

**SUPERINTENDENCE OF THE
CAPITOL BUILDING**

(An Office of the Legislature of the
Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information

June 30, 2019

SUPERINTENDENCE OF THE CAPITOL BUILDING

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INDEPENDENT AUDITOR'S REPORT

To the Superintendent
Mr. Cesar Hernández
Superintendence of the Capitol Building
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund information of Superintendence of the Capitol Building ("The Superintendence"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Superintendence's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Superintendence as of June 30, 2019, and the respective changes in financial position for the year then ended in conformity with Accounting Principles Generally Accepted in the United States of America.

Other Matters

Required Supplementary Information Omitted

The Superintendence has omitted the schedules and ratios required by GASB Statement 73, information that Accounting Principles Generally Accepted in the United States of America requires 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 the 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 the missing information.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America requires that the Management's Discussion and Analysis on pages 4 to 9 and Budgetary Comparison Information on pages 47 to 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2021 on our consideration of the Superintendence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Carolina, Puerto Rico
September 16, 2021

Aquino, De Córdova, Alfaro & Co. LLP

Stamp number E466467
of Puerto Rico CPA Society
has been affixed to the
original report



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

Management's Discussion and Analysis

Management of the Superintendence of the Capitol Building ("The Superintendence") provides this Management's Discussion and Analysis ("MD&A") as a narrative overview and analysis of the financial activities of the Superintendence for the fiscal year ended June 30, 2019. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Superintendence's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. Since the MD&A is designed to focus on the current year activities, we encourage readers to review this information together with the Superintendence's basic financial statements that follow.

Financial Highlights

Government-Wide Financial Statements

- The Superintendence's net position increased by \$10,449,724 during the fiscal year and amounted to \$89,497,630 at June 30, 2019.
- The total assets of the Superintendence decreased by \$8,140,417 during the fiscal year. This fluctuation is mainly attributable to the decrease in current assets by (\$5,433,066) and the net decrease in capital assets of (\$2,707,351).
- The total liabilities of the Superintendence amounted in fiscal year 2019 to \$15,118,808 and it's mainly comprised of the accrual required under GASB No. 34 for compensated absences, accrual required under GASB No. 75 and accrual required under GASB No. 73 for pension liability in the amount of \$2,178,071, \$333,249 and \$10,382,692 respectively, which represent 85% of total liabilities. The Superintendence has the resources to meet its ongoing obligations, based on the budget assigned by the Legislature, including the liabilities for accrued vacations and sick leave.

Fund Financial Statements

- The total fund balance of the Superintendence's general fund (the primary operating fund) reflected, on a current financial resources basis, a increase of \$3,712,061 during the fiscal year and therefore final fund balance amounted to \$3,096,246 at June 30, 2019.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Superintendence's basic financial statements. The Superintendence's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements. This report also contains required supplementary information (Schedule of Revenues and Expenditures- Budget to Actual- General Fund). These components are described below.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

Government-Wide Financial Statements

The government-wide financial statements are designed to provide users of the basic financial statements with a broad overview of the Superintendence's finances in a manner similar to the private sector business. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. These statements present short and long-term information about the Superintendence's financial position, which assists in assessing the Superintendence's economic condition at the end of the year. The government-wide financial statements include two statements:

- **Statement of Net Position**- This presents all of the Superintendence's assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator of whether the financial position of the Superintendence is improving or deteriorating.
- **Statement of Activities** - This presents information showing how the Superintendence'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 the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in future fiscal periods.

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 Superintendence, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Superintendence and report the operations in more detail than the government-wide financial statements.

- **Governmental Funds Financial Statements** - 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. They also focus on the balances of spendable resources at the end of the fiscal year. Such information is useful in evaluating the Superintendence's near-term financial requirements. This approach is known as using the flow of the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Superintendence that assists in determining whether there will be adequate financial resources available to meet the current needs of the Superintendence.

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, users of the basic financial statements may better understand the long-term impact of the Superintendence's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

The Superintendence has two major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in net position. The Superintendence's two major governmental funds are the General Fund and the Capital Projects Fund.

Notes to Basic Financial Statements

The notes to the basic 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 basic financial statements can be found immediately after the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, immediately following its notes. This section includes a budgetary comparison schedule, and also a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS

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

Net Position

The Statement of Net Position serves over time as a useful indicator of the Superintendence's financial position at the end of the fiscal year. The Superintendence's net position increased by \$10,449,724. The Superintendence's net position includes net investment in capital assets of \$98,946,807 and, restricted and unrestricted deficit of \$415,795 and (\$9,864,972), respectively. The following are the condensed statements of net position as of June 30, 2019 and 2018.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Assets:				
Current assets	\$ 5,354,404	\$ 10,787,470	\$ (5,433,066)	-50%
Capital assets, net	<u>98,946,807</u>	<u>101,654,158</u>	<u>(2,707,351)</u>	-3%
Total assets	<u>104,301,211</u>	<u>112,441,628</u>	<u>(8,140,417)</u>	-7%
Deferred outflows of resources	969,723	892,025	77,698	9%
Liabilities:				
Current liabilities	2,873,295	11,392,625	(8,519,330)	-75%
Noncurrent liabilities	<u>12,245,513</u>	<u>10,646,237</u>	<u>1,599,276</u>	15%
Total liabilities	<u>15,118,808</u>	<u>22,038,862</u>	<u>(6,920,054)</u>	-31%
Deferred inflows of resources	654,496	12,246,885	(11,592,389)	-95%
Net Position:				
Invested in capital assets, net of related debt	98,946,807	89,660,633	9,286,174	10%
Restricted	415,795	3,122,103	(2,706,308)	-87%
Unrestricted	<u>(9,864,972)</u>	<u>(13,734,830)</u>	<u>3,869,858</u>	-28%
Total net position	<u>\$ 89,497,630</u>	<u>\$ 79,047,906</u>	<u>\$ 10,449,724</u>	13%

Capital Assets

The Superintendence's investment in capital assets for its governmental activities amounted to \$98,946,807 and \$101,654,158 for 2019 and 2018, respectively, net of accumulated depreciation. This investment in capital assets includes works of arts, construction in progress, equipment, computer equipment and software, furniture and vehicles. Actual expenditures to purchase or construct capital assets from the Superintendence's governmental activities for the fiscal year ended June 30, 2019 and 2018 were \$2,108,793 and \$7,911,405, respectively.

