COMMONWEALTH OF PUERTO RICO

DEPARTMENT OF HOUSING

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

(WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)

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PART I

FINANCIAL

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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

INDEPENDENT AUDITOR'S REPORT

Honorable Secretary of the
Department of Housing of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Department of Housing of the Commonwealth of Puerto Rico (PRDH)**, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the **PRDH**'s basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **PRDH** as of June 30, 2023, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section of our report. We are required to be independent of the **PRDH**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note A, the financial statements of the **PRDH** are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **PRDH**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRDH**'s ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **PRDH**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **PRDH**'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-17, Budgetary Comparison Schedule – Budget and Actual – General Fund, on pages 78-80, Employees' Retirement Systems Schedule of Proportionate Share of the Total Pension Liability, and Schedule of Proportionate Share of the Total Other Postemployment Benefits Liability, on pages 81 through 83 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **PRDH**'s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award,* on pages 84 through 87, is presented for purposes of additional analysis and is not required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2024, on our consideration of **PRDH**'s internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this 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* in considering **PRDH**'s internal control over financial reporting and compliance.

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
May 29, 2024

Stamp No. E569562 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

As management of the Department of Housing of the Commonwealth of Puerto Rico (hereafter the PRDH), we offer readers of the PRDH's financial statements this narrative overview and analysis of the financial activities of the PRDH for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- Total assets increased from $486 million on June 30, 2022 to $701 million on June 30, 2023, representing an increase of approximately $215 million or 44% in comparison with the prior year. This increase is mainly due to increases in amounts receivable of approximately $160 million, related to the CDBG Project Implementation Advance Funding (PIAF) Program, with municipalities in Puerto Rico.

- Total liabilities increased from $444 million in fiscal year 2022 to $602 million on June 30, 2023, representing a net increase of approximately $158 million or 36% in comparison with prior year. This increase is mainly due to an increase of approximately $161 million in unearned revenues, related to the PIAF Program.

- Total Pension Liability decreased by $44,954,116 and Total OPEB Liability by $675,666. The change was mainly due to the confirmation by the U.S. District Court for the District of Puerto Rico on January 18, 2022, that eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustments, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

Governmental Fund Financial Statements

- Total assets increased from $287 million in fiscal year 2022 to $500 million on June 30, 2023, representing an increase of approximately $213 million or 74% in comparison with the prior year. This increase is mainly due to increases in amounts receivable of approximately $164 million, related to the PIAF Program.

- Total liabilities increased from $179 million in fiscal year 2022 to $382 million on June 30, 2023, representing an increase of approximately $202 million or 113% in comparison with prior year; mainly related to an increase on unearned revenues from the PIAF Program.

- The total fund balance increased by approximately $13 million due to an increase in Appropriations from Commonwealth during fiscal year 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the PRDH's basic financial statements. The PRDH's basic financial statements consist of four components; 1) government-wide financial statements, 2) fund financial statements, 3) notes to the basic financial statements and 4) required supplementary information (see Figure 1). The basic financial statements present two different views of the PRDH through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the PRDH.

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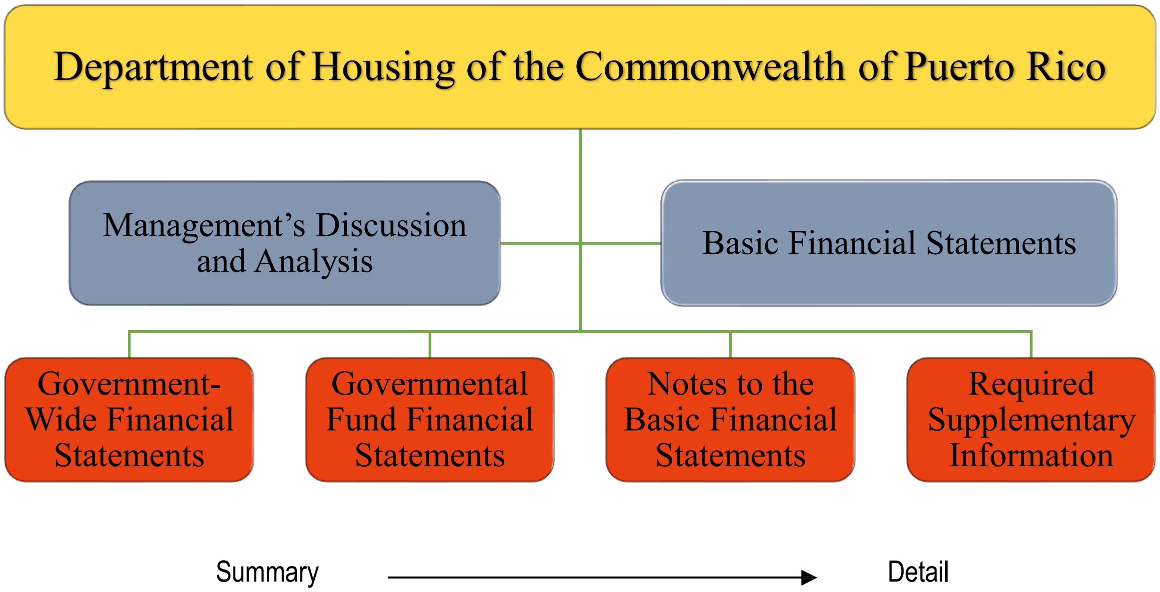
Figure 1

Required Components of Annual Financial Report



Basic Financial Statements

The first statements in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the PRDH's financial status.

The next statements are the **Governmental Fund Financial Statements**. These statements focus on the activities of the individual parts of the PRDH's government. These statements provide more details than the government-wide financial statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison schedule.

The next section of the basic financial statements is the **Notes to the Basic Financial Statements**. The notes to the basic financial statements explain in detail some of the data contained in those statements.

Both financial statements present the governmental activities of the PRDH. The government-wide and fund financial statements can be found immediately following this discussion and analysis.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the PRDH's operations in a manner similar to a private sector business. The financial statements provide both short and long-term information about the PRDH's financial position, which assists the PRDH in assessing the PRDH's economic condition at the end of the fiscal year. 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. They take into account all revenues and expenses connected with the fiscal year even if the cash involved has not been received or paid. The government-wide financial statements include two statements:

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- The *Statement of Net Position* presents information on all of the PRDH's assets, plus deferred outflows of resources less liabilities, plus deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the PRDH is improving or deteriorating.

- The *Statement of Activities* presents information showing how the PRDH's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the PRDH.

The basic government-wide financial statements can be found on pages 18 through 20.

Governmental 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 PRDH, like other 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 PRDH governmental funds, reporting the PRDH's operations in more detail in the government-wide financial statements. All of the funds of the PRDH can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are the following:

Governmental Funds – Governmental funds are used to account for essentially the same activities reported in government–wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near term inflows and outflows of expendable resources.

They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating government near term financing requirements. This approach is known for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the PRDH's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the PRDH. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Governmental Fund Financial Statements include one column for the General Fund, one column for each major fund, and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, which is a percentage of the assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues or expenditures, and in addition, based on Management's criteria. PRDH reports major governmental funds as follows:

- *General Fund* – The general fund accounts for all resources except those required to be accounted for in other funds.

continue

- *CDBG Fund* – This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant program. This program provides annual grants to municipalities to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

- *CDBG-DR Fund* – This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant Disaster Recovery Program. This program provides grants to rebuild areas affected by Presidentially declared disasters and provide crucial seed money to start the recovery process. Since CDBG Disaster Recovery (CDBG-DR) assistance may fund a broad range of recovery activities, it is designed to communities and neighborhoods that otherwise might not recover due to limited resources.

- *Self-Contribution Fund* – This fund is maintained by the PRDH to account for current financial resources received from proceeds of sale and rent of land lots, indirect costs, fees for elderly care and other revenues collected from sources other than intergovernmental or federal subsidies. Also, it includes the resources and expenditures received and used respectively for the improvement of the PRDH's main building.

- *Sales and Acquisition Fund* – This fund is maintained by the PRDH to account for current financial resources received to liquidate the assets of the former Puerto Rico Urban Renewal and Housing Corporation (PRURHC) and to meet its financial obligations with the proceeds to sales.

- *Other Governmental Funds* – Accounts for and reports other financial resources not included in the General Fund or the Special Revenue Fund.

The basic governmental funds financial statements can be found immediately following the government-wide financial statements (pages 21 through 24).

Fiduciary Fund Financial Statements

Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the PRDH's own activities. The accounting used for fiduciary funds is the accrual basis of accounting and presents the following funds:

- *Ponce en Marcha Fund* – By Law No. 206 of August 28, 2003, the Department of Justice of the Commonwealth of Puerto Rico obtained a line of credit of $90 million with the purpose of complying with a judicial settlement in the case of the Municipality of Ponce vs. the Puerto Rico Highway Authority and others. In relation to such a settlement, the PRDH is the fiscal agent of the funds for planning and development of several Municipality of Ponce projects. The restricted fund receivable is $336,410 on June 30, 2023, and is presented in the Statement of Fiduciary Net Position.

- *Special Communities Fund* – The PRDH is responsible for receiving and distributing funds assigned by the Perpetual Trust Fund for Special Communities for the Development Program (the Program). The Program was established by Act No. 271 of November 21, 2012, and is funded through legislative appropriation and other grants. Program funds are distributed to the service providers based on the contracts made with the Perpetual Trust Fund for Special Communities. The restricted fund receivable is $24,948 on June 30, 2023, and is presented in the Statement of Fiduciary Net Position.

continue

- *Remedy Fund* – The Municipality of Juncos established and funded a trust fund for the purpose of implementing the two remedies selected by the U.S. Environmental Protection Agency (EPA) for the old Juncos Landfill Superfund site as set forth in the EPA "Decision Summary" documents dated September 24, 1991, and October 5, 1993, as amended by EPA, to correct environmental damage left by the old Juncos Landfill. As part of these remedies, the PRDH was appointed as the administrator agent of the Remedy Fund. As part of the settlement agreement, the PRDH established a $1.5 million Remedy Fund for construction. The restricted fund receivable balance is $1,107,178 on June 30, 2023 and is presented in the Statement of Fiduciary Net Position.

The Fiduciary Funds Financial Statements can be found immediately following the governmental funds financial statements (pages 25-26).

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following fund financial statements (pages 27 through 77).

Required Supplementary Information – Budgetary Comparison

Provides additional information to better understand the financial position of the PRDH and contains the Schedule of Revenues and Expenditures – Budget and Actual – General Fund, are presented immediately following the notes to the financial statements and can be found on pages 79-80 of this report.

