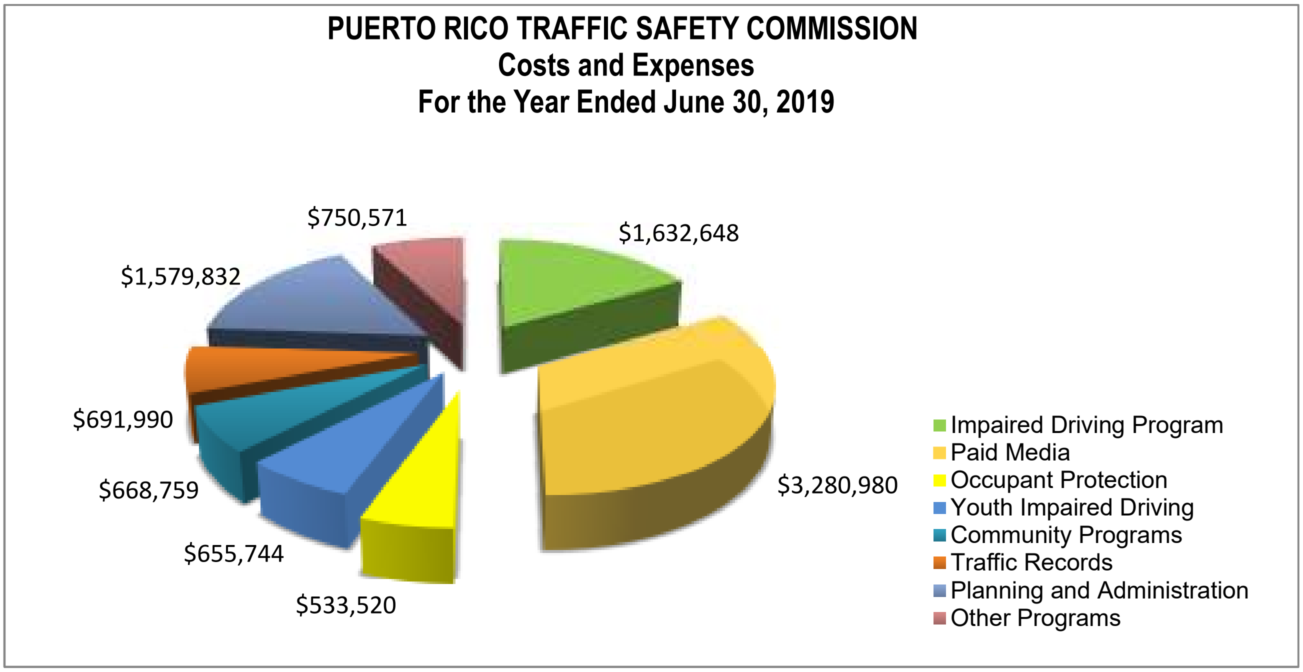
The following chart presents revenues comparison by program of the **Commission** activities for the years ended June 30, 2019 and 2018:



Planning and administration expenses consist principally of personnel compensation and related benefits and are financed principally with the state funds received from AACA and, with certain limitation, with federal awards received from NHTSA. All other programs are financed with funds received from NHTSA. The amount expended during the year depends on the amounts assigned or approved by NHTSA. These funds are restricted to specific activities pursuant to federal awards acts and regulations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following chart presents expenses by program of the **Commission** for the year ended June 30, 2019:



Financial Analysis of the Commission's Funds

The **Commission** uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the **Commission's** governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the **Commission's** financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of the end of the fiscal year 2019, the **Commission's** governmental funds reported combined ending fund balance amounting to $455,627, which represents an increase of $268,781 compared with the balance of prior fiscal year 2018.

The general fund is the primary operating fund of the **Commission**. At the end of the current fiscal year, assigned fund balance of the general fund amounted to $455,627.

For the year ended June 30, 2019, total general fund revenues amounted to $1,541,422, while total general fund expenditures amounted to $1,272,641.