Depreciation charges from the Superintendence's governmental activities were \$4,644,408 and \$4,576,132 for the fiscal year ended June 30, 2019 and 2018, respectively.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

Condensed Statement of Activities

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	\$ 19,974,748	\$ 19,631,410	\$ 343,338	2%
Revenues:				
Legislative appropriations	12,904,363	15,147,840	(2,243,477)	-15%
Legislative Assembly service charges	1,782,431	252,166	1,530,265	607%
Contribution from Commonwealth	14,698,244	601,727	14,096,517	2343%
Other Revenue	1,039,434	237,758	801,676	337%
Total revenues	<u>30,424,472</u>	<u>16,239,491</u>	<u>14,184,981</u>	<u>87%</u>
Net change in net position	10,449,724	(3,391,919)	13,841,643	-408%
Net position at beginning of year	<u>79,047,906</u>	<u>82,439,825</u>	<u>(3,391,919)</u>	<u>-4%</u>
Net position at end of year	<u>\$ 89,497,630</u>	<u>\$ 79,047,906</u>	<u>\$ 10,449,724</u>	<u>13%</u>

Changes in Net Position

The preceding condensed statements of activities reflect how the Superintendence's net position changed during the fiscal years ended June 30, 2019 and 2018.

The Superintendence's major expense is related to salaries, benefits and payroll taxes, which represents 25% and 21% of total expenses for the fiscal years ended June 30, 2019 and 2018, respectively.

Governmental Funds Highlights

The focus of the Superintendence's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Superintendence's financing requirements. In addition, fund balances for governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the Superintendence is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of the end of the fiscal year 2019, the Superintendence's governmental funds reported a combined ending balance of \$3,179,608. The general fund is the principal operating fund of the Superintendence. There are restricted fund balances amounting to \$332,433. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. Accordingly, an unassigned fund balance of \$2,763,813 was reported in the governmental funds at June 30, 2019.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)

June 30, 2019

The Superintendence's combined ending fund balance increased by \$3,712,061. See additional related comments in the following section titled general fund budgetary highlights.

General Fund Budgetary Highlights

The General Fund budget for the fiscal year ended June 30, 2019 was \$7,448,363 and the actual expenditures were \$7,399,412, on the budgetary basis.

The following table summarizes, on the budgetary basis, revenues, expenditures and unspent balance for the general fund for fiscal years ended June 30, 2019 and 2018.

	<u>Budget 2019</u>	<u>Budget 2018</u>	<u>Change</u>
Revenues	\$ 7,448,363	\$ 9,691,840	\$ (2,243,477)
Expenditures	<u>7,399,412</u>	<u>9,200,959</u>	<u>(1,801,547)</u>
Unspent balance	<u>\$ 48,951</u>	<u>\$ 490,881</u>	<u>\$ (441,930)</u>
Expenditure rate	99%	95%	

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

There are various events that may subsequently have a significant effect on the financial position (and/or the results of operations). The most notable are, two catastrophic events (series of earthquakes affecting the southwest portion of the Island starting December 2019 and the corona virus pandemic officially declared on March 2020), the resignation of Governor Ricardo Rossello and the government transition due to the general elections of November 2020.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Superintendence's finances for all the citizens, taxpayers, customers and creditors. Also, this report serves to demonstrate the Superintendence's accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests please contact: Superintendencia del Capitolio- Apartado 9023828 San Juan, Puerto Rico 00902-3828.

SUPERINTENDENCE OF THE CAPITOL BUILDING
(An Office of the Legislature of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash in commercial banks	\$ 5,354,404
Capital assets, not being depreciated	7,694,665
Capital assets, net of accumulated depreciation	<u>91,252,142</u>
Total assets	<u>104,301,211</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Related to Pensions	944,522
Related to other post employment benefits plans	<u>25,201</u>
Total assets and deferred outflows of resources	<u><u>105,270,934</u></u>
 LIABILITIES	
Accounts payable	1,092,478
Accrued liabilities and interest	1,082,318
Non current liabilities:	
Due within one year	698,499
Due more than one year	<u>12,245,513</u>
Total liabilities	<u>15,118,808</u>
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS	<u>654,496</u>
Total liabilities and deferred inflows of resources	<u>15,773,304</u>
 NET POSITION	
Net investment in capital assets	98,946,807
Restricted for capital projects	83,362
Restricted for other purposes	332,433
Unrestricted (Deficit)	<u>(9,864,972)</u>
TOTAL NET POSITION	<u><u>\$ 89,497,630</u></u>

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

SUPERINTENDENCE OF THE CAPITOL BUILDING
(An Office of the Legislature of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Governmental Activities
EXPENSES	
<i>General Government:</i>	
Salaries and payroll related costs	\$ 5,148,014
Meals and travel	9,106
Professional services	1,400,661
Insurance	2,409,204
Rent	188,050
Non-capitalizable equipment	41,887
Repairs and maintenance	2,370,222
Utilities	3,242,537
Materials and supplies	264,210
Postage	21,019
Miscellaneous	63,694
Depreciation expense	4,644,408
Loss on disposal of assets	171,736
	19,974,748
Total expenses	19,974,748
GENERAL REVENUES	
Legislative appropriations	12,904,363
Legislative Assembly service charges	1,782,431
Contributions from Commonwealth	14,698,244
Rent and others	1,039,434
	30,424,472
Total general revenues	30,424,472
NET CHANGE IN NET POSITION	10,449,724
NET POSITION AT BEGINNING OF YEAR	79,047,906
NET POSITION AT END OF YEAR	\$ 89,497,630