Required Supplementary Information – Pension Plan and OPEB Plan Information

The required supplementary information reported are related to the 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 No. 67 and 68,* after fiscal year 2018, for pension liability reporting. After approval of Act No. 106-2017, the Fiduciary Fund of the Puerto Rico Government Employees Retirement System (PRGERS) was liquidated and a new defined contribution plan was created and the GASB Statement No. 73 is effective as of June 30, 2019. The required supplementary information is presented immediately following the notes to the financial statements. PRGERS has issued the required information for the fiscal year 2022-2023.

The required supplementary information reported related to the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, after fiscal year 2018, for other Postemployment benefits liability reporting. The required supplementary information is presented immediately following the notes to the financial statements. PRGERS has issued the required information for the fiscal year 2022-2023. These information for Pension Plan and OPEB Plan can be found on pages 81 through 83 of this report.

1. Government-Wide Financial Analysis Statement of Net Position

- Total assets increased from $486 million in fiscal year 2022 to $701 million in June 30, 2023, representing an increase of approximately $215 million or 44% in comparison with the prior year. This increase is mainly due to an increase of approximately $164 million in amounts due from other governmental entities and $45 million in grants receivable related to the CDBG-DR Program.

- Total liabilities increased from $444 million in fiscal year 2022 to $578 million on June 30, 2023, representing an increase of approximately $135 million in comparison with prior year. This increase is mainly due to an increase of approximately $137 million in unearned revenues related to the CDBG-DR Program.

continue

1. Government-wide Financial Analysis Statement of Net Position (continued)

- The net position increased by approximately $47 million for the year ended June 30, 2023 due to the decrease related to the Total Pension Liability.

- Out of the $100 million in net position, as of June 30, 2023, $33 million are invested in capital assets, $8 million are restricted for specific program initiatives and $60 million are unrestricted on the use. The net position increased by approximately $40 million.

	2023	2022	Change	Percent
Assets:				
Current Assets:				
Cash and Cash Equivalents	$ 72,144,554	$ 68,887,934	$ 3,256,620	5%
Cash and Cash Equivalents – Restricted	3,817,707	3,712,623	105,084	0%
Interest Receivable on Note	13,194,794	12,742,438	452,356	4%
Grants Receivable	207,668,600	162,839,129	44,829,471	28%
Due From Governmental Entities and Other State Funds Receivable	194,501,956	30,432,353	164,069,603	539%
Other Assets	444,695	12,600	432,095	3429%
Total Current Assets	491,772,306	278,627,077	213,145,229	76%
Capital Assets:				
Vehicles, Fixtures and Equipment	9,808,221	7,140,898	2,667,323	37%
Parking and Building	5,164,129	5,164,129	-	0%
Building	30,000,000	30,000,000	-	0%
Building Improvements	21,525,268	21,525,268	-	0%
Right-to-Use – Equipment	163,696	-	163,696	100%
Right-to-Use – Parking	761,581			
Less Accumulated Depreciation and Amortization	(35,220,387)	(32,159,365)	(3,061,022)	10%
	32,202,508	31,670,930	(230,003)	-1%
Capital Assets Not Being Depreciated:				
Land	850,831	850,831	-	0%
Construction in Progress	339,924	339,924	-	0%
	1,190,755	1,190,755	-	0%
Total Capital Assets	33,393,263	32,861,685	(230,003)	-1%
Noncurrent Assets:				
Notes Receivable from Developer	53,262,467	54,551,920	(1,289,453)	-2%
Due from Related Entity	54,193,545	54,643,401	(449,856)	-1%
Housing Units and Land Lots Held for Sale	48,913,802	46,006,360	2,907,442	6%
Land Lot Restricted for Development	19,200,000	19,200,000	-	0%
Total Noncurrent Assets	175,569,814	174,401,681	1,168,133	1%
Total Assets	**$ 700,735,383**	**$ 485,890,443**	**$ 214,083,359**	**44%**
Deferred Outflows of Resources	**$ 23,199,617**	**$ 28,992,679**	**$ (5,793,062)**	**-20%**

continue

1. Government-Wide Financial Analysis Statement of Net Position (continued)

	2023	2022	Change	Percent
Liabilities:				
Current Liabilities:				
Account Payable	$ 199,903,015	$ 159,000,303	$ 40,902,712	26%
Bank Overdraft	4,265,739	5,260,100	(994,361)	-19%
Due to Other Governmental Entities	6,523,118	5,172,822	1,350,296	26%
Due to Fiduciary Funds	1,468,536	1,468,536	-	0%
Unearned Revenue	160,757,401	-	160,757,401	100%
Lease Liability	338,008	-	338,008	100%
Accrued Compensated Absences	112,718	115,484	(2,766)	-2%
Accrued Termination Benefits	407,497	434,279	(26,782)	-6%
Total Pension Liability	9,413,494	8,929,663	483,831	5%
Total Other Postemployment Benefit Liability	453,200	469,800	(16,600)	-4%
Total Current Liabilities	383,642,726	180,850,987	202,791,739	112%
Noncurrent Liabilities:				
Long Term - Related	57,442,419	58,980,268	(1,537,849)	-3%
Accrued Legal Claims	17,066,779	15,700,481	1,366,298	9%
Lease Liability	340,358	-	340,358	100%
Accrued Compensated Absences	4,401,742	2,577,363	1,824,379	71%
Accrued Termination Benefits	2,074,286	2,430,158	(355,872)	-15%
Total Pension Liability	132,883,884	178,321,831	(45,437,947)	-25%
Total Other Postemployment Benefit Liability	4,319,914	4,978,980	(659,066)	-13%
Total Noncurrent Liabilities	218,529,382	262,989,081	(44,459,699)	-17%
Total Liabilities	**602,172,108**	**443,840,068**	**158,332,040**	**36%**
Deferred Inflows of Resources	**21,500,994**	**10,556,692**	**10,944,302**	**104%**
Net Position				
Net Investment in Capital Assets	32,714,897	29,149,062	3,565,835	12%
Restricted for Special Revenue Funds	7,654,032	7,844,000	(189,968)	-2%
Unassigned	59,892,969	23,493,300	36,399,669	155%
Total Net Position	**$ 100,261,898**	**$ 60,486,362**	**$ 39,775,536**	**66%**

2. Government-Wide Financial Analysis Statement of Activities

- The net revenues from governmental activities amounted to approximately $36 million in fiscal year 2023 while in the fiscal year 2022 there was a net expenditure of approximately $20 million, representing a combined increase in the net position of approximately $47 million from such governmental activities. Within the governmental activities, the net revenues for general and administrative activities and construction and rehabilitation exceeded the expenses by approximately $29 and $5 million, respectively, mainly due to increased appropriations in fiscal year 2023 from the Commonwealth in the amount of approximately $20 million.

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2. Government-Wide Financial Analysis Statement of Activities (continued)

- The general revenues increased by approximately $3 million in the fiscal year 2023 in comparison with the prior year. This increase is mostly driven by the increase in the adjustment in fiscal year 2023 on the fair market value in housing units and lots held for sale.

For the year ended June 30, 2023 net position changed as follows:

Net (Expenses) Revenues and Changes in Net Position

Figure 1

	Changes in Net Position			
	2023	**2022**	**Change**	**Percent**
Governmental Activities:				
Function/Program				
General and Administrative	$ 28,607,532	$ (21,544,873)	$ 50,152,405	-233%
Construction and Rehabilitation	4,777,898	4,298,538	479,360	11%
Housing Sales and Adjustments	2,512,757	2,670,606	(157,849)	-6%
Tenant, Utility Services and Maintenance	-	1,380,531	(1,380,531)	-100%
Interest Expenses	22,369	-	22,369	100%
FMV Adjustment in Housing Units and Lots Held for Sale	-	(6,596,403)	6,596,403	-100%
Total Governmental Activities	35,920,556	(19,791,601)	55,712,157	-281%
General Revenues:				
Management and Developer Fees	95,156	92,385	2,771	3%
FMV Adjustment in Housing Units and Lots Held for Sale	2,907,442	-	2,907,442	100%
Interest and Investment Income	852,382	747,332	105,050	14%
Total General Revenues	3,854,980	839,717	3,015,263	359%
Extraordinary Item: Gain on Promesa Tittle III	-	11,503,986	(11,503,986)	100%
Total Extraordinary Item and Transfers and Special Items	-	11,503,986	(11,503,986)	100%
Change in Net Position	39,775,536	(7,447,898)	47,223,434	-634%
Net Position – Beginning of Year	60,486,362	67,934,260	(7,447,898)	-11%
Net Position – Ending of Year	$ 100,261,898	$ 60,486,362	$ 39,775,536	66%

continue

3. Governmental Fund Results – Balance Sheet

- Total assets increased from $287 million in fiscal year 2022 to $500 million on June 30, 2023, representing an increase of approximately $213 million or 74% in comparison with the prior year. This increase is mainly due to an increase of approximately $164 million and $44 million in amounts due from other governmental entities and grants receivable related to the PIAF Program, from the CDBG-DR Program.

- Total liabilities increased from $179 million in fiscal year 2022 to $382 million on June 30, 2023, representing an increase of approximately $202 million or 113% in comparison with prior year; mainly related to an increase of approximately $161 million and $41 million in unearned revenues and accounts payable of the CDBG-DR Program, respectively. The Unearned revenue from the CDBG-DR is related to the Project Implementation Advance Funding (PIAF), with municipalities in Puerto Rico.

- The total fund balance increased by approximately $13 million mainly due to the excess of revenues over expenditure.

	2023 Combined	2022 Combined	Change	Percent
Assets				
Cash and Cash Equivalent	$ 72,144,554	$ 68,887,934	$ 3,256,620	5%
Cash and Cash Equivalent - Restricted	3,817,707	3,712,623	105,084	0%
Notes Receivable – Related	13,194,794	12,742,438	452,356	4%
Other Account Receivable				
Grants Receivable	207,668,600	162,839,129	44,829,471	28%
Due From Governmental Entities and Other State Funds Receivable	194,501,956	30,432,353	164,069,603	539%
Other	444,695	12,600	432,095	3429%
Due from Other Funds	8,643,658	8,503,185	140,473	2%
Total Assets	$ 500,415,964	$ 287,130,262	$ 213,285,702	74%
Liabilities				
Account Payable and Accrual Liabilities	$ 199,903,015	$ 159,000,303	$ 40,902,712	26%
Bank Overdraft	4,265,739	5,260,100	(994,361)	-19%
Due to Other Governmental Entities	6,523,118	5,172,822	1,350,296	100%
Due to Fiduciary Funds	1,468,536	1,468,536	-	0%
Due to Other Funds	8,643,658	8,503,185	140,473	2%
Unearned Revenue	160,757,401	-	160,757,401	100%
Total Liabilities	381,561,467	179,404,946	202,156,521	113%
Deferred Revenues	-	1,547,764	(1,547,764)	-100%
Fund Balance	118,854,497	106,177,552	12,676,945	12%
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 500,415,964	$ 287,130,262	$ 213,285,702	74%

continue

4. Governmental Fund Results Analysis – Statement of Revenues, Expenditures and Changes in Fund Balances

- Total revenues and expenditures increased by approximately $442 million and $423 million, respectively, which is mostly driven by the increase of the activities financed by the CDBG-DR Federal Program.