Financial Analysis of the Commission's Funds (Continued)

General

Operating Budget

Under Act No. 14 of August 21, 1990, the Automobile Accidents Compensation Administration (AACA) shall appropriate and provide the **Commission** with funds needed for its operations. The **Commission** is required to prepare a budget each year to be presented to the AACA for approval. For the year ended June 30, 2019, the AACA approved a budget amounting to $1,685,628, to provide funds for the **Commission's** general fund operations.

Capital Assets and Debt Administration

The capital assets of the **Commission** are those assets that are used in the performance of its functions. The investments in capital assets (net of accumulated depreciation) as of June 30, 2019 amounted to $108,733. Additional information on the **Commission's** capital assets can be found in the **Note 5** of the basic financial statements on page **29** of this report.

Total accrued compensated absences and Christmas bonus owed by **Commission's** amounted to $485,882 as of June 30, 2019. Additional information on the **Commission's** long-term liabilities can be found in the **Note 8** of the basic financial statements on page **30** of this report.

Adoption of GASB Statements No. 73 and No. 75

The GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"*, requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 73. The **Commission's** pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not provided to the **Commission** the financial and technical information necessary for the proper recognition and reporting of its net pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the **Commission** could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the **Commission's** financial statements do not report or disclose the required information for its pension plan.

In addition, the **Commission's** pension plan administrator has not provided the **Commission** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (**Commission's** measurement date), necessary to comply with the requirements of GASB No. 75 *"Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions"*, as of June 30, 2019. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Economic Factors

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

As more fully explained in **Note 11** to the financial statements, the governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- ***Effect of Commonwealth***

  The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the **Commission's** finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information, contact the Commonwealth of Puerto Rico Traffic Safety **Commission**, Finance Department; P.O. Box 41289 Minillas Station, Santurce, Puerto Rico 00940.

	Governmental Activities
Assets	
Cash and cash equivalents	$ 638,813
Accounts receivable:	
Federal grants	2,682,717
Other	1,434
Capital assets net of accumulated depreciation	108,733
Total assets	3,431,697
Liabilities and net position	
Liabilities	
Accounts payable and accrued liabilities	2,652,655
Due to AACA	214,682
Long-term liabilities:	
Due within one year	59,613
Due in more than one year	426,269
Total liabilities	3,353,219
Net position (deficit)	
Net investment in capital assets	108,733
Unrestricted	(30,255)
Total net position	$ 78,478

The accompanying notes to basic financial statements
are integral part of this statement.

Functions / Programs	Costs and Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Programs direct Costs and expenses:			
Planning and administration	$ 1,579,832	$ 1,903,395	$ 323,563
Impaired driver program	1,632,648	1,632,648	-
Youth impaired driver	655,744	655,744	-
Police traffic safety	386,290	386,290	-
Occupant protection	533,520	533,520	-
Community programs	668,759	668,759	-
Non-occupant safety	48,713	48,713	-
Traffic engineering	20,575	20,575	-
Paid media	3,280,980	3,280,980	-
Motorcycle safety	28,577	28,577	-
Fatality analysis reporting system	55,467	55,467	-
Traffic record	691,990	691,990	-
Distracting driving	210,949	210,949	-
Total governmental activities	$ 9,794,044	$ 10,117,607	
Change in net position			323,563
Net position (deficit), beginning of year			(245,085)
Net position, end of year			$ 78,478

The accompanying notes to basic financial statements
are integral part of this statement.

	General Fund	Special Revenue Fund	Total
Assets			
Cash and cash equivalents	$ 101,463	$ 537,350	$ 638,813
Accounts receivable:			
Federal grants	-	2,682,717	2,682,717
Due from other fund	806,487	-	806,487
Other	1,434	-	1,434
Total assets	$ 909,384	$ 3,220,067	$ 4,129,451
Liabilities and fund balance			
Liabilities			
Accounts payable and accrued liabilities	$ 242,106	$ 2,410,549	$ 2,652,655
Due to other fund	-	806,487	806,487
Due to AACA	211,651	3,031	214,682
Total liabilities	453,757	3,220,067	3,673,824
Fund balances			
Assigned	455,627	-	455,627
Total fund balances	455,627	-	455,627
Total liabilities and fund balances	$ 909,384	$ 3,220,067	$ 4,129,451

The accompanying notes to basic financial statements
are integral part of this statement.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2019