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

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SUPERINTENDENCE OF THE CAPITOL BUILDING
 (An Office of the Legislature of the Commonwealth of Puerto Rico)
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash in commercial banks	\$ 5,081,704	\$ 272,700	\$ 5,354,404
Due from other funds	80,459	194,000	274,459
Total assets	<u>\$ 5,162,163</u>	<u>\$ 466,700</u>	<u>\$ 5,628,863</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,092,478	\$ -	\$ 1,092,478
Accrued liabilities	779,439	302,879	1,082,318
Due to other funds	194,000	80,459	274,459
Total liabilities	<u>2,065,917</u>	<u>383,338</u>	<u>2,449,255</u>
FUND BALANCE			
Restricted	332,433	83,362	415,795
Unassigned	2,763,813	-	2,763,813
Total fund balance	<u>3,096,246</u>	<u>83,362</u>	<u>3,179,608</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,162,163</u>	<u>\$ 466,700</u>	<u>\$ 5,628,863</u>

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

SUPERINTENDENCE OF THE CAPITOL BUILDING

(AN OFFICE OF THE LEGISLATURE OF THE COMMONWEALTH OF PUERTO RICO)

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2019

Total fund balances of governmental funds	\$	3,179,608
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds		98,946,807
Deferred outflows of resources in governmental activities are not recorded in the funds in the current period.- pension related		944,522
and related to ophther post employment benefits		25,201
Deferred inflows of resources in governmental activities correspond to future periods and therefore not reported in the funds- pension related		(654,496)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Legal settlement		(50,000)
Compensated absences		(2,178,071)
Other post employment benefit liability		(333,249)
Total pension liability		<u>(10,382,692)</u>
Total net position of governmental activities	\$	<u>89,497,630</u>

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

SUPERINTENDENCE OF THE CAPITOL BUILDING
(An Office of the Legislature of the Commonwealth of Puerto Rico)

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Legislative appropriations	\$ 12,904,363	\$ -	\$ 12,904,363
Legislative Assembly services charges	1,782,431	-	1,782,431
Contribution from Commonwealth	8,275,912	-	8,275,912
Other revenues	1,039,434	-	1,039,434
Total revenues	24,002,140	-	24,002,140
EXPENDITURES			
<i>General government:</i>			
Salaries and payroll related costs	8,125,696	-	8,125,696
Meals and travel	9,106	-	9,106
Professional services	1,400,661	-	1,400,661
Insurance	2,409,204	-	2,409,204
Rent	188,050	-	188,050
Non-capitalizable equipment	41,887	-	41,887
Repairs and maintenance	2,370,222	-	2,370,222
Utilities	3,242,537	-	3,242,537
Materials and supplies	264,210	-	264,210
Postage	21,019	-	21,019
Miscellaneous	108,694	-	108,694
Capital outlays	-	2,108,793	2,108,793
Total expenditures	18,181,286	2,108,793	20,290,079
REVENUES OVER (UNDER)			
EXPENDITURES	5,820,854	(2,108,793)	3,712,061
OTHER FINANCING SOURCES (USES)			
Transfers in (out) between funds	(2,108,793)	2,108,793	-
Total other financing sources	(2,108,793)	2,108,793	-
NET CHANGE IN FUND BALANCES	3,712,061	-	3,712,061
FUND BALANCES AT BEGINNING OF YEAR	(615,815)	83,362	(532,453)
FUND BALANCES AT THE END OF YEAR	\$ 3,096,246	\$ 83,362	\$ 3,179,608

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

SUPERINTENDENCE OF THE CAPITOL BUILDING

(AN OFFICE OF THE LEGISLATURE OF THE COMMONWEALTH OF PUERTO RICO)

Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2019

Net change in fund balances – total governmental funds	\$	3,712,061
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	\$	2,108,793
Less depreciation expense		(4,644,408)
Loss on disposal of assets		<u>(171,736)</u>
Subtotal		(2,707,351)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Deferred outflow related to pension		52,497
Deferred outflow related to other post employment benefits		25,201
Pension related debt		(8,173,464)
Deferred inflow related to pension		11,592,389
Other post employment benefit related to GASB 75		26,050
Legal settlement		45,000
Gain on extinguishment of debt		6,422,332
Accrued compensated absences		<u>(544,991)</u>
		<u>9,445,014</u>
Change in net position of governmental activities	\$	<u>10,449,724</u>

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

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Superintendence of the Capitol Building (the "Superintendence") is an office of the Legislature of the Commonwealth of Puerto Rico (the "Commonwealth") and was organized by Act No. 4 of July 21, 1977. The Superintendence oversees the preservation of the Complex of the Capitol Building under the direction of a Superintendent appointed by agreement between the President of the Superintendence and the Speaker of the House of Representatives of the Commonwealth of Puerto Rico.

On December 24, 1998, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 321, an amendment of Act No. 4, recognizing the Superintendence as a juridical person.

On July 1, 2010, the Superintendence became fiscally autonomous pursuant to the provisions of Act 230 of July 23, 1974, as amended on September 11, 2004, known as the "Commonwealth of Puerto Rico Accounting Law". The funds of the Superintendence are under the custody of the Secretary of Treasury of Puerto Rico until transferred to the Superintendence.

Reporting Entity

The Superintendence is for financial reporting purposes part of the Commonwealth of Puerto Rico, and its financial data is reported as part of the general fund in the Commonwealth's financial statements. The accompanying financial statements are issued solely and for the information and use of the Secretary of Treasury, the Legislative Assembly, the Governor, and the citizens of the Commonwealth of Puerto Rico.

Summary of Significant Accounting Policies

The accompanying basic financial statements of the Superintendence have been prepared in conformity with generally accepted accounting principles in the United States of America (USGAAP) as required by the Governmental Accounting Standards Board ("GASB").

The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

The accompanying basic financial statements present the financial position and the changes in net position of the Superintendence and its funds as of June 30, 2019, and for the fiscal year then ended. The Superintendence's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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Financial Statement Presentation

Government-wide financial statements

The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. All transactions and events that affect the total economic resources (net position) during the period are reported. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide financial statements. The effect of Inter-fund activities is eliminated.