- An Other Financing Sources is presented to account for the proceed of the lease debt.

	2023 Combined	2022 Combined	Change	Percent
Revenues:				
Appropriation from Commonwealth	$ 43,169,426	$ 28,204,217	$ 14,965,209	53%
Sale and Lease of Housing Units and Land Lots	2,512,757	2,670,606	(157,849)	-6%
Rent	750,000	32,109	717,891	2236%
Indirect Cost	11,515,664	6,297,160	5,218,504	83%
Federal Grants	1,122,109,675	702,173,890	419,935,785	60%
Interest and Investment Income	852,382	455,142	397,240	87%
Management and Developers Fees	95,156	92,385	2,771	3%
Other	1,488,155	518,394	969,761	187%
Total revenue	1,182,493,215	740,443,903	442,049,312	60%
Expenditures:				
General and Administrative	151,289,339	426,453,096	(275,163,757)	-65%
Construction and Rehabilitation	569,441,144	314,875,759	254,565,385	81%
Community Development Assistance	434,106,992	-	434,106,992	100%
Tenant, Utility Services and Maintenance	12,042,192	887,525	11,154,667	1257%
Capital Outlays	3,592,600	1,052,099	2,540,501	241%
Debt Service:				
Principal	246,911	3,298,087	(3,051,176)	-93%
Interest	22,369	-	22,369	100%
Total Expenditures	1,170,741,547	746,566,566	424,174,981	57%
Other Financing Sources (Uses):				
Leases (As Lessee)	925,277	-	925,277	100%
Net Change in Fund Balances	$ 12,676,945	$ (6,122,663)	$ 18,799,608	-307%

continue

5. Budgetary Information

There are significant differences between the amended budget and actual amounts in the General Fund. The information is presented as follows:

	Budget Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues:				
Appropriations from Commonwealth	$ 16,234,000	$ 19,438,620	$ 19,438,620	$ -
Expenditures:				
General and Administrative	14,421,757	17,626,377	14,924,267	2,702,110
Capital Outlays	1,812,243	1,812,243	1,812,243	-
Total Expenditures	16,234,000	19,438,620	16,736,510	2,702,110
Excess of Revenues Over Expenditures	$ -	$ -	$ 2,702,110	$ (2,702,110)

6. Capital Assets

On June 30, 2023, the PRDH had $33,393,263 invested in Capital Assets, net of depreciation, including building, equipment, furniture and fixtures, and vehicles. The net decrease of $531,578 when compared with balance on June 30, 2022, is mostly related to the depreciation expense during the year. Please, find below the summarized information regarding the capital assets as of June 30, 2023:

Capital Assets:	
Non Depreciable Capital Assets	
Land	$ 850,831
Construction in Progress	339,924
Total Non Depreciable Capital Assets	1,190,755
Depreciable Capital Assets	
Vehicles, Fixtures and Equipment	9,808,221
Right-to-Use – Equipment	163,696
Parking and Building	5,164,129
Right-to-Use – Parking	761,581
Building	30,000,000
Building Improvements	21,525,268
Total Depreciable Capital Assets	67,422,895
Less Accumulated Depreciation	(35,220,387)
Total Depreciable Capital Assets, Net	32,202,508
Total Capital Assets, Net	$ 33,393,263

continue

7. Noncurrent Liabilities

As of June 30, 2023, the PRDH had $218,529,382 in Noncurrent Liabilities, the most significant the total pension liability in the amount of $142,297,378.

8. Deferred Outflows of Resources

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement 68, and amendments to certain provisions of GASB Statement Nos.67 and 68, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for total pension liability and total OPEB liability reporting. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

9. Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the PRDH as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience. More detailed information about the PRDH's deferred outflows of resources and deferred inflows of resources is presented in Note G to the basic financial statements on page 51 of this report.

PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

On April 3, 2023, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which proposes a set of Government efficiency measures that the Government must take ("measures") to increase government revenues and make government more responsive. More detailed information about PROMESA is presented in Note P to the financial statements on pages 73 through 76 of this report.

CONTACTING THE PRDH'S FINANCIAL MANAGEMENT

The PRDH's financial statements are designed to present users with a general overview of its finances. If you have questions about the report or need additional information, please contact the Finance Director.

* * * * *

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$ 72,144,554
Cash and Cash Equivalents – Restricted	3,817,707
Interest Receivable on Note	13,194,794
Other Accounts Receivable:	
Grants Receivable	207,668,600
Due From Governmental Entities Other State Funds Receivable	194,501,956
Other	444,695
Total Current Assets	491,772,306
Non Current Assets:	
Notes Receivable from Developer	53,262,467
Due from Related Entity	54,193,545
Housing Units and Land Lots Held for Sale	48,913,802
Land Lot Restricted for Development	19,200,000
Capital Assets, Net	33,393,263
Total Noncurrent Assets	208,963,077
TOTAL ASSETS	**$ 700,735,383**
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	22,746,417
OPEB Related	453,200
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 23,199,617**

continue

	Governmental Activities
LIABILITIES:	
Current Liabilities:	
Account Payable	$ 199,903,015
Bank Overdraft	4,265,739
Due to other Governmental Entities	6,523,118
Due to Fiduciary Funds	1,468,536
Accrued Compensated Absences	112,718
Accrued Termination Benefits	407,497
Unearned Revenues	160,757,401
Lease Liability	338,008
Total Pension Liability	9,413,494
Total Other Postemployment Benefit Liability	453,200
Total Current Liabilities	383,642,726
Noncurrent Liabilities:	
Long-Term - Related	57,442,419
Accrued Legal Claims	17,066,779
Accrued Compensated Absences	4,401,742
Accrued Termination Benefits	2,074,286
Lease Liability	340,358
Total Pension Liability	132,883,884
Total Other Postemployment Benefit Liability	4,319,914
Total Noncurrent Liabilities	218,529,382
TOTAL LIABILITIES	**602,172,108**
DEFERRED INFLOWS OF RESOURCES:	
Pension Related	21,500,994
TOTAL DEFERRED INFLOWS OF RESOURCES	**21,500,994**
NET POSITION:	
Net Investment in Capital Assets	32,714,897
Restricted for Special Revenue Funds	7,654,032
Unassigned	59,892,969
TOTAL NET POSITION	**100,261,898**
Total Liabilities, Deferred Inflows of Resources, and Net Pension	**$ 723,935,000**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grant and Contributions	
Governmental Activities:					
General and Administrative	$ 128,464,660	$ 13,753,819	$ 143,363,111	$ -	$ 28,652,270
Construction and Rehabilitation	569,441,144	-	567,882,819	6,336,223	4,777,898
Community Development Assistance	434,106,992	-	434,106,992	-	-
Housing Sales and Adjustments	-	2,512,757	-	-	2,512,757
Tenant, Utility Services and Maintenance	12,042,192	-	12,042,192	-	-
Interest Expenses	22,369	-	-	-	(22,369)
Total Governmental Activities	**$ 1,144,077,357**	**$ 16,266,576**	**$ 1,157,395,114**	**$ 6,336,223**	**35,920,556**
	General Revenue:				
	Management and Developer Fees				95,156
	FMV Adjustment in Housing Units and Lots Held for Sale				2,907,442
	Interest and Investment Income				852,382
	Total General Revenues				3,854,980
	CHANGE IN NET POSITION				39,775,536
	NET POSITION – BEGINNING OF YEAR				60,486,362
	NET POSITION – END OF YEAR				**$ 100,261,898**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

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	General Fund	CDBG	CDBG-DR	Self-Contribution Fund	Sales and Acquisition Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Cash Equivalent	$ 43,457,100	$ -	$ 950,238	$ 2,819,376	$ 6,200,030	$ 18,717,810	$ 72,144,554
Cash and Cash Equivalent – Restricted	-	-	-	-	3,817,707	-	3,817,707
Notes Receivable – Related	-	-	-	13,194,794	-	-	13,194,794
Accounts Receivable:							
Grants Receivable	-	7,065,445	200,540,729	-	-	62,426	207,668,600
Due From Governmental Entities and Other State Fund Receivable	-	-	159,666,610	17,099,351	-	17,735,995	194,501,956
Other	-	-	-	-	420,000	24,695	444,695
Due from Other Funds	-	-	-	1,876,432	6,446,790	320,436	8,643,658
Total Assets	**$ 43,457,100**	**$ 7,065,445**	**$ 361,157,577**	**$ 34,989,953**	**$ 16,884,527**	**$ 36,861,362**	**$ 500,415,964**
LIABILITIES:							
Account Payable and Accrual Liabilities	$ 174,120	$ 2,236,968	$ 194,501,905	$ 124,422	$ 97,266	$ 2,768,334	$ 199,903,015
Bank Overdraft	-	4,265,739	-	-	-	-	4,265,739
Due to Other Governmental Entities	-	-	6,523,118	-	-	-	6,523,118
Due to Fiduciary Funds	-	-	-	-	-	1,468,536	1,468,536
Due to Other Funds	-	-	-	5,605,667	-	3,037,991	8,643,658
Unearned Revenues	-	562,738	160,132,554	-	-	62,109	160,757,401
Total Liabilities	**174,120**	**7,065,445**	**361,157,577**	**5,730,089**	**97,266**	**7,336,970**	**381,561,467**
FUND BALANCES:							
Nonspendable	-	-	-	30,248,091	-	-	30,248,091
Restricted	-	-	-	-	3,817,707	7,654,032	11,471,739
Committed	-	-	-	3,855,822	-	14,543,954	18,399,776
Assigned	43,282,980	-	-	-	12,969,554	7,326,406	63,578,940
Unassigned (Deficit)	-	-	-	(4,844,049)	-	-	(4,844,049)
Total Fund Balances	**43,282,980**	**-**	**-**	**29,259,864**	**16,787,261**	**29,524,392**	**118,854,497**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 43,457,100**	**$ 7,065,445**	**$ 361,157,577**	**$ 34,989,953**	**$ 16,884,527**	**$ 36,861,362**	**$ 500,415,964**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