Total fund balances of governmental funds	$ 455,627
Amounts reported to governmental activities in the Statement of Net Position (Deficit) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements	108,733
Liability of accrued compensated absences is not to be paid with current financial resource, therefore, is not reported in the fund financial statements	(485,882)
Net position of governmental activities	$ 78,478

The accompanying notes to basic financial statements are integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	Special Revenue Fund	Total
REVENUES:			
Annual appropriations from the			
State fiscal agent	$ 1,537,168	$ -	$ 1,537,168
Federal grants	-	8,576,185	8,576,185
Other	4,254	-	4,254
Total revenues	1,541,422	8,576,185	10,117,607
EXPENDITURES:			
Planning and administration	1,272,641	361,973	1,634,614
Impaired driver	-	1,632,648	1,632,648
Youth impaired driver	-	655,744	655,744
Police traffic safety	-	386,290	386,290
Occupant protection	-	533,520	533,520
Community programs	-	668,759	668,759
Non-occupant safety	-	48,713	48,713
Traffic engineering	-	20,575	20,575
Paid media	-	3,280,980	3,280,980
Motorcycle safety	-	28,577	28,577
Fatality analysis reporting system	-	55,467	55,467
Traffic record	-	691,990	691,990
Distracting driving	-	210,949	210,949
Total expenditures	1,272,641	8,576,185	9,848,826
NET CHANGE IN FUND BALANCE	268,781	-	268,781
FUND BALANCE, BEGINNING	186,846	-	186,846
FUND BALANCE, END OF YEAR	$ 455,627	$ -	$ 455,627

The accompanying notes to basic financial statements
are integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Net change in fund balance-total governmental funds	$ 268,781
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense for the fiscal year.	567
Decrease in accrued compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.	54,215
Change in net position of governmental activities	$ 323,563

The accompanying notes to basic financial statements
are integral part of this statement.

Note 1 – Governmental environment

Reporting Entity

The **Puerto Rico Traffic Safety Commission (the Commission)** is an agency of the Commonwealth of Puerto Rico created by the Act No. 33 of May 25, 1972, as amended, to plan, coordinate and evaluate the Highway Safety Programs carried out by various governmental agencies in Puerto Rico in conjunction with civic organizations and communication media.

On August 21, 1990, the Legislature of Puerto Rico enacted Act No. 14 amending Act No. 33 of May 25, 1972. Under this legislation, the Automobile Accidents Compensations Administration (AACA) is a public corporation and a component unit of the Commonwealth of Puerto Rico, shall appropriate and provide the **Commission** with the funds needed for its operations. The **Commission** is required to prepare a budget each year that will be presented to AACA for approval. The **Commission** is included for financial reporting purposes as an agency fund in the financial statements of AACA, which is included as a non-major component unit in the Commonwealth of Puerto Rico's financial statements.

The basic financial statements of the **Commission** are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the **Commission**. It does not intend to, and does not present fairly, the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

In determining its financial reporting entity, the **Commission** has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the **Commission**, or the significance of their relationship with the **Commission** are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability and other legally separate organizations for which the **Commission** is not financially accountable but the nature and significance of their relationship with the **Commission** may be such that exclusion of their basic financial statements from those of the **Commission** would cause the accompanying basic financial statements to be misleading or incomplete. These criteria include: (1) appointing a voting majority of an organization's governing body and the ability of the **Commission** to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens to the **Commission**; (2) the economic resources for which the **Commission** is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the **Commission**. Based on the above criteria, there are no potential component units which should be included in the basic financial statements for the fiscal year ended June 30, 2019.

Note 2 – Summary of significant accounting policies

a. GASB 34

The accompanying basic financial statements of the **Commission** have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standard Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB No. 34). This statement establishes financial reporting requirements for state and local governments. The **Commission** has adopted the provisions of GASB No. 34 as well as others statements referred to below.

b. Basic of presentation – fund accounting

The accounts of the **Commission** are organized on the basis of governmental fund. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the **Commission's** current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

c. Governmental fund

The **Commission** reports the following major governmental funds:

General fund – This is the **Commission's** primary operating fund. It reflects transactions related to resources received from the AACA, which are expended for those services traditionally provided by a government and that are not accounted for in any other fund.