The Statement of Net Position incorporates all capital (long lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Superintendence. Both the gross and net cost of the function which is otherwise being supported by the general government revenues is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The Superintendence first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

Governmental fund financial statements

The Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund and one column for the capital projects funds. Major funds are determined based on a minimum criterion, which is a percentage of the position, liabilities, revenues or expenditures or based on Management official's criteria. The Superintendence reports the following major governmental funds:

General Fund - is used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Superintendence's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) US GAAP requirements or (3) the demands of sound financial administration requiring the use of governmental fund other than the general fund. Its revenues consist mainly of legislative appropriations.

Capital Projects Fund - is used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The use of the capital projects funds has been limited to only the major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Superintendence's operating activities.

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Measurement Focus and Basis of Accounting

Except for budgetary purposes, the basis of accounting used by the Superintendence conforms with USGAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The statement of net position presents the assets and liabilities with the difference reported as net position. Net position is reported in three main categories:

Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balance attributed to the acquisition, construction or improvement of those assets.

Restricted Net Position - consist of net resources externally restricted by creditors, grantors, laws and regulations for the acquisition or construction of major capital facilities.

Unrestricted Net Position - consists of net position that are neither externally nor legally restricted, neither invested in capital assets. Unrestricted net position often has constraints that are imposed by management, but that can be removed or modified.

Governmental Funds Financial Statements

The Governmental Funds Financial Statements (GFFS) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. The revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Superintendence considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are considered to be measurable and available only when collected by the Superintendence. On June 30, 2019, all revenues sources met this availability criterion. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest debt are recorded when they matured (when payment is due. Proceeds of acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities but are not recorded in the accompanying GFFS.

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Use of estimates-Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. All other revenue items are considered measurable and available only when the Superintendence receives cash. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, expenditures for compensated absences and claims and judgments are recognized as expenditures when the payment is due. General capital outlays are reported as expenditures in governmental funds.

Legislative Appropriations and Joint Resolutions - The Superintendence's principal sources of revenue are legislative appropriations and joint resolutions from the Commonwealth. Appropriations are for general operating purposes of the Superintendence.

Cash and Cash with Fiscal Agent

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

Accounts Receivables

Receivables consist of all revenues earned but not collected at June 30, 2019. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables represent amounts owed to the Superintendence for reimbursement of expenditures incurred pursuant to state appropriations. Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

Interfund Transactions

Activity between funds that are representative of lending /borrowing arrangements outstanding at the end of the fiscal year are refer to as either "due to/ from other funds" (current portion of inter fund loans) or "advance to/from other funds" (non-current portion of inter fund loans). All other outstanding balances, between funds are reported as "due to/from other funds". During the fiscal year ended June 30, 2019, the Superintendence made routinary transfers for approximately \$2.1 million from the general fund to the capital project fund to finance the capital expenditures of the fund.

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Capital Assets

Capital assets, which include, equipment, computer equipment, furniture and vehicles, are reported in the government-wide financial statements. The Superintendence defames capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life exceeding five years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide financial statements. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. No depreciation or amortization has been recorded for land and construction in progress. The estimated useful lives of other major capital asset categories are:

	<u>Years</u>
Buildings	40
Improvements	40
Equipment	5
Computer equipment and software	5
Furniture	5

Impaired capital assets that will no longer be used by the Superintendence, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Superintendence are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service unit's approach.

Long-term Debt

The liabilities reported in the government-wide financial statements include long-term liabilities such as vacations and sick leave, reserves for contingencies long term portion of obligations under line of credits agreements and pension liability.

Compensated Absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay and salary related benefits are accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Superintendence. All sick leave and salary related benefits are accrued when incurred in the government-wide financial statements when the employee meets such criteria. The "Public Service Personnel Law" requires the Superintendence to pay annually the accumulated vacation and sick leave earned exceeding the limits mentioned above.

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Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the statement of net position when the liability is incurred.

Fund balances

The Superintendence adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Superintendence is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying governmental fund financial statements report fund balance amounts that are considered no spendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a) *Non-spendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long-term balances of loans and notes receivable.
- b) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Superintendence's highest level of decision-making authority (Legislative Assembly through resolutions and administrative orders) and can only be changed by a similar orders or resolution, no later than the end of fiscal year.
- d) *Assigned* - Represent resources intended to be used by the Superintendence for specific purposes but do not meet the criteria to be classified as restricted or committed (generally administrative orders approved by the President of the Superintendence). Intent can be expressed by an official or body to which the Superintendence delegates authority.
- e) *Unassigned*- Represent the residual classification for the Superintendence's general fund and includes all spendable amounts not contained in the other classifications.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Superintendence uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Superintendence generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures are incurred.

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Risk Management

The Superintendence carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Department of Treasury and costs are allocated among all the governmental units of the Commonwealth. Cost of insurance allocated to the Superintendence amounted to approximately \$1,172,081 for the fiscal year ended June 30, 2019. The current insurance policies have not been cancelled or terminated. The State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides workmen compensation insurance to cover all Superintendence employees. The Superintendence's workmen compensation insurance expenditures amounted to approximately \$131,327 for the fiscal year ended June 30, 2019.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", the Superintendence recognizes deferred outflows and 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 (expenses/expenditures) 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.

Based on this concept, the Superintendence reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 73.
- Deferred outflows of resources related to OPEB should be reported for (a) amounts paid by the employer for OPEB as the benefits come due subsequent to the measurement date of the total OPEB liability and before the end of the reporting period (excluding amounts associated with the employer from nonemployer contributing entities that are not in a special funding situation) and (b) amounts incurred by the employer for OPEB administrative expenses subsequent to the measurement date of the total OPEB liability and before the end of the reporting period. [GASBS 75, ¶159]
- Revenues earned but not available within 60 days of fiscal year end.

The Superintendence has items, which arise under accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*.

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Accounting for Pension Costs

In June 2015, the Governmental Accounting Standards Board (GASB) issued pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, replaces the requirements of GASB Statement Nos. 68 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Government of Puerto Rico (ERS) as of June 30, 2019.

In addition, the GASB issued Statement No. 82, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the Superintendence's fiscal year beginning July 1, 2019. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The Superintendence implemented GASB Statements No. 73 for the fiscal year ending June 30, 2019 and the financial statements of the Superintendence for the year ended June 30, 2019 were issued, with audited information available at the date of the Superintendence's reports.