Total Fund Balance – Government Fund		**$ 118,854,497**
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Account Receivable from Developer is not a financial resources and not reported in the funds.		53,262,467
Account Receivable from Related Entity is not a financial resources and not reported in the funds.		54,193,545
Land Lots Held for Sale or Lease are not current financial resources and therefore not reported in the funds		48,913,802
Land Lots Restricted for Long-Term Credit Line are not current financial resources and therefore not include in the funds		19,200,000
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		33,393,263
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		23,199,617
Pension Related Deferrals		(21,500,994)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Long Term - Related	$ (57,442,419)	
Legal Claims	(17,066,779)	
Compensated Absences	(4,514,460)	
Accrued Termination Benefits	(2,481,783)	
Lease Liability	(678,366)	
Total Pension Liability	(142,297,378)	
Total Other Postemployment Benefit Liability	(4,773,114)	
Total Net Noncurrent Liabilities		(229,254,299)
Total Net Position		**$ 100,261,898**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	CDBG	CDBG-DR	Self-Contribution Fund	Sales and Acquisition Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Appropriation from Commonwealth	$ 24,368,894	$ -	$ -	$ 12,464,309	$ -	$ 6,336,223	$ 43,169,426
Sale and Lease of Housing Units and Land Lots	-	-	-	1,455,406	1,057,351	-	2,512,757
Rent	-	-	-	-	-	750,000	750,000
Indirect Cost	-	-		375,000	-	11,140,664	11,515,664
Federal Grants	-	29,420,571	1,091,204,502	-	-	1,484,602	1,122,109,675
Interest and Investment Income	-	-	30,740	452,356	270,400	98,886	852,382
Management and Developers Fees	-	-	-	95,156	-	-	95,156
Other	-	-	242,502	6,583	695,304	543,766	1,488,155
Total Revenues	24,368,894	29,420,571	1,091,477,744	14,848,810	2,023,055	20,354,141	1,182,493,215
EXPENDITURES:							
Current							
General and Administrative	19,250,457	506,680	117,560,021	1,017,204	751,022	12,203,955	151,289,339
Construction and Rehabilitation	-	28,913,891	538,968,928	159,579	-	1,398,746	569,441,144
Community Development Assistance	-	-	434,106,992	-	-	-	434,106,992
Tenant, Utility Services and Maintenance	-	-	-	11,123,736	-	918,456	12,042,192
Capital Outlays	1,812,243	-	1,497,800	201,591	-	80,966	3,592,600
Debt Service:							
Principal	-	-	246,911	-	-	-	246,911
Interest	-	-	22,369	-	-	-	22,369
Total Expenditures	21,062,700	29,420,571	1,092,403,021	12,502,110	751,022	14,602,123	1,170,741,547
EXCESS OF REVENUE OVER (UNDER) EXPENDITURE	3,306,194	-	(925,277)	2,346,700	1,272,033	5,752,018	11,751,668
OTHER FINANCING SOURCES (USES):							
Leases (As Lessee)	-	-	925,277	-	-	-	925,277
Transfers In	-	-	-	-	143,837	3,416,490	3,560,327
Transfers Out	(2,815,199)	-	-	(601,291)	-	(143,837)	(3,560,327)
Total Other Financing Sources (Uses)	**(2,815,199)**	**-**	**925,277**	**(601,291)**	**143,837**	**3,272,653**	**925,277**
Net Change In Fund Balances	**490,995**	**-**	**-**	**1,745,409**	**1,415,870**	**9,024,671**	**12,676,945**
Fund Balances – Beginning	42,791,985	-	-	27,514,455	15,371,391	20,499,721	106,177,552
FUND BALANCES – ENDING	**$ 43,282,980**	**$ -**	**$ -**	**$ 29,259,864**	**$ 16,787,261**	**$ 29,524,392**	**$ 118,854,497**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

Net Change in Fund Balances – Government Fund		**$ 12,676,945**
Amount reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	$ 3,592,600	
Depreciation Expense	(3,061,022)	
Excess of Depreciation and Amortization Expense over Capital Outlays		531,578
Proceed of loans provide currrent financial resources to governmental funds, but issuing debt increase Noncurrent Liabilites in the Statement of Net Position. In the current period, proceeds corresponded to the implementation of GASB Statement No. 87, Leases		(925,277)
Revenues in the Statement of Activities that do not provide the use of current financial resources are not reported as revenues in the funds. These activities consist of:		
Deferred Revenues		(1,547,764)
Changes in Fair Value of Housing Units Held for Sale are not recorded in the Governmental Fund Reports. However, these changes represent an unrealize gain or loss in the Statement of Activities.		2,907,442
Some expense reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in governmental funds. These activities consist of:		
Change in Allowance for Doubtful Account VM-1	(449,856)	
Change in Total Pension Liability	28,233,352	
Change in Other Postemployment Benefits	659,066	
Change in Due to Other Governmental Agencies	248,396	
Accrued Legal Claims	(1,366,298)	
Principal Payments on Leases	246,911	
Compensated Absences	(1,821,613)	
Accrued Termination Benefits	382,654	
Total Additional Expenses		26,132,612
Change in Net Position of Governmental Activities		**$ 39,775,536**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

	Fiduciary Funds			
	Ponce en Marcha Fund	Special Communities Fund	Remedy Fund	Totals
ASSETS:				
Other State Funds Receivable	$ 336,410	$ 24,948	$ 1,107,178	$ 1,468,536
TOTAL ASSETS	**$ 336,410**	**$ 24,948**	**$ 1,107,178**	**$ 1,468,536**
LIABILITIES:				
Due to Government Units	$ 336,410	$ 24,948	$ 1,107,178	$ 1,468,536
TOTAL LIABILITIES	**$ 336,410**	**$ 24,948**	**$ 1,107,178**	**$ 1,468,536**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

	Fiduciary Funds			
	Ponce en Marcha Fund	Special Communities Fund	Remedy Fund	Totals
ADDITIONS:				
Contributions	$ -	$ -	$ -	$ -
TOTAL ADDITIONS	**$ -**	**$ -**	**$ -**	**$ -**
DEDUCTIONS:				
Payments on Behalf Government Units	$ -	$ -	$ -	$ -
TOTAL DEDUCTIONS	**$ -**	**$ -**	**$ -**	**$ -**

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Department of Housing of the Commonwealth of Puerto Rico (PRDH) was created by Act No. 97 of June 10, 1972. Through a Secretary appointed by the Governor of the Commonwealth, the PRDH is engaged in the implementation of the governmental policy related to the public housing. This includes, among other things, the acquisition, sale, lease and operation of public housing projects and land development to provide housing to low and moderate-income families.

By Act No. 58 of August 9, 1991, the Puerto Rico Public Housing Administration (PRPHA), created by Act No. 66 of August 17, 1989, was ascribed to the PRDH, and designated to assume certain assets, liabilities and operations of the Puerto Rico Urban Renewal and Housing Corporation (PRURHC), to liquidating them under the responsibility of the PRDH.

Financial Reporting Entity

The PRDH is part of the Commonwealth of Puerto Rico. Accordingly, its financial data is included as part of the Commonwealth of Puerto Rico financial statements.

The PRDH accompanying financial statements are issued solely to comply with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and for the information and use of the PRDH management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Summary of Significant Accounting Policies

The accompanying basic financial statements of the PRDH have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standard Board (GASB).

Going Concern Evaluation

On an annual basis, as required by Governmental Accounting Standards Board ("GASB") No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, the PRDH performs an evaluation to determine whether there are conditions or events (known and reasonably knowable), considered in the aggregate, that raise substantial doubt about the PRDH's ability to continue as a going concern within one year for the twelve (12) months beyond the financial statements date, including any currently known information that raise substantial doubt shortly thereafter. Management has concluded that there is no material uncertainty related to the PRDH's ability to continue as a going concern through the date the financial statements were available to be issued.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Basis of Presentation and Fund Accounting

The accompanying basic financial statements present the financial position of the governmental activities, business-type activities, each major governmental fund, and the aggregate remaining fund information of PRDH at June 30, 2023, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2023 in conformity with GAAP.

The minimum required financial statements presentation applicable to PRDH is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to the basic financial statements, and (4) required supplementary information (RSI).

The basic financial statements of PRDH have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units. The basic financial statements include both government-wide (based on PRDH as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental.

The financial information of PRDH is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis requires supplementary information that introduces the basic financial statements and provides an analytical overview of PRDH's financial activities.

Government-Wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information on all the activities of PRDH. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for PRDH's governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by PRDH's management are not presented as restricted net position.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different business-type activities of PRDH and for each function of PRDH's governmental activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provides information about PRDH's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

This presentation is deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how PRDH's actual experience conforms to the budgeted fiscal plan.

The accounts of PRDH are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures.

Fund financial statements report detailed information about PRDH. The focus of GFFS is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively, (1) an individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures; (2) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of particular importance to financial statement users.

The following are the governmental funds presented in the financial statements as of, and for the year ended June 30, 2023:

<u>General Fund</u> – This fund includes the current financial resources, which relate to the general operations of the PRDH. These operations consist of the general administration and other activities.

<u>CDBG Fund</u> – This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant program. This program provides annual grants to municipalities to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

<u>CDBG-DR Fund</u> – This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant Disaster Recovery Program. This program provides grants to rebuild areas affected by Presidentially declared disasters and provide crucial seed money to start the recovery process. Since CDBG Disaster Recovery (CDBG-DR) assistance may fund a broad range of recovery activities, it is designed to communities and neighborhoods that otherwise might not recover due to limited resources.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Self-Contribution Fund – This fund is maintained by the PRDH to account for current financial resources received from proceeds of sale and rent of land lots, indirect costs, fees for elderly care and other revenues collected from sources other than intergovernmental or federal subsidies. Also, it includes the resources and expenditures received and used respectively for the improvement of the PRDH's main building.

Sales and Acquisition Fund – This fund is maintained by the PRDH to account for current financial resources received to liquidate the assets of the former Puerto Rico Urban Renewal and Housing Corporation (PRURHC) and to meet its financial obligations with the proceeds to sales.