Special revenue fund – This fund accounts for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provides funds, or by outside parties. This fund accounts for substantially all federal monies received by the **Commission**.

Note 2 – Summary of significant accounting policies (Continued)

d. Measurement focus and basis of accounting

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements. The governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated, while available means collectible within the current period or in a soon enough period after the balance sheet date to pay current budget period expenditures. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

e. Government-wide

The Government-Wide financial statements include the Statement of Net Position and the Statement of Activities and display information of all the activities of the **Commission** as a whole. The **Commission's** activities are considered governmental type. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

f. Net position

Net position is the difference between assets and liabilities in government-wide financial statements. Net position might be reported in three (3) categories:

1) **Net investment in capital assets** – it consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt that is attributable to the acquisition, construction or improvements of those assets.

2) **Restricted net position** – results when constraints placed on net position's use is externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

3) **Unrestricted net position** - it consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

Note 2 – Summary of significant accounting policies (Continued)

f. Net position (Continued)

The **Commission's** governmental activities generally are financed through local and federal intergovernmental revenues and other non-exchange revenues. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and annual budget appropriations and allocations by AACA.

g. Net position flow assumption

Sometimes, the **Commission** will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the **Commission's** policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

h. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Cash with fiscal agent

The **Commission's** cash with fiscal agent consists of demand deposits in a commercial bank and mainly held by AACA.

j. Receivables

Receivables in the special revenue fund represent amounts owed to the **Commission** for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

Note 2 – Summary of significant accounting policies (Continued)

k. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

In the government-wide Statement of Net Position, the **Commission** reports deferred outflows/inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

2. **Implementation of GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"** – Amounts reported for changes in the calculation of the total pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between **Commission's** contributions and proportionate share of contributions; and e) **Commission's** contributions subsequent to the measurement date.

In the governmental funds Balance Sheet, the **Commission** reports deferred inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

Note 2 – Summary of significant accounting policies (Continued)

k. Deferred outflows/inflows of resources (Continued)

2. **Unavailable revenue reported under the modified-basis of accounting – Amounts are** recognized as unavailable revenue from the following sources: property taxes, sales and use taxes and intergovernmental revenues collected or to be collected after the availability period. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the FFS.

l. Capital assets

All buildings and infrastructure occupied by the **Commission** are recorded as capital assets in the accounting records of other Agencies of the Commonwealth of Puerto Rico and of other private entities. Accordingly, all major modernizations and betterments, if any, done by the **Commission** are charged to expenditures in its fund accounting and reported as expense in the government-wide statements when incurred.

All other assets used in the governmental operations are accounted for in the government-wide financial statements of net position, rather than in the governmental funds. When capital assets are purchased, they are recorded as expenditures in the governmental funds. Fixed assets are stated at cost. When assets are sold, retired or otherwise disposed of, the cost is removed. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from five (5) to ten (10) years.

Also, the **Commission** periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.

m. Non-exchange transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" established accounting and financial reporting standards for non- exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

Note 2 – Summary of significant accounting policies (Continued)

n. Accounting for pension costs

Effective on July 1, 2017, the **Commission** and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Paygo payments are recorded as expenditures\expenses in the financial statements. Accordingly, at that date, the **Commission** shall implement the requirements set forth by GASB Statement No. 73 *"Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"*

o. Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the **Commission** starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 basic financial statements, nor has it provided to the **Commission** with the required information to implement the referred accounting pronouncement. The **Commission's** contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). Paygo payments are recorded as expenditures\expenses in the financial statements.

p. Vacation and sick leave

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days. The estimated values of leave earned by employees, that may be used in subsequent years or paid upon termination or retirement, are accounted for in the governmental activities Statement of Net Position rather than in the governmental funds.

Note 2 – Summary of significant accounting policies (Continued)

q. Fund balance reporting

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the General Fund and Special Revenue Fund are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the Special Revenue Fund have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. GASB No. 54 requires the fund balance amounts to be properly reported within one of the fund balance category listed below:

Non-spendable fund balance - such as balance is associated with inventories, prepaids and long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted fund balance - this category includes amounts that can be spent only for the specific purpose stipulated by constitution, external source providers, or through enabling legislation.