Other Postemployment Benefits

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made.

In addition to the pension benefits described in Note 8, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico.

Implementation of New Governmental Accounting Standards Board (GASB) Statements

The GASB has issued the following Statements: As of July 1, 2018, the Superintendence has adopted the following new statements of financial accounting standards issued by the GASB: • 73 GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, replaces the requirements of GASB Statement Nos. 68.

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Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 84, Fiduciary Activities (GASB Statement No. 84), which is effective for periods beginning after December 15, 2019, as per GASB Statement No. 95 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (i) whether a government is controlling the assets of the fiduciary activity and (ii) 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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.
- GASB Statement No. 87, Leases (GASB Statement No. 87), which is effective for periods beginning after June 15, 2021, as per GASB Statement No. 95 establishes a single approach to accounting for and reporting leases by state and local governments. GASB Statement No. 87 is based on the principle that leases are financing of the right to use an underlying asset. GASB Statement No. 87 provides guidance for lease contracts for nonfinancial assets including vehicles, heavy equipment and buildings—but excludes nonexchange transactions, including donated assets and leases of intangible assets (such as patents and software licenses). GASB Statement No. 87 provides exceptions from the single approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements) and leases with related parties.

Under this statement, a lessee government is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset. The liability should be the present value of the payments covered by the contract, and its value should be reduced as payments are made over the lease's term. The asset should equal the initial measurement of the liability. A lessee also will report the following in its financial statements:

- (1) amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset;
- (2) interest expense on the lease liability; and
- (3) note disclosures about the lease, include a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Under this statement, a lessor government is required to recognize a lease receivable and a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. A lessor also will report the following in its financial statements:

- (1) lease revenue, systematically recognized over the term of the lease, corresponding with the reduction of the deferred inflow;
- (2) interest revenue on the receivable; and
- (3) note disclosures about the lease, including a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

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- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB Statement No. 89), which is effective for periods beginning after December 15, 2020, as per GASB Statement No. 95 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies 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.

- GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61 (GASB Statement No. 89), which is effective for periods beginning after December 15, 2019, as per GASB Statement No. 95 improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves 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 unit engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments units 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. 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 the interest on 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.

- GASB Statement No. 91, Conduit Debt Obligations (GASB Statement No. 91), which is effective for periods beginning after December 15, 2021, as per GASB Statement No. 95 provides a single method for government issuers to report conduit debt obligations and related commitments. GASB Statement No. 91 addresses the variation in practice by: clarifying what is a conduit debt obligation; eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting; broadening the

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definition of conduit debt obligations to include those for which government issuers make related additional commitments, such as guarantees or moral obligation pledges, or voluntarily agree to make debt service payments or request an appropriation for such payments, if necessary; clarifying how government issuers should account for and report commitments they extend or voluntarily provide, and arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes; and enhancing note disclosures. Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. GASB Statement No. 91 requires a government issuer to recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

- GASB Statement No. 92, Omnibus 2020 (GASB Statement No. 92), enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: the effective date of GASB Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of GASB Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of GASB Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and, terminology used to refer to derivative instruments.

The requirements of GASB Statement No. 92 are effective as follows: the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, regarding 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 GASB Statements No. 73 and No. 74 are effective for fiscal years beginning after June 15, 2020; the requirements related to application of GASB Statement No. 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 AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB Statement No. 95). The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

Statement No. 83, Certain Asset Retirement Obligations
Statement No. 84, Fiduciary Activities

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Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period Statement No. 90, Majority Equity Interests Statement No. 91, Conduit Debt Obligations Statement No. 92, Omnibus 202

The effective dates of the following pronouncements are postponed by 18 months:

Statement No. 87, Leases

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

- GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. Effective Date: The requirements of this Statement are effective as follows:

The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately.

The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021.

All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by specific requirement as follows:

Paragraph 4 of this Statement as it applies to arrangements other than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans

Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement).

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution

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pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

NOTE 2 - DEPOSITS

The Superintendence maintains its cash in bank deposit accounts at high credit qualified financial institutions. Bank balance at June 30, 2019 was approximately \$5.6 million.

The Superintendence follows the provisions of GASB Statement No. 40 (GASB No. 40), Deposit and Investment Risk Disclosures – an Amendment to GASB Statement No. 3. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Superintendence at June 30, 2019:

- a) Credit risk – In the case of deposits this is the risk that in the event of a bank failure, the Superintendence's deposit may not be recovered. Public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. At June 30, 2019, the Superintendence has balances deposited in commercial bank which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. No investments in debt or equity securities were made during the fiscal year ended June 30, 2019. Therefore, the Superintendence's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Superintendence's deposits and certificates of deposit is considered low at June 30, 2019.
- b) Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Superintendence manages its exposures de declines in fair values by: (1) not including debt or equity investments in its investment's portfolio at June 30, 2019, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its bank deposits and certificates of deposit in interest

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bearing accounts generating interest at prevailing market rates. At June 30, 2019, the interest rate risk associated with the Superintendence's cash and cash with fiscal agents is considered low since they have no investment portfolio.

- c) Custodial credit risk - In the case of deposits this is the risk that in the event of a bank failure, the Superintendence's deposit may not be recovered. Public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.
- d) Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. The Superintendence is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Superintendence's deposits is considered low at June 30, 2019.