Other Governmental Funds – Accounts for and reports other financial resources not included in the General Fund or the Special Revenue Fund.

The financial statements of the governmental funds are the following:

Balance Sheet – Governmental Funds – Report's information on June 30, 2023 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – Report's information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2023.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each difference.

In addition, the PRDH reports fiduciary funds that are custodial in nature (assets equal liabilities) and does not involve measurement of the PRDH results of operations (see Note F). The financial statement of the fiduciary funds is the following:

Statement of Fiduciary Net Position – Assets and liabilities are presented in a classified format to distinguish between current and long-term assets and liabilities. No deferred outflows/inflows of resources are presented.

Statement of Changes in Fiduciary Net Position – Additions and deductions are presented, when occur, in the Fiduciary Funds.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported as gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities' column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

PRDH reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Notes to the Basic Financial Statements

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

Required Supplementary Information – Budgetary Comparison Schedule – General Fund (Unaudited)

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees Retirement System (Unaudited)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the PRDH to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Total Pension Liability to the Employees' Retirement Systems.

Required Supplementary Information – Other Postemployment Benefits (Unaudited)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, revises existing standards for measuring and reporting pension liabilities for other postemployment benefits (OPEB) provided by the PRDH to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Total OPEB Liability to the Employees' Retirement Systems.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which PRDH gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Federal grants revenues are financial resources approved by HUD and are recorded in the accounting period in which the resources are collectible and available for expenditure in the current accounting period. Legislative appropriations, which represent annual appropriations from the Commonwealth of Puerto Rico, are recorded when approved, collectible and available for expenditure in the current accounting period.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The *Statement of Net Position* and the *Statement of Activities* display information of all of the non-fiduciary activities of PRDH, the primary government, as a whole. PRDH activities are considered governmental type.

Government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. For the most part, the effect of inter-fund activity has been removed from these statements. The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each of the programs of the governmental activities of PRDH.

Direct expenses are those that are specifically associated with a service or program and therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs and functions using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not.

Program revenues include changes paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws for the general revenues of PRDH.

Governmental Funds Financial Statements

The 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. 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 these purposes, PRDH considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that PRDH earns by incurring obligations are recognized in the same period as when the obligations are recognized. On June 30, 2023, all revenues sources met this availability criterion.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by PRDH.

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 on notes payable are recorded when they mature (when payment is due). Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

Statutory (Budgetary) Accounting

The PRDH's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting, which is not in accordance with the modified accrual basis of accounting. Revenues are generally recognized when cash is received.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, by means of Act No.123 from August 17, 2001, which amended the existing appropriations and encumbrances lapsing provision of Act No. 230 from July 23, 1974.

Amounts required settling claims and judgments against the PRDH, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the PRDH uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the PRDH governmental funds, encumbrance is a significant aspect of budget control.

Budgetary Control

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, *Puerto Rico Oversight, Management and Economic Stability Act* (PROMESA).

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is purchase orders, contracts and other commitments of appropriated resources) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances, outstanding at fiscal year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis, because such commitments will be honored during the subsequent fiscal year.

The Department of the Treasury and the Office of Management and Budget of Puerto Rico has the responsibility to ensure that budgetary spending control is maintained in the PRDH. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System ("PRIFAS"). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the PRDH's total available spending authorization. The legal level of budgetary control at the PRDH is for general fund expenditures.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the PRDH. The PRDH reimburses the Commonwealth for premium payments made on its behalf. The PRDH's current insurance policies have not been canceled or terminated.

For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers' compensation insurance to the PRDH's employees.

PRDH is authorized to deposit only in financial institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the PRDH. The restricted cash includes purchase option deposits to be credited to sales of housing properties. The deposits are transferred to the general account when the sale is consummated.

Inter-Fund Balances

Interfund receivables and payables outstanding at year end are referred to as due to/from other funds. The Self-Contribution Fund provides services, at cost, to the HUD Programs Funds, with the attempts of recovering such amounts in a period of one (1) year or less. Also, the Sales and Acquisition fund maintains an inter fund balance (Receivable) with regards to the Self Contribution fund (Payable). Eliminations are made in the government-wide statements of the amounts reported as inter-fund receivables and payables.

Interfund Transfers mainly corresponds to invoices for security services paid from Other Governmental Fund for services received by the Self-Contribution Fund. Both funds are non-Federal.

Capital Assets

Capital assets used in the governmental operations are accounted for in the government-wide financial *Statement of Net Position*, rather than in the Governmental Funds. When capital assets are purchased, such are recorded as capital outlays' expenditures in the governmental funds. They are stated at cost. Major modernizations and betterments are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of an asset, are not, when assets are sold, retired or otherwise disposed of, the cost is removed.

Depreciation of capital assets is computed and recorded under the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are parking and building to forty (40) years and other capital assets three (3) to five (5) years. Lease assets are amortized over the shorter of the lease term or the useful life of the asset.

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NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 PRDH recognizes deferred outflows and inflows of resources in the Statement of Financial Position in a separate section following Assets. Similarly, the PRDH reports deferred inflows of resources in the Statement of Net Position in a separate section following Liabilities. This separate financial statement element, *Deferred Outflows of* Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as benefit payments made after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are capitalized and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

In addition to liabilities, the statement of financial position will sometime 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 future periods and so will not be recognized as inflows of resources (revenues) until that time.

Net differences between projected and actual earnings on pension plan investments are deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

Note G provides details on deferred outflows of resources and deferred inflows of resources.

Compensated Absences

PRDH accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 8 of February 6, 2017, as amended by Act No. 26 of April 29, 2017, PRDH's employees are granted 24 days of vacations and 12 days of sick leave annually. New employees accumulate retroactively after the first 3 months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation. PRDH accrued a liability for compensated absences, which meet the following criteria: (1) PRDH 's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, Compensated Absences, PRDH has accrued a liability for compensated absences, which has been earned but not taken by PRDH's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation pay using salary rates effective on June 30, 2023. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

Use of Estimates

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

Cash and Cash Equivalents

The PRDH considers all highly liquid investments with a maturity of three (3) months or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest-bearing accounts in commercial banks.

Federal Grants

Contributions received from Federal grants are credited to operating revenues under the HUD Programs in the accounting period in which they are earned and become measurable.

Fair Value

The PRDH follows the provisions of GASB Statement No. 72, *Fair Value Measurements and Application.* The fair value measurements made in the accompanying financial statements assume that transactions take place in the PRDH's principal market, or the PRDH's most advantageous market in the absence of a principal market. Fair values have been measured assuming that general market participants would act in their economic best interest.

To determine fair value measurements, fair values have not been adjusted for transaction costs and the PRDH has considered the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards.

The PRDH has used valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair values. The techniques applied are consistent with one or more of the following approaches: (1) the market approach, (2) the cost approach, or (3) the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques have been applied consistently, though a change may be appropriate in certain circumstances.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The fair value measurements applied by management take into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, the PRDH uses the fair value of that asset to measure the fair value of the liability. The PRDH's financial instruments consist of cash and cash equivalents, accounts and loans receivable, other assets, accounts payable and accrued liabilities, bonds and notes payable and other long-term obligations.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Based on the criteria set forth above, the PRDH has classified its financial instruments as Level 2 instruments as of June 30, 2023.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The PRDH's valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The observability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2023, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments on June 30, 2023. There have been no changes in valuation methods.

- For cash in commercial banks and deposits with governmental bank, accounts and loans receivable, other assets and accounts payable and accrued liabilities, their respective estimated fair values approximate their carrying amounts recorded in the accompanying financial statements. The cost or contract value (net realizable value of assets and estimated settlement amounts of liabilities) was used to determine their respective fair values of these assets and liabilities due to their short-term nature and maturity periods.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- For bonds payable, notes payable and other Long-term obligations, the estimated fair values also approximate carrying amounts. These obligations have been incurred at the prevailing market interest rates and terms for these types of instruments, accordingly, the PRDH determined their fair values using valuation models that use observable market quotes.

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument are significant and can materially impact the changes in net position and fund balances of the PRDH. The valuations are based on information available on June 30, 2023 and are based on expectations and assumptions that have been deemed reasonable by management.

Estimates developed using alternate are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflect market and credit risk.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable or reflective of future fair values. Furthermore, while management believes that the PRDH's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, the difference between the estimated fair values and carrying values of the PRDH's financial instruments were not considered significant by the PRDH on June 30, 2023.

Leases

In Fiscal Year 2022, the PRDH adopted the Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB Statement No. 87). GASB Statement No. 87 establishes a uniform approach for lease accounting based on the principle that leases are financing of the right to use an underlying asset. The new leases standard also requires enhanced disclosure which includes a general description of the leasing arrangements, the aggregate amount of resources outflows recognized from lease contracts, including those not included in the measurement of the lease liabilities, and the disclosure of the long-term effect of lease arrangements on a government's resources. The PRDH reviewed its existing leases and asserted that some leases should be reported under the new standard. Accordingly, the PRDH has recognized a lease liability and an intangible right-to-use lease asset (a capital asset hereinafter referred to as the lease asset) for the period presented in these financial statements.

Accounting for Pension Costs

As further disclosed in Note K, effective July 1, 2017, the "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (PRGERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were ordered to be liquidated, and its proceeds should be transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The change to the "Pay-As-You-Go" basis resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. The following contributions are eliminated by Act No. 106-2017:

- Act No. 116-2011 employer contributions – was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25 of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later.

- Act No. 32-2013 Additional Uniform Contribution.

- Act No. 3-2013 Supplemental Contributions – was $2,000 for each pensioner who was previously benefiting as an Act No, 447-1951 and Act No. 1-1990 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to $1,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As PRGERS is a multiple employer plan and the benefits are no longer funded by a pension trust, GASB No. 73 applies to the pension benefits provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer.

Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017.

In addition to the pension benefits described in Note K, 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. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and Municipality funds (see Note L).

Net Position

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

Net Investment in Capital Assets – This consists of capital assets, less accumulated depreciation and reduced by any outstanding debt related to the acquisition, construction or improvement of those assets.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Restricted Net Position – Result when constraints placed on net assets use are either externally imposed by grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net positions which do not meet the definition of the two (2) preceding categories.