Committed fund balance – this classification includes amounts that can be used only for specific purposes determined by a formal action of the **Commission's** highest level of decision making authority.

Assigned fund balance – this classification in intended to be used by the government for specific purposes that do not meet the criteria to be committed.

Unassigned fund balance – is the residual classification for the government's general fund and includes all expendable amounts not contained in the other classifications.

r. Fund balance flow assumptions

Sometimes, the **Commission** will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the **Commission's** policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Note 3 – Risk financing

The **Commission** carries commercial insurance to cover casualty, theft, claims and other losses. The **Commission's** current insurance policies have not been cancelled or terminated. Also, the Commission pays premiums for workers compensation to the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, which provides workers compensation to the **Commission's** employees in case of injuries in the workplace.

Note 4 – Cash

Cash at June 30, 2019 consist of **Commission's** state and federal awards funds which are deposited in a commercial bank and held in custody by AACA in accordance with the requirements of Act No. 33 of the Commonwealth of Puerto Rico, as amended.

Note 5 – Capital assets

Capital assets' activity of the **Commission** for fiscal year ended June 30, 2019 was as follows:

	Balance as of July 1, 2018	Additions	Reclassifications and Retirements	Balance as of June 30, 2019
Capital assets being, depreciated:				
Equipment	$ 489,555	$ 44,688	$ (59,933)	$ 474,310
Vehicles	125,490	-	(28,516)	96,974
Total capital assets being depreciated	615,045	44,688	(88,449)	571,284
Less accumulated depreciation:				
Equipment	(398,771)	(30,886)	59,765	(369,892)
Vehicles	(108,108)	(13,067)	28,516	(92,659)
Total accumulated depreciation	(506,879)	(43,953)	88,281	(462,551)
Capital assets, net of accumulated depreciation	$ 108,166	$ 735	$ (168)	$ 108,733

Depreciation expense amounting to $43,953 was charged to the planning and administrative expense function on the Statement of Activities for the year ended June 30, 2019. The **Commission** follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The **Commission** did not recognize any impairment loss during the fiscal year ended June 30, 2019.

Note 6 – Interfund receivable/payable

Interfund receivable/payable at June 30, 2019 consists of advances made by the General Fund to the Special Revenue Fund for the payment of program expenditures. The Special Revenue Fund has reimbursed most of the advances received from the general fund after June 30, 2019.

Note 7 – Due to AACA

The **Commission** has an account payable of $214,682 with the AACA. This represents amounts provided, with a requirement for repayment, to cover certain expenses/expenditures in excess of related revenue or grant.

Note 8 – Long-term liabilities

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

	Balance as of June 30, 2018	Net Change	Balance as of June 30, 2019	Due within One year
Accrued vacations and sick leave	$ 526,447	$ (52,815)	$ 473,632	$ 47,363
Christmas bonus	13,650	(1,400)	12,250	12,250
	$ 540,097	$ (54,215)	$ 485,882	$ 59,613

Note 9 – Pension plan

Plan General Description and Retirement System Reform

The **Commission** is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

Note 9 – Pension plan (Continued)

Plan General Description and Retirement System Reform (Continued)

- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a “covered instrumentality” pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth’s fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS’s severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the “District Court”).

Act No. 106 of August 23, 2017 (“Act 106”) was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS’s governance, effective on July 1, 2017. Those dispositions are summarized as follows:

Note 9 – Pension plan (Continued)

Plan General Description and Retirement System Reform (Continued)

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the Comission) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2018-2019 the **Commission** was billed and recognized as PayGo charges expenditures for $288,899.

Note 9 – Pension plan (Continued)

Plan General Description and Retirement System Reform (Continued)

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2019, employees' contributions amounted to $114,424.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.