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NOTE 3 - CAPITAL ASSETS

Capital assets activities for the fiscal year ended June 30, 2019 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
<i>Capital assets, not being depreciated :</i>				
Land	\$ 4,514,998	\$ -	\$ -	\$ 4,514,998
Works of art	2,733,594	131,555	-	2,865,149
Construction in progress	-	314,518	-	314,518
Total capital assets not being depreciated	<u>7,248,592</u>	<u>446,073</u>	<u>-</u>	<u>7,694,665</u>
<i>Capital assets being depreciated</i>				
Building	20,840,406	-	-	20,840,406
Leasehold improvements	88,140,861	943,472	-	89,084,333
Computer equipment	560,210	767	(5,371)	555,606
Equipment	9,746,465	675,381	(492,611)	9,929,235
Furniture	1,556,517	10,476	(28,037)	1,538,956
Motor vehicles	1,023,113	32,624	(124,095)	931,642
Intangibles (Software)	45,084	-	5,543	50,627
Total capital assets	<u>121,912,656</u>	<u>1,662,720</u>	<u>(644,571)</u>	<u>122,930,805</u>
<i>Less accumulated depreciation for:</i>				
Building	(3,839,864)	(521,010)	-	(4,360,874)
Leasehold improvements	(12,336,346)	(3,518,490)	-	(15,854,836)
Computer equipment	(466,025)	(38,853)	2,756	(502,122)
Equipment	(8,571,537)	(457,676)	379,410	(8,649,803)
Furniture	(1,439,532)	(37,549)	27,192	(1,449,889)
Motor vehicles	(820,563)	(66,693)	63,477	(823,779)
Intangibles	(33,223)	(4,137)	-	(37,360)
Total accumulated depreciation	<u>(27,507,090)</u>	<u>(4,644,408)</u>	<u>472,835</u>	<u>(31,678,663)</u>
Total capital assets being depreciated, net	<u>94,405,566</u>	<u>(2,981,688)</u>	<u>(171,736)</u>	<u>91,252,142</u>
Governmental activities capital assets, net	<u>\$101,654,158</u>	<u>\$ (2,535,615)</u>	<u>\$ (171,736)</u>	<u>\$ 98,946,807</u>

The Superintendence evaluates its capital assets to determine whether an impairment of capital assets actually occurred as of and for the fiscal year ended June 30, 2019. No material impairment loss has been incurred as of and for the fiscal year ended June 30, 2019 because there were no material declines in service utility of the capital assets.

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Notes to Basic Financial Statements

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NOTE 4 - LONG-TERM DEBT AND NOTE PAYABLE

Long-term liability activity for the fiscal year ended June 30, 2019 is summarized as follows:

	<u>Beginning Balance</u>	<u>Payments</u>	<u>Use / Accruals</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Long-term Portion</u>
Note payable	\$ 5,507,870	\$ -	\$ (5,507,870)	\$ -	\$ -	\$ -
Accrued compensated absences	1,633,080	-	544,991	2,178,071	31,966	2,146,105
Interest payable	914,462	-	(914,462)	-	-	-
Legal settlement	95,000	(45,000)	-	50,000	50,000	-
Other post employment liability	359,299	-	(26,050)	333,249	25,201	308,048
Total Pension Liability	2,209,228	-	8,173,464	10,382,692	591,332	9,791,360
	<u>\$ 10,718,939</u>	<u>\$ (45,000)</u>	<u>\$ 2,270,073</u>	<u>\$ 12,944,012</u>	<u>\$ 698,499</u>	<u>\$ 12,245,513</u>

On November 29, 2018, Government Development Bank for Puerto Rico ("GDB") completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"), Pursuant to the Qualifying Modification and Act No. 109-2017, as amended (the "CDB Restructuring Act"), the Superintendence was considered part of the central government, whereas all cash accounts held at GDB by the central government were applied to all indebtedness from the central government due to GDB. The resulting indebtedness balance was determined to be owed by the Puerto Rico central government. As a result, the Superintendence does not hold any cash accounts or has any indebtedness to GDB or any other party as of June 30, 2019.

NOTE 5 - DEFERED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Superintendence recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Superintendence that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Superintendence has items that are reportable on the Government-wide *Statement of Net Position* that are related to outflows/inflows from changes in the Net Pension Liability (Note 6).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds *Balance Sheet* report *Deferred Inflows of Resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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At the end of the current fiscal year, the various components of *Deferred Outflows/Inflows of Resources* reported in the basic financial statements were as follows:

Government-wide:	Governmental Activities
Deferred Outflows of Resources:	
Contributions to Other post employment benefits	\$ 25,201
Contributions to pensions	<u>\$ 944,522</u>
Deferrred Inflows of Resources	
Unamortized Investment in ERS	<u>\$ 654,496</u>

NOTE 6 - PENSION PLAN

The Superintendence employees are eligible to participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (Pay Go) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the Pay Go system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

The ERS System issues publicly available financial reports that include its financial statements and required supplementary information. These reports can be obtained by written request to the administrator at the addresses detailed below.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Employees' Retirement System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the Employees Retirement System as further discussed below.

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ERS Defined Benefit Pension Plan

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

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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

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

(a) Service Retirement Eligibility Requirements

(1) Eligibility for Act No. 447 Members – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

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

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

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

(2) Eligibility for Act No. 1 Members – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) Eligibility for System 2000 Members – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High-Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High-Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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

(4) Eligibility for Members Hired after June 30, 2013 – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High-Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

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(c) Service Retirement Annuity Benefits

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

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

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

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

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

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

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

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

(d) Special Benefits

(1) Minimum Benefits

– Past Ad hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

– Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007).

Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007).

(3) Special "Bonus" Benefits

– Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

– Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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(3) Total Pension Liability and Actuarial Information

The total pension liability was approximately \$10.4 million as of June 30, 2018. The total pension liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2017 which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018).

(a) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018 actuarial valuation were as follows:

— Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

— Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Other Assumptions as of June 30, 2018:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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

The following presents the total pension liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate (dollars in thousands):

	2018		
	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% increase (4.87%)
Total Pension Liability	\$ (11,814,700)	\$ (10,382,692)	\$ (9,220,609)

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(4) Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2019:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension benefits paid subsequent to measurement date	\$ 591,332	\$ -
Difference between expected and actual experience in measuring the total pension liability	-	314,026
Changes in assumptions	-	340,470
Change in employer's contributions and the employer's proportionate share of contributions	<u>353,190</u>	<u>-</u>
Total	<u>\$ 944,522</u>	<u>\$ 654,496</u>

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2018.