Net Position Flow Assumption

Sometimes PRDH will fund outlays for a particular purpose from both restricted (e.g., restricted notes or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, the PRDH's policy is to consider whether the restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance

PRDH implemented GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions".* This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable* – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* – amounts constrained to specific purposes by their providers (such as grantors), through constitutional provisions, or by enabling legislation.
- *Committed* – amounts constrained to specific purposes by the PRDH itself, using its highest level of decision-making authority (such as legislation). To be reported as committed, amounts cannot be used for any other purpose unless the PRDH takes the same highest level action to remove or change the constraint.
- *Assigned* – amounts the PRDH intends to use for a specific purpose. Intent can be expressed by the PRDH or by an official or body to which the PRDH delegates authority.
- *Unassigned* – all amounts not included in other spendable classifications.

This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). The assigned fund balance is established by the PRDH through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

New Accounting Standards Adopted

In Fiscal Year 2023, the PRDH adopted the Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The PRDH reviewed its existing SBITAs and asserted that such leases have a maximum possible term of 12 months or less. Accordingly, the PRDH has not recognized a SBITA liability and an SBITA asset (a capital asset) for the period presented in these financial statements.

Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2023. The PRDH is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements (FY 2023-2024 or after).

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (FY 2023-2024), and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Another objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Examples include, but are not limited to, the composition of any of the following:

a. Employers
b. Industries
c. Inflows of resources
d. Workforce covered by collective bargaining agreements
e. Providers of financial resources
f. Suppliers of material, labor, or services.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. Examples include, but are not limited to, the following:

a. Limitations on raising revenue
b. Limitations on spending

continue

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

c. Limitations on the incurrence of debt
d. Mandated spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*

The requirements of this Implementation Guide are effective as follows:

Question 5.1 for reporting periods beginning after June 15, 2023 (FY 2023-2024).

Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023*

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.9 and 5.1 for fiscal years beginning after June 15, 2023, and all reporting periods thereafter (FY 2023-2024).
Question 4.10 simultaneously with the requirements of Statement 100 (FY 2023-2024).

Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

PRDH has not yet determined the effect these statements will have on the PRDH's basic financial statements.

continue

NOTE B – CASH AND CASH EQUIVALENTS, AND RESTRICTED DEPOSITS

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The PRDH is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the PRDH invests its funds in interest bearing bank accounts and certificates of deposit. The PRDH is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the PRDH. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation. During the year ended June 30, 2023, the PRDH invested its funds in bank accounts bearing interest.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, PRDH will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth, PRDH may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico.

PRDH maintains cash balances in commercial banks. The Federal Deposit Insurance Corporation insures these balances up to $250,000. As of June 30, 2023, the uninsured portion of this balance was $29.4 million. Additionally, approximately $61 million is under the custody of the Secretary of the Treasury of Puerto Rico pursuant to Act. No. 230 from July 23, 1974 as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash and cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the PRDH in such pooled cash accounts are available to meet its current operating requirements. No collateral is required to be maintained for these pooled accounts.

Therefore, PRDH management has concluded that on June 30, 2023, the custodial credit risk associated with PRDH cash and cash equivalents is considered low.

Restricted Cash

On June 27, 2001, the PRDH and U.S. Housing and Urban Development (HUD) signed an Amendment to Memorandum of Understanding which required, among other things, the deposit of all residual receipts in a special escrow account. This account is required to maintain collateral in the form of investments to prevent the risk of loss to the principal balance. All accrued interest shall be deposited in this account. Also, any profit generated from the sale of multifamily properties, as defined, should be deposited in this account within ten (10) business days after the sale is consummated. The funds deposited in this account shall be used for necessary and eligible activities within the Housing Programs of the PRDH that directly relate to the expansion of the supply of low and moderate-income housing and other initiatives covered in the Housing Program such as; development of lots (Turnkey Lots), construction of housing for sale and construction or rehabilitation of infrastructure which might be needed to facilitate housing for qualified low-income families. Withdrawals from the special escrow account shall only be made upon written authorization of the HUD Director of the Caribbean Multifamily Program Center and by PRDH.

continue

NOTE C – ACCOUNTS RECEIVABLE

Grants and Other Receivables

Grant's receivable on June 30, 2023 consists of federal grants receivable as follows:

Federal Program	Amount
Community Development Block Grant Program	$ 7,065,445
Community Development Block Grant Program – Disaster Recovery Program	200,540,729
Continuum of Care Program	62,426
	$ 207,668,600

Additionally, the PRDH have accounts receivable from Governmental Entities and Other State Fund Receivable as follows:

Due From Governmental Entities and Other State Fund Receivable	Amount
Amount Due from Assurance Reserve Fund of Partnership Agreement	$ 17,099,351
Advances to Municipalities (PIAF Program)	159,666,610
Amount Due from Related Entity	17,693,153
Other	42,842
	$ 194,501,956

The advances to municipalities are related to the Project Implementation Advance Funds (PIAF). Under PIAF, if a municipality cannot meet the criteria for advance payments and it is determined that reimbursement is not feasible because the municipality lacks sufficient working capital, the PRDH may provide cash on a working capital advance basis to accelerate recovery efforts, better execute program implementation, and to broaden access to local and small businesses that depend on immediate payment.

NOTE D – DUE FROM RELATED PARTNERSHIP AGREEMENT

On August 1, 2008, the PRDH became a general partner of Vivienda Modernization Holdings 1, S.E. ("the Partnership"), a Puerto Rico civil partnership that was formed on August 1, 2008 to acquire a 100%-member interest in Vivienda Modernization 1, LLC ("the Project Company"), a Puerto Rico limited liability company. The Project Company was formed to acquire, develop, rehabilitate, own, maintain and operate 33 residential rental properties located in Puerto Rico ("the Projects"). The properties are rented to low-income tenants and are operated in a manner necessary to qualify for federal low-income housing tax credits as provided for in Section 42 of the Internal Revenue Code ("IRC").

The investment partnership is Hudson Housing Tax Credit Fund XL LP ("the Investor Limited Partner"). The special limited partner is Hudson SLP XL LLC ("the Special Limited Partner"); a Delaware limited liability company (collectively with the Investor Limited Partner, referred to as the "Limited Partners").

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any one year shall be allocated 99.98% to the Investor Limited Partner, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the IRC.

continue

NOTE D – DUE FROM RELATED PARTNERSHIP AGREEMENT – continuation

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $224 million to the Partnership ("Initial Projected Equity"). The Capital Contribution is subject to adjustment in accordance with the provisions outlined in Section 5.02 of the Partnership Agreement. As of June 30, 2023, Limited Partners have provided capital contributions totaling $126,636,341.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have no sufficient funds available to pay the outstanding balance of the developer's fee thereof, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2023, the General Partner had provided no capital contributions.

Pursuant to the Partnership Agreement, the Project Company is required to pay an annual management fee of $61,980 to the General Partner for services rendered in connection with the administration of the Partnership's business affairs. The fee shall be adjusted annually by 3% and is payable from gross effective income, as further defined in the Partnership Agreement. To the extent funds are available in the Social Services Subaccount, the Partnership is also required to pay the Puerto Rico Public Housing Authority ("PRPHA") an additional annual fee of $50,000. The fees are payable in December of each year and shall accrue. As of June 30, 2023, the General Partner earned and was owed $490,510.

On July 14, 2010, the General Partner and the Limited Partners (collectively, the "Partners") entered into a Memorandum of Understanding ("the MOU"). The MOU details certain mutually agreed-upon resolutions to issues that have arisen during construction and rehabilitation of the Projects, with the expectation of amending and restating the Partnership Agreement. The contemplated resolution includes changes to certain commitments of the Partners affecting tax credits delivery and the resulting capital to be contributed, as well as various revisions to the respective rights and obligations of the Partners. On December 30, 2010, the Partners entered into the First Amended and Restated Agreement of Partnership.

Assurance Reserve Fund

Pursuant to the Partnership Agreement, the PRDH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4,000,000 (plus any initial capital contribution with respect to the apartment complexes).

Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction of the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Agreement. As of June 30, 2023, such reserve was maintained in the Partnership. The amount owed to PRDH for the assurance reserve fund as of June 30, 2023, amounted to $16,608,841, presented as Due from Governmental Entities and Other State Fund Receivable on Self-Contribution Fund.

Deferred Purchase Price Note

Also, on August 7, 2008, the PRDH entered in a loan agreement with Vivienda Modernization 1, LLC ("the Project Company") in the amount of $102,889,957 for the acquisition of 33 residential rental properties ("the Deferred Purchase Price Note"). The Project Company shall make payments equal to the amount of net available capital contributions for the preceding calendar quarter. Net available capital contributions are defined as: (i) the aggregate capital contributions received by the Project Company during the preceding calendar quarter, less (ii) any increase in the Assurance Reserve funded from such capital contributions during the preceding quarter as permitted under the Partnership Agreement, plus (iii) any amount the Project Company no longer needs to maintain the Assurance Reserve.

continue

NOTE D – DUE FROM RELATED PARTNERSHIP AGREEMENT – continuation

The terms of the deferred purchase price note are described as set forth below:

Commitment:	$102,889,957
Interest rate:	3.55%
Maturity date:	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

This note shall be the full recourse liability of the Project Company; however, none of the Project Company's members have personal liability. As of June 30, 2023, the principal balance outstanding on the deferred purchase price note was $8,754,831 and accrued interest was $4,439,963 (for a total balance of $13,194,794).

Due from Related Entity – Developer's Fees

Additionally, on August 7, 2008, Vivienda Modernization 1, LLC ("the Project Company") entered into a Master Developer Agreement with the PRDH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, the PRDH will earn a developer's fee in the amount of $75,082,335 for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Developer Agreement. As of June 30, 2023, the Project Company owed PRDH a net amount of $57,035,794 that included a reduction of $14,046,541 as allowance of uncollectible, based on adjustment in accordance with the provision of the Partnership Agreement. Total amount owed to PRDH amounted to $70,802,386 ($16,608,841 from the Assurance Reserve Fund plus $54,193,545 of Developer's Fees) is presented in the *Statement of Net Position*.

On June 4, 2015, the PRDH along with the Puerto Rico Public Housing Administration (PRPHA) and McCormack Baron Salazar, Inc. (the Developer), a Missouri corporation acting through its whole-owned subsidiary McCormack Baron Puerto Rico Developer, LLC (the Developer), entered into three Master Development Agreements (MDA) to transform certain developments (redevelopment) through a development strategy. In accordance with the strategy, the Developer prepared an Implementation Plan which was approved by the PRDH and the PRPHA. The three redevelopments were: Las Gladiolas Public Housing Development, Puerta de Tierra Housing Development and José Gautier Benítez Public Housing, which include two projects, a multi-family project and an elderly project.