Note 9 – Pension plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73

As discussed above, pursuant to Act No. 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition benefit payments are made through a "PayGo" funding administered by the PRDT. As a result the plans operated by ERS, under various benefit structures prior to July 1, 2017, are administered through a trust that do not meet the requirements of GASB Statement No. 68. Instead, since that date, the employers are subject to the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*. However, the ERS have not provided the **Commission** with the audited actuarial and financial information necessary to comply with the requirements of GASB Statement No. 73 as of June 30, 2018. As a result, amounts that shall be reported as deferred outflows \inflows of resources related to pensions and pension liability in the government-wide financial statements had not been accounted for by the **Commission.** In addition, applicable disclosures and required supplementary information under the provisions of GASB Statement No. 73 have been omitted.

Note 10 – Other Postemployment Benefits (OPEB)

Plan description

The **Commission** is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth.

Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Note 10 – Other Postemployment Benefits (OPEB) (Continued)

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The **Commission's** contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the **Commission** with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (**Commission's** measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Note 11 – Contingencies

Litigation and claims

The Law No. 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors and other may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the General Fund. However, the Secretary of the Treasury has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants. The **Commission** is involved in litigation arising in the normal course of operations. The **Commission** believes that the ultimate liability, if any, in connection with these matters will not have a material effect on the **Commission's** financial position and results of operations.

Note 11 – Contingencies (Continued)

Federal awards

The **Commission** participates in a number of federal assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor.

Claim from NHTSA

On May 18, 2011, the National Highway Traffic Safety Administration (NHTSA) designated the **Commission** as high risk grantee due to lack of compliance with terms and conditions of highway safety grants awards. When this designation was notified, NHTSA was questioning the expenditure of approximately $5,119,737 related to the programs in Sections 154 and 164 of Alcohol-Impaired Driving Fund. Subsequent reviews resulted in allegations of additional improper grant expenditures related to the funds under Sections 154, 164 and 410 used to purchase vehicles in the fiscal years 2009 and 2010 amounting to $796,190. NHTSA argues that the **Commission** and the Commonwealth of Puerto Rico (CPR) were unable to substantiate the use of the grant funds in accordance to federal regulations. The total questioned costs assessed by the NHTSA amounted to $5,915,927.

Based on the above, on June 4, 2014, the US Department of Transportation (USDT) issued a formal request to the CPR and the **Commission** for the reimbursement of those funds.

On October 1, 2014, a formal response to the reimbursement request issued by the USDT was made by the Secretary of the Department of Transportation and Public Works of Puerto Rico (DTOP). The Secretary argues that the repayment of the amount requested would hinder the major accomplishments being made by the **Commission** in the reduction of alcohol-impaired deriving related deaths, crashes and injuries. As an alternative, the Secretary requested a payment credit for various expenditures made by the CPR on related matters.

On November 2, 2016, as a result of coordinated and comprehensive efforts between NHTSA and the **Commission**, the designation of a high risk grantee was removed.

At the date of the financial statements, the course of action for the resolution of the reimbursement request is still under NHTSA scrutiny. No formal answer to the credit request has been issued by NHTSA.

Effect of Commonwealth fiscal conditions

The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

Note 11 – Contingencies (Continued)

Effect of Commonwealth fiscal conditions (Continued)

Based on the information available from the Commonwealth related to the implementation of its remediation plans as of the date hereof, we cannot conclude about the ultimate outcome of the Commonwealth's fiscal condition in future fiscal periods and the corresponding effect on future revisions of its fiscal plans or additional mitigation measures.

Note 12 – Commitments

Operating leases - The **Commission** leases office and parking space, and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the **Commission's** option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2019 amounted to approximately $38,403.

Note 13 – Adoption of new accounting pronouncements

Effective July 1, 2018, the **Commission** adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, *"Certain Asset Retirement Obligations"*:** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- **GASB Statement No. 88, *"Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements"*:** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Note 13 – Adoption of new accounting pronouncements

- **GASB Statement No. 88, *"Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements"* (Continued):**

  This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Note 14 – Future adoption of accounting pronouncements

- **GASB Statement No. 84, *"Fiduciary Activities"*:** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

- **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 reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Note 14 – <u>Future adoption of accounting pronouncements (Continued)</u>

- **GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the End of a Construction Period"*:** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement.