	Year of deferral	Amortization period	Beginning of the balance	Additions	Deductions	End of year balance
Deferred inflows of resources:						
Difference between expected and actual experience	2018	6 years	\$ —	376,863	62,810	314,053
Changes of assumptions	2018	6 years	—	<u>408,543</u>	<u>68,100</u>	<u>340,443</u>
Total			\$ <u>—</u>	<u>785,406</u>	<u>130,910</u>	<u>654,496</u>

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Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2018 will be recognized in the pension expense as follows:

Year Ending June 30:	Amount
2019	\$ 130,910
2020	130,910
2021	130,910
2022	130,910
2023	<u>130,856</u>
Total	<u>\$ 654,496</u>

(5) Pension Expense

For the fiscal year ended June 30, 2019, the Superintendence recognized benefit of \$(3,471,422). Pension benefit represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

(6) Total Pension Liability

The Superintendence’s Total Pension Liability for each plan program is measured as the proportionate share of the Total Pension Liability. The Total Pension Liability of each of the plan program was measured as of June 30, 2018, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation as of July 1, 2017. The Superintendence’s proportion of the Total Pension Liability was based on a projection of the Superintendence’s long-term share of contributions to the pension plans program relative to the projected benefits paid of all participating employers, actuarially determined. As of June 30, 2018, the Superintendence used the proportional share of 0.04240%. As of June 30, 2019, the Superintendence reported \$10,382,692 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS as follows:

	June 30, 2018	
	TOTAL	Proportional Share (.04240%)
Total Pension Liability	\$ 24,489,519,237	\$ 10,382,692

The financial statements and required supplementary information for the pension plan are available at the administration Superintendence of the Employees’ Retirement System (ERS) of the Commonwealth of Puerto Rico, P.O. Box 42003 San Juan PR 00940-2203.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

NOTE 7- OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay- as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

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

Collective Total OPEB Liability and Actuarial Information

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

a) Actuarial assumptions

Discount rate

The discount rate for June 30, 2018 was 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

b) Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the Superintendence total OPEB liability of the Plan at June 30, 2018 calculated using the discount rate of 3.87%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (2.87%) or 1-percentage point higher (4.87%) than the current rate:

	<u>1% Decrease</u> <u>2.87%</u>	<u>Current</u> <u>Discount</u> <u>Rate 3.87%</u>	<u>1%</u> <u>Increase</u> <u>4.87%</u>
Total OPEB liability as of June 30, 2018	\$ 365,495	\$ 333,249	\$ 305,851

(5) Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. During fiscal year 2019, approximately, \$25,000 of benefits paid should be deferred the measurement date of June 30, 2018.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

(6) Changes in Total OPEB Liability

Components of OPEB costs during the years ended June 30, 2018 are as follows:

Normal OPEB obligation at beginning of year	\$ 359,299
Interest or net OPEB obligation	14,550
Effect on economic/demographic gains or losses	(7,493)
Effect of assumptions changes or inputs	(11,231)
Benefit payments	(21,876)
OPEB liability	<u>\$ 333,249</u>

(7) OPEB Expense

The components of Superintendence OPEB expense with a proportionate share of .03957% for the year ending June 30, 2019 is as follows:

	<u>Amount</u>
Interest on total OPEB liability	\$ 12,549
Effect of economic/demographic gains and losses	(6,117)
Effect of assumptions changes or inputs	<u>(9,763)</u>
	<u>\$ (3,331)</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments - Lease

The Superintendence is committed under various non-cancelable operating leases, primarily for office equipment.

At June 30, 2019, total minimum lease installments payments are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 43,471
2021	43,469
2022	33,261
2023	13,787
2024	<u>13,787</u>
Total	<u>\$ 147,775</u>

Rent expenditures were \$188,050 for the year ended June 30, 2019.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

Contingency – Legal Claims

The Superintendence is defendant in lawsuits arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. With respect to the pending and threatened litigations, the Superintendence, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision on its books for these cases and intends to contest them vigorously. At this time, all legal proceedings have been suspended while the Puerto Rico's government Tile III case under Promesa Act is being resolved.

NOTE 9 - UNCERTAINTY AND LIQUIDITY RISK

As discussed in Note 1 to the basic financial statements, The Superintendence's principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). The funds of the Superintendence are under the custody of the Secretary of Treasury of - the Commonwealth until transferred to the Superintendence during the year.

The Commonwealth's liquidity during fiscal year 2019 continues to be severely affected and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external sources of financing. The Commonwealth has not been able to fulfill its obligations on a timely manner.

Considering that the Superintendence is financially dependent from the Commonwealth, the limitations of the Commonwealth to meet its obligations on a timely manner may prevent the Superintendence's operations in the future.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 16, 2021 which is the same date the financial statements were available to be issued.

CATASTROPHIC EVENTS

Since December 28, 2019, the southwest portion of the Island was impacted by a series of earthquakes, with the most powerful, a 6.4, on January 7, 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and Puerto Rico. As a result, and in response to the executive orders of the President of the United States and the Governor of the Commonwealth of Puerto Rico, executive orders: Families First Coronavirus Response Act ("FFCRA"), and Implementation of the Necessary Closings of Private and Government Operations to Combat the Effects and Spread of COVID-19 in the Island of Puerto Rico, issued on March 18, 2020 and March 15, 2020, respectively, and their amendments; we have temporarily closed our operating locations, reduced operating hours, and have seen a reduction in citizen traffic, all resulting in a negative impact to Puerto Rico's government and private operations. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2019

POLITICAL CHANGES AND GOVERNOR TRANSITIONS BETWEEN 2019 and 2021

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020. After winning the election held on November 3, 2020, Pedro Pierluisi Urrutia was sworn in as Governor for a four-year term starting January 2, 2021.

Based on the results of the general elections held November 3, 2020, the House of Representatives and the Senate were also subject to a change in leadership, therefore having an effect on the governance of the Superintendence commencing in January 2021.