PRPHA, the public housing authority for the Commonwealth of Puerto Rico, has submitted, and HUD has approved, a mixed-finance proposal for each of these redevelopments in accordance with Section 35 of the U.S. Housing Act of 1937. The mixed finance provides for a U.S. Department of Housing and Urban Development (HUD)'s operating subsidy for certain of the units and the use of federal development funds known as capital funds made available for the development and construction.

The PRPHA's housing commitment for the projects is approximately $65 million. The Developer will review and pursue funding sources. The Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

Memorandum of Understanding

On June 23, 2016, the PRDH entered into a Memorandum of Understanding (the "MOU") with the PRPHA, in which the PRPHA agrees to provide support and assistance to the PRDH in furtherance of the PRPHA's purpose and objectives, as part of this redevelopment strategy. In connection with this MOU, the PRPHA performed the disbursements of funds to the Developer, accounting services and other management assistance related to the redevelopments and the re-occupancy of the projects.

continue

NOTE D – DUE FROM RELATED PARTNERSHIP AGREEMENT – continuation

Lease

With the approval of HUD, the PRPHA transferred the redevelopment properties to the PRDH, so that the same could be redevelop as a mixed-finance projects pursuant to 24 CFR § 905 Subpart F. The PRDH in turn entered into leases with the Developer. The term of the lease is for 75 years and requires a payment of $1 per project, but such termination could be advanced to an earlier date by express, written agreement of the parties, or by operation of law. Upon termination of the leases, the improvements and equipment will be automatically transferred in favor of the PRDH. The PRDH in turn will transfer the projects to the PRPHA.

Predevelopment Loan

On September 10, 2015, the PRDH entered into a predevelopment loan and advance of funds agreement with the Developer. The PRDH used the funds to provide to the Developer funds advances under a predevelopment loan for certain eligible costs to be incurred by the Developer as described in the predevelopment budget, upon approval by HUD. The predevelopment budget, as amended, was $6,376,190 and the source of the funds was as follow:

Department of Housing	$	2,325,295
McCormack Baron PR Developer, LLC		2,325,295
Department of Housing (for Developer Overhead)		1,725,600
	$	6,376,190

The PRPHA agreed to make a loan to the Developer in a principal amount of up to 50% of third-party costs incurred by Developer (Developer will pay the other 50%) and for 100% of the predevelopment developer overhead in accordance with the predevelopment budget. The predevelopment loan shall not bear interest and advances will be made by the PRPHA on the PRDH's behalf. On June 30, 2023, the account receivable for advances made to the Developers for predevelopment costs of the projects amounted to $3,837,863 (see Note Q).

The principal amount of the predevelopment loan attributable to each of the developments shall mature and be due and payable on the earlier of (a) execution of the predevelopment loan agreement for each development; (b) upon closing for such development, or (c) the termination of the corresponding master development agreement, as provided in the loan agreement.

Construction Loans

PRDH agrees to make available to the Developer, from time to time, as construction of the developments progresses, advances under a non-revolving line of credit facilities. The PRPHA will make available certain funds to the PRDH for the PRDH to lend to the Developer certain permanent loans. Additionally, the Developer will request from other national banking association to lend them certain construction loans. The PRDH's housing commitment for the projects is approximately $65 million. The Developer will review and pursue funding sources. The Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

On the conversion date and to the extent that the Developer shall have paid in full to the PRDH all interest accrued under the construction loan facility, the outstanding principal amount of the advances shall be converted into a term note. The unpaid balances of these obligations shall bear interest from the date of the leasehold mortgage note until full payment thereof, at an annual rate equal to six hundred basis (600) points per annum.

The Developer will request additional funds from other private national banking institutions, as needed.

continue

NOTE D – DUE FROM RELATED PARTNERSHIP AGREEMENT – continuation

Once the construction loan facilities are converted into term loans, the loans aggregate unpaid principal amounts, plus any accrued and unpaid interests shall become due and payable on the 75th anniversary of the first day of the month immediately succeeding the closing date; or the date on which an early termination provision under ground lease is exercised by the parties; or the date of occurrence of an event of default. On June 30, 2023 total Note Receivable from Developer and accrued interest receivable amount to $46,792,944 and $2,631,660, respectively, segregated by project as follow:

Project	Note Receivable	Accrued Interests	Total
Las Gladiolas Public Housing	$11,291,288	$ 237,116	$11,528,404
Puerta de Tierra Public Housing	13,692,554	287,544	13,980,098
Gautier Benítez – Multifamily	12,163,100	1,156,000	13,319,100
Gautier Benítez – Elderly Home	9,646,002	951,000	10,597,002
Total	**$46,792,944**	**$ 2,631,660**	**$49,424,604**

Total predevelopment loan and construction loan amount to Total Note Receivable from Developer of $53,262,467.

NOTE E – HOUSING UNITS AND LAND LOTS HELD FOR SALE OR LEASE

The PRDH has an inventory of land lots held for sale or lease. This inventory was valued at a nominal amount of $1 per land lot since it will be granted to low income families at no cost. For the year ended on June 30, 2023, the value of the land lots held for sale or lease was $39,773 under the governmental activities.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires the government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. With the adoption of the Statement, Housing units and lots held for sale are stated using a financial forecast developed by PRDH, due to the absent of reasonably available information's that indicates that market participants would use different assumption.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs–other than quoted prices–included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

PRDH applies Level 3 as the measure of evaluating its fair values for the Housing Units and Lots Held for Sale based on the nature of the assets being evaluated. PRDH does not record all changes in estimated realizable fair value of all the housing units and lots held for sale due to Level 3 inputs are difficult to obtain on a regular basis and require verification from an outside party, and the high cost of appraisal services versus the short time benefit of one year of such services.

The PRDH has an inventory of housing units under the Sale and Acquisition fund. Land lots held for sale consist of real estate properties including parcels of land, houses and apartments. These properties are stated at their fair value determined by the application of a financial forecast based on the changes in the Purchase-only House Price Index prepared by management.

continue

NOTE E – HOUSING UNITS AND LAND LOTS HELD FOR SALE OR LEASE – continuation

The PRDH has an inventory of housing units under the Sale and Acquisition fund for a total $46,006,360, measured at fair value as of June 30, 2023, as follows:

Description	Amount
Housing Units and Land Lots	$ 46,006,360
Adjustments to FMV	2,907,442
Housing Units and Lots Held for Sale, Net	$ 48,913,802

Land lots held for sale consist of real estate properties including parcels of land, houses and apartments. These properties are stated at their fair value determined by the application of a financial forecast based on the changes in the Purchase-only House Price Index prepared by management.

On August 3, 2000, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 383 establishing that "Finca San Patricio" was to be retained for the development of a public urban forest. It is presented as a Restricted Land Lot.

NOTE F – CAPITAL ASSETS

A summary of the activity of capital assets for the governmental activities group follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	$ 850,831	$ -	$ -	$ 850,831
Construction in Progress	339,924	-	-	339,924
	1,190,755	-	-	1,190,755
Capital Assets Depreciated:				
Vehicles, Fixtures and Equipment	7,140,898	2,667,323	-	9,808,221
Right-to-Use – Equipment	-	163,696	-	163,696
Parking and Building	5,164,129	-	-	5,164,129
Right-to-Use – Parking	-	761,581	-	761,581
Building	30,000,000	-	-	30,000,000
Building Improvements	21,525,268	-	-	21,525,268
Total Capital Assets Before Depreciation	63,830,295	3,592,600	-	67,422,895
Less Accumulated Depreciation and Amortization	(32,159,365)	(3,061,022)	-	(35,220,387)
Total Depreciable Capital Assets (Net)	31,670,930	531,578	-	32,202,508
CAPITAL ASSETS NET	**$ 32,861,685**	**$ 531,578**	**$ -**	**$ 33,393,263**

The depreciation and amortization expense are recorded as a general and administrative function in the Government Wide financial statements.

continue

NOTE G – DEFERRED 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 PRDH may recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the PRDH 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 PRDH has items that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows/inflows from changes in the Total Pension Liability (Note K).

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.

NOTE H – LEASES

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The right-to-use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The PRDH uses imputed incremental borrowing rate (IBR) when readily determinable. As most of the leases do not provide an IBR, the PRDH uses the interest rate charged by the Lessor based on the information available at the commencement date to determine the present value of lease payments. The IBR used to determine the present value of lease payments are derived by reference to the Treasury Yield Rates at the lease commencement date, which varies from .33% to 4.37%. Lease assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term, the PRDH used the lease term.

Lease asset activity for the year ended June 30, 2023, was as follows:

Right-to-Use – Equipment	$	163,696
Less: Amortization		(68,598)
Total Right-To-Use Equipment Less Accumulated Amortization	$	95,098

Right-to-Use – Parking	$	761,581
Less: Amortization		(187,414)
Total Right-to-Use – Parking Less Accumulated Amortization	$	574,167

As of June 30, 2023, the PRDH had minimum principal and interest payment requirements for its leasing activities, with a remaining term of more than one year, as follows:

Fiscal Year Ending June 30:	Principal	Interest
2024	$338,008	$20,557
2025	293,605	8,441
2026	46,753	248
Totals	$678,366	$29,246

NOTE I – COMPENSATED ABSENCES

Total vested pay benefits accrued for compensated absences on June 30, 2022, amount to $2,692,847 which activity for the year ended June 30, 2023, is summarized as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Current	Noncurrent
$ 2,692,847	$ 2,857,277	$ (1,035,664)	$ 4,514,460	$ 112,718	$ 4,401,742

continue

NOTE J – VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the PRDH. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the PRDH will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the PRDH.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the PRDH's financial statements of a liability of $2,481,783 in the accompanying statement of net position as of June 30, 2023, and a charge of $382,654 under general and administrative in the accompanying statement of activities for the year ended June 30, 2023. On June 30, 2023, unpaid long-term benefits granted on this program were discounted at 2.03%. Accrued voluntary termination benefits on June 30, 2023, and changes for the year then ended were as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Current	Noncurrent
$ 2,864,437	$ 139,175	$ (521,829)	$ 2,481,783	$ 407,497	$ 2,074,286

NOTE K – EMPLOYEES' RETIREMENT PLAN

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as measurement date as of June 30, 2022 for reporting period as of June 30, 2023.

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

SIGNIFICANT CHANGES

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions ($0.7 billion), eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits ($0.1 billion), and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 ($1.2 billion).