  This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

  This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 90, *"Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61"*:** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

  A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

Note 14 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 90, *"Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61" (Continued)*:**

  This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.
  The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- **GASB Statement No. 91, *"Conduit Debt Obligations" -*** The primary objectives of this Statement are 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. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Note 14 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 92, "*Omnibus 2020*"**

  Effective Date: The requirements of this Statement are effective as follows:

  - The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
  - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
  - The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
  - The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

  Earlier application is encouraged and is permitted by topic.

The impact of the implementation of these statements on the **Commission's** financial statements, if any, has not yet been determined.

Note 15 – Subsequent events

Subsequent events were evaluated through March 6, 2020, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted.

	Budget Amounts		Actual Amounts	Variance
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues				
AACA appropriations	$ 1,659,000	$ 1,659,000	$ 1,537,168	$ (121,832)
Other	23,931	26,628	4,254	(22,374)
Total revenues	1,682,931	1,685,628	1,541,422	(144,206)
Expenditures				
Salaries and fringe benefits	1,527,980	1,527,980	1,144,608	383,372
Professional services	58,000	50,718	41,040	9,678
Capital outlays	3,000	14,000	13,257	743
Supplies	10,000	6,000	4,710	1,290
Rent	20,500	22,547	21,663	884
Repairs and maintenance	6,000	4,265	3,265	1,000
Other	57,451	60,118	53,384	6,734
Total expenditures	1,682,931	1,685,628	1,281,927	403,701
Excess of expenditures over revenues	$ -	$ -	$ 259,495	$ 259,495

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Budgetary Comparison Schedule – General Fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. It presents comparisons of the legally adopted budget with actual data on a budgetary basis. The **Commission's** budget is prepared for the General Fund following state requirements. Budget amendments are approved by the AACA, the fiscal agent. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and are generally recognized when cash is received. Expenditures include encumbrances and amounts classified by GAAP as other financing uses and are generally recorded when the related expenditure is incurred or encumbered. Unencumbered appropriations lapse at year end.

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds as a designation of fund balance since they do not constitute expenditures or liabilities, while on a budgetary basis encumbrances are recorded as expenditures of the current year. On the other hand, under the statutory basis of accounting, the **Commission** uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The presentation of the budgetary data excludes long-term obligations such as compensated absences and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay-as-you-go basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2019 is presented below for the general fund:

Uses / outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	$ 1,281,927
Expenditures considered for budget but not for GAAP	(9,286)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance – governmental funds	**$ 1,272,641**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through To Sub-recipients	Federal Expenditures
US Department of Transportation / National Highway Traffic Safety Administration				
Highway Safety Cluster:				
State and Community Highway Safety Program	20.600	N/A	$ 848,594	$ 2,423,716
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	N/A	211,634	572,174
State Traffic Safety Information System Improvements Grants	20.610	N/A	36,236	54,002
National Priority Safety Program	20.616	N/A	1,464,347	3,759,807
Total Highway Safety Cluster			2,560,811	6,809,699
Alcohol Open Container Requirements	20.607	N/A	350,261	423,957
Minimum Penalties for Repeated-Offenders for Driving While Intoxicated	20.608	N/A	898,934	1,287,063
NHTSA Discretionary Safety Grants - Fatality Analysis Reporting System	20.614	N/A	-	55,466
Total Expenditures of Federal Awards			$ 3,810,006	$ 8,576,185

The accompanying notes are an integral part of this Schedule.

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the funds expended by the **Commission** from all federal programs for the year ended June 30, 2019. The **Commission's** reporting entity is defined in **Note 1** to the financial statements.

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some of the amounts presented in the schedule may differ from the amounts presented in, or used in the presentation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the **Commission**, it is not intended to and does not present the financial position and changes in net position of the **Commission**.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the modified basis of accounting. Expenditures are recognized when the related liability is incurred following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the **Commission**, known as "pass-through awards" should be treated by the **Commission** as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

RECONCILIATION TO FINANCIAL STATEMENTS

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has being reconciled to the information reported in the **Commission's** basic financial statements.