FUTURE BUDGETS

The general fund budget, for fiscal year 2019-2020 and 2020-2021 will be \$5,291,941 and \$3,267,000 million, respectively, representing a decrease of \$2,156,422 and \$4,181,363 million, respectively, when compared with fiscal year ended June 30, 2019. These funds come from State Legislative appropriations.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information

June 30, 2019

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance</u>
REVENUES				
Legislative appropriations	\$ 7,448,363	\$ 7,448,363	\$ 7,448,363	\$ -
Total revenues				
EXPENDITURES				
Salaries and payroll related costs	<u>7,448,363</u>	<u>7,448,363</u>	<u>7,399,412</u>	<u>48,951</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>48,951</u>	\$ <u>48,951</u>

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information

June 30, 2019

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Superintendence's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations recommended by the President of the Superintendence and approved by the Superintendence prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Superintendence. Transfers of certain appropriations within the budget do not require the approval of the Superintendence in accordance with Administrative Order 10-35 of January 2010. The Superintendence prepares its annual budget only for the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2019 was \$7,448,363.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The Commonwealth of Puerto Rico Accounting Law establishes that unassigned funds at the end of the fiscal year from the Legislative Branch will be carried forward and made available for spending for the next three fiscal years. The Superintendence's Administrative Order 2010-35 of January 2010 stipulates that such unassigned funds must be spent exclusively for non-recurrent expenditures. The remaining unexpended amounts after the three years have lapsed should be reverted to the Secretary of the Treasury of Puerto Rico pursuant to Act 230.

Budget GAAP/Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in expenditures for the fiscal year ended June 30, 2019 is presented in the next page.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information

June 30, 2019

BUDGET GAAP/RECONCILIATION

Sources / Inflows of Resources:

Revenues according to the Schedule of Revenues and Expenditures	
Budget to Actual - General Fund	\$ 7,448,363
Perspective difference	
Non budgetary items:	
Special revenues funds' revenues	7,238,431
Contributions from Commonwealth	8,275,912
Other income	<u>1,039,434</u>
 Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance	 <u><u>\$ 24,002,140</u></u>

Uses / Outflows of Resources:

Expenditures according to the Schedule of Revenues and Expenditures	
Budget to Actual - General Fund	\$ 7,399,412
 Differences - budget to USGAAP	
Perspective difference:	
Non Budgetary items - Special revenue funds expenditures	<u>10,781,874</u>
 Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance	 <u><u>\$ 18,181,286</u></u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Superintendence of the Capitol Building
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 basic financial statements of the governmental activities and the general fund information of the Superintendence of the Capitol Building (the Superintendence) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the Superintendence 's basic financial statements, and have issued our report thereon dated September 16, 2021.

Internal Control over Financial Reporting

In Planning and performing our audit of the basic financial statements, we considered the Superintendence'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Superintendence's internal control. Accordingly, we do not express an opinion on the effectiveness of the Superintendence'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, misstatement 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 basic 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. we consider to be material weakness. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weakness. We identified deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies. (2019-001 and 2019-002).

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND 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 Superintendent’s basic financial statements are free from material misstatement, we performed test of its compliance with certain provisions of laws, regulations contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statements 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 test disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

The Superintendent Capitol Building Response to Finding

The Superintendent response to the findings identified in our audit is described in the accompanying schedule of findings. The Superintendent 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carolina, Puerto Rico
September 16, 2021

Aquino, De Córdova, Alfaro & Co. LLP

Stamp number E466468
of the Puerto Rico CPA Society
has been affixed to the
original report



Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

SUPERINTENDENCE OF THE CAPITOL BUILDING
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019

FINANCIAL STATEMENT FINDINGS:

Finding Number:	2019-001
Finding Type:	Financial Statement Finding
Category:	Internal Control - Significant deficiency

2019-001 Bank Reconciliations — Timeliness on bank reconciliations

Criteria: General Accepted Accounting Principles (GAAP) state that financial statements should be complete with respect to account balances and required disclosures.

Condition: During our audit of cash, we observed the April thru September 2019 bank reconciliations dated on January 2020, nine thru six months after the bank statement. We consider a reconciliation done after 30 days of reporting date or closing date a reasonable time.

Cause: There are no controls put in place, like, monitoring and supervision, to assure the timeliness of bank reconciliations.

Effect: The missed of timeliness on bank reconciliations may cause the missing of monitoring over cash transactions and therefore may miss any improper or unauthorized cash transactions, not identified on time to make necessary action and corrections, accordingly. Also, this matter will the accounting records not to be on time for financial reporting and others.

Recommendation: The Superintendence's management should request, monitor and supervise on time the bank reconciliation one month after the date of bank statement.

View of responsible Official:

Management will assign an accountant to handle the situation.

Official:

Mrs. Camille M. Rivera Parilla

**SUPERINTENDENCE OF THE CAPITOL BUILDING
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2019**

Finding Number:	2019-002
Finding Type:	Financial Statement Finding
Category:	Internal Control - Significant deficiency

2019-002 Accounts receivables — Accounting System and Reporting Practices

Criteria: Accounting records must be timely analyzed.

Condition: The Superintendence reserved doubtful accounts amounting to \$4.4 million, approximately, during the fiscal year ended June 30, 2019.

Cause: The Superintendence did not have adequate procedures to ensure timely collection of its accounts receivable.

Effects: The Superintendence may lose some of its accounts receivable due to lack of timely collection effort.

Recommendation: The Superintendence needs to improve its controls over accounts receivable.

View of responsible Official: Management will assign an accountant to perform analysis and collection efforts on these receivables.

Official: Mrs. Ana Alvarez Molina, Accountant

STATUS OF PRIOR YEAR'S AUDIT FINDINGS

SUPERINTENDENCE OF THE CAPITOL BUILDING
STATUS OF PRIOR YEAR'S AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019

Finding Number	Finding Description	Status
Accounting and Finance Department		
2018-1	The Superintendence has not been able to determine the validity of a claim over a line of credit of approximately \$15 million.	Balances transferred to Hacienda, resolved
2018-2	During our audit of cash, we observed the June 2018 bank reconciliation reconciled or dated on December 2018, six months after the bank statement. We consider a reconciliation done after 30 days of reporting date or closing date at a reasonable time.	Still remains
2018-3	The Superintendence reserved doubtful accounts amounting to \$4.4 million, approximately, during the fiscal year ended June 30, 2018.	Still remains