These changes reduced the Total Pension Liability as of June 30, 2022 by $2.0 billion. The reduction is recognized immediately as a plan change. Following is presented the Summary of Plan Provisions as of June 30, 2022, and a comparison of major changes in participant data.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Participant Data

	July 1, 2020 Census Data Collection	July 1, 2021 Census Data Collection	Total Changes
Active Members			
Number	90,139	37,439	-52,700
Average Salary	$ 29,569	$ 35,636	$ 6,067
Total Annual Salary	$ 2,665,289,397	$1,334,172,033	$ (1,331,117,364)
Retirees			
Number	94,398	94,723	325
Average Monthly Basis System Benefit	$ 1,116	$ 1,109	$ (7)
Average Monthly System Administered Benefit	$ 78	$ 71	$ (7)
Disabled Members			
Number	12,828	12,259	-569
Average Monthly Basis System Benefit	$ 414	$ 414	$ -
Average Monthly System Administered Benefit	$ 215	$ 209	$ (6)
Beneficiaries			
Number	15,945	15,271	-674
Average Monthly Basis System Benefit	$ 414	$ 392	$ (22)
Average Monthly System Administered Benefit	$ 34	$ 25	$ (9)

Change in Assumptions since Prior Valuation

In accordance with GASB No. 73, the discount rate is based on a bond market index. PRGERS has selected the Bond Buyer General Obligations 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate increase from 2.16% as of June 30, 2021 to 3.54% as of June 30, 2022.

The load on the GASB No.73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants has increased from 2.5% to 5%. The increase is based on the available information on deferred vested participants.

The Total Pension Liability as of June 30, 2023, decreased by $4.2 billion due to the increase in the discount rate and increased by $0.7 billion due to the change in the load for deferred vested participants.

(1) Summary of Plan Provisions

Act No. 106 of August 23, 2017 (Act No. 106-2017) closed participation in the Defined Benefit Pension Plan for Participants of the Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico (PRGERS) to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. This summary details the provisions under Act No. 3 of April 4, 2013 (Act No. 3-2013), which was effective July 1, 2013 and under which the benefits to be paid to PRGERS members are determined. Certain provisions are different for the three groups of members who entered PRGERS prior to July 1, 2013 as described below:

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program or System 2000).

Act No. 106-2017 eliminate the prior statutory employer contributions and changed the funding of PRGERS benefits to Pay-As-You-Go by the Commonwealth., public corporation or municipality. Prior to July 1, 2017, most benefits were paid from system assets while some benefits were paid by the General Fund, public corporation or municipality.

Subsequent to Act No. 106-2017, 2022 Plan of Adjustment eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As directed by the System, the June 30, 2019 through June 30, 2021 valuations included the Act No. 127-1958 death and disability benefits for Act No. 106-2017 employees (e.g. those hired July 1, 2017 and later) in high-risk positions. These benefits are described in items 8b and 9b.

1. Type of Plan

   The System is a contributory, hybrid defined benefit plan.

2. Effective Date

   The System was established in 1951 by Act No. 447 of May 15, 1951 to be effective January 1, 1952. The plan was last amended under the 2022 Plan of Adjustment.

3. Eligibility for Membership

   Members of the Employees Retirement System of the Government of Puerto Rico and its instrumentalities include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and were hired before July 1,2017 (Act No. 106-2017). Employees include those in the following categories:

   - Police of Puerto Rico,
   - Firefighters of Puerto Rico,
   - Elective Officers of the People of Puerto Rico and the employees of the Legislature,
   - Officers and employees of the Government of Puerto Rico,
   - Officers and employees of public enterprises,
   - Officers and employees, including mayors of the municipalities, and
   - Irregular personnel fulfilling the requirements of regular employees.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Controller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to PRGERS benefits based on the provisions of the 2022 Plan of Adjustment.

4. Definitions

a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).

b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.

c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).

d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).

e. Municipality: The Municipality of San Juan (Article 1-104).

f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).

g. Employee: Any officer or employee of the Employer is regularly employed on a full time basis (Article 1-104).

h. Creditable Service for Act No. 447-1951 members: The years and months of plan participation, during which contributions have been made, beginning on the later date of hire or January 1,1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Months in which less that 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Creditable Service also includes purchased service, if any (Article 1-106).

i. Creditable Service for Act No. 1-1990 members: The years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Articles 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made fi Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

j. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article1-104).

k. Average Compensation for Act No. 447-1951 members: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).

l. Average Compensation for Act No 1-1990 members: the average of the last 5 years of compensation that the participant has received for Creditable Service. If annual compensation in the average period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)

m. Contributions: The amount deducted from the compensation of a Member and the employer (Sectio 781).

n. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). Prior to July 1, 2017, the rate was 2.50%. Due to Act No. 106-2017, regular interest ceased July 1, 2017.

o. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (Article 1-104).

p. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the System's experience and in accordance with the recommendations of the actuary.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

For purposes of converting the Define Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employees Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

q. Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.

r. Social Security Retirement Are (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below:

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

s. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Account(Article 3-107).

t. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

u. Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.

   i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
   ii. System's investment portfolio – the yield is equal to 90% (75% prior to July 1,2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
   iii. Other alternatives adopted by the Board of the System.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

v. Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Saving Account as of June 30, 2013.

w. Credit to Defined Contribution Hybrid Contribution Account: The credits to the retirement savings account include (1) the Retirement Savings Account as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to PRGERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to Pay-As-You-Go funding under Act No. 106-2017, no credits are applied after June 30, 2017.

5. Coordination with Social Security for Act No. 447 Members: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System retroactive to the later of July 1, 1968 or to the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementary Plan.

6. Retirement Benefits

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

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

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

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 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, and (3) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

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

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

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

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

   System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

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

   Act No.3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

5) *Eligibility for Public Officers in High Risk Positions*: Public Officers in High Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-ear extensions (delaying retirement until age 62) 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. Public Officers in High Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.

6) *Benefit*: An annuity payable for the lifetime of the members equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the Accrued Benefit determined as of June 30,2013. If the balance in the Defined Contribution Account is $10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.

7) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members*: The accrued benefit as of June 30, 2013 shall be determined based on the Average Compensation for Act No. 447-1951 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of Average Compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to Coordinate Plan, the benefit is re-calculated at the SSRA as 1.5% of Average Compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of Average Compensation in excess of $6,600.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and 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. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service 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. 447-1951 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. The maximum benefit is 75% of the 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 in excess of $6,600 multiplied by years of Credited Service in excess of 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.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of Highest Compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

8) *<u>Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members</u>:* The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 Commonwealth Police or Firefighter 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.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, pus 1.5% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

7. Termination Benefits

a. *Lump Sum Withdrawal*

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Define Contribution Hybrid Contribution Account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

b. *Deferred Retirement*

Eligibility: A Member is eligible upon termination of service prior to 5 or more years of service(10 years of Credited Service for Act No. 447-1951 and Act No.1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contribution and the Define Contribution Hybrid Contribution Account.

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

8. Death Benefits

a. *Pre-retirement Death Benefit*

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447-1951 and Act No. 1-1990 members.

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

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Spouse's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity until death or remarriage (Act No. 127-1958 as amended).

Children's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act No. 127-1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 60% of the participant's Compensation at date of death, payable as an annuity for life. (Act No. 127-1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

c. *Post-retirement Death Benefit for Members who retired prior to July 1, 2013*

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

Benefit: The benefit is as follows (Act No. 105-1969 as amended by Act No. 4-1985).

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower of dependent children is equal to 60% (50% if the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. (Article 2-113 and Act No. 524-2004)

d. *Post-retirement Death Benefit for Members who retired after June 30,2013*

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

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

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contribution for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

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

9. Disability Benefits

a. *Disability*

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

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

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Benefit: 80% (100% for Act No. 447 members) of Compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15,2022. (Act No. 127-1958 as amended)

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

10. Minimum Benefits

a. *Past Ad hoc Increases:* The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.

b. *Minimum Benefit for Members who Retired before July 1, 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). (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013)

c. *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.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

11. Cost-of-Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increases 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. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007).Future COLAs were eliminated effective March 15, 2022. (Various Acts)

12. Medical Insurance Plan Contribution: A payment of up to $100 per month to the eligible medical insurance plan selected by the retiree or disabled member provided the member retired prior to July 1, 2013. (Act No. 483-2004 as amended by Act No. 3-2013)

13. Special "Bonus" Benefits:

    a. *Christmas Bonus:* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act No. 144-2005 as Amended by Act No. 3-2013)

    b. *Medication Bonus:* 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. (Act No. 155-2003, as Amended by Act No. 3-2013)

(2) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences. The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

(3) Total Pension Liabilities and Actuarial Information

The Total Pension Liability of the System was approximately $24.9 billion as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2021 which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022). The PRDH's Total Pension Liability was measured as of June 30, 2021 based on the audited financial information of January 27, 2023 and actuarial valuation as January 17, 2023.

(a) Actuarial Methods and Assumptions

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

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Discount Rate

The discount rate for June 30, 2023, was 3.54%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the bond Buyer general Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2021; actuarial valuation was as follows:

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational table, 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 No. 127-1958.

– *Post-retirement Retiree Mortality*

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

– *Post-retirement Disabled Mortality*

The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2022

Actuarial Cost Method	Entry age normal
Inflation Rate	Not Applicable
Salaries Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

(b) Total Pension Liability

The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. The Municipality's Total Pension Liability was measured as of June 30, 2021. The measurement Date is June 30, 2022, the date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2022 through June 30, 2023.

As June 30, 2023, the PRDH's proportional share of the Total Pension Liability used was as follows (last available information):

Proportion – June 30, 2023	0.64235%
Proportion – June 30, 2022	0.68882%
Change – Increase (Decrease)	-0.04647%

As June 30, 2023, the PRDH reported $142,297,378 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

(c) Pension Expense

For the fiscal year ended June 30, 2023, the PRDH recognized pension expense of $9,413,494 of total pension payments of the "Pay-As-You-Go" system.

(d) Deferred Outflows/Inflow of Resources

As of June 30, 2023, the PRDH reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,785,134	$ 3,017,208
Changes of assumptions	11,485,000	11,194,409
Changes in proportions	62,789	7,289,377
Benefits payments made after measurement date	9,413,494	-
	$ 22,746,417	$ 21,500,994

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

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

Year Ending June 30,	Amount
2024	$ (2,284,159)
2025	3,529,582
	$ 1,245,423

continue

NOTE K – EMPLOYEES' RETIREMENT PLAN - continuation

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2023, was as follow:

	June 30, 2023
Discount Rate	3.54%
20 Year Tax-Exempt Municipal Bond Yield	3.54%

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

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

	At 1 Percent