INDIRECT COST RATE

The **Commission** has elected not to use the ten percent of the minimums indirect cost rate allowed under the Uniform Guidance.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' 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 Executive Director of
Puerto Rico Traffic Safety Commission
(An Executive Agency of the
Commonwealth of Puerto Rico)
San Juan, 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 the governmental activities and each major fund of **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ("the Commission")** as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the **Commission's** basic financial statements and have issued our report thereon dated March 6, 2020. The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, pension plan liability, pension expense, and related note disclosures required for the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosure required for the implementation of GASB Statement No. 75.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Commission'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 **Commission's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Commission'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item **2019-001** that we consider to be a significant deficiency.

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INDEPENDENT AUDITORS' 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 (CONTINUED)*

Compliance and other matters

As part of obtaining reasonable assurance about whether the **Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2019-001.**

Commission's Response to Findings

Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Commission's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 **Commission'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 **Commission's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC
San Juan, Puerto Rico
March 6, 2020

Stamp No. 2758891 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Executive Director of
Puerto Rico Traffic Safety Commission
(An Executive Agency of the
Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico)** (**"the Commission"**) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have direct and material effect on each of the **Commission's** major federal programs for the year ended June 30, 2019. The **Commission's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the **Commission's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Commission's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Commission's** compliance.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Opinion on Each Major Federal Program

In our opinion, the **Commission** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the **Commission** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Commission's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Commission's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance (Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 6, 2020

Stamp No. 2758892 of the
Puerto Rico Society of Certified
Public Accountants was affixed
to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Opinion Unit	Type of Opinion
Governmental Activities	**Qualified**
General Fund	**Unmodified**
Special Revenue Fund	**Unmodified**

Internal control over financial reporting:		
Material weakness (es) identified?	☐Yes	☒No
Significant deficiency (ies)?	☒Yes	☐None Reported
Noncompliance material to financial statements noted?	☒Yes	☐No

Federal awards

Internal Control over major programs:		
Material weakness (es) identified?	☐Yes	☒No
Significant deficiency (ies)?	☐Yes	☒No

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a) of the Uniform Guidance?	☐Yes	☒No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.600, 20.601, 20.610, 20.616	Highway Safety Cluster
20.608	Minimum Penalties for Repeated Offenders for Driving While Intoxicated

Dollar threshold used to distinguish between Type A and Type B programs **$750,000**

Auditee qualified as low-risk auditee?	☐Yes	☒No

Section II – Financial Statements Findings

Finding Reference	**2019-001**
Requirement:	**Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75**
Type of Finding:	**Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)**

This finding is similar to prior years finding 2018-001 and 2017-001.

Statement of Condition

Management has not implemented the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Commission's** governmental activities has not been determined.

In addition, the **Commission's** financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Commission's** governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Criteria

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the **Commission** report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II – Financial Statements Findings

Finding Reference	**2019-001 (Continued)**
Criteria (continued)	Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.
Cause of Condition	The **Commission's** pension plan administrator has not provided the financial and technical information necessary for the properly implement the requirements set forth in of the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2019.
Effect of Condition	The **Commission's** Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the **Commission** for the fiscal year ended June 30, 2019. Also, the required supplementary information has been omitted.
Recommendation	We recommend the **Commission** maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.
Questioned Cost	None

Section III - Federal Awards Findings and Questioned Costs

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the federal awards that are required to be reported in accordance with the OMB Uniform Guidance.

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2018 – June 30, 2019

Fiscal Year: 2018-2019

Principal Executive: Lic. Darelis López Rosario, Executive Director

Contact Person: Lic. Darelis López Rosario, Executive Director

Phone: (787) 721-1600

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-001	We concur with the finding.	We concur with the auditors' recommendations. The **Commission** is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards. Implementation Date: During the 2019-2020 fiscal year Responsible Persons: Ms. Brenda L. López Arce Accountant

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Lic. Darelis López Rosario

March 6, 2020
DATE

Finding Reference: 2018-001 and 2017-001

Finding Type: **Financial Reporting**

Statement of Condition:

The **Commission's** pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2018.

Accordingly, the **Commission** has not implemented the accounting and financial reporting requirements for pensions that are set forth in the GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Commission's** governmental activities has not been determined.

In addition, the **Commission's** financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Commission's** governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Status:

Still prevails. The same situation was identified during the audit of the fiscal year ended on June 30, 2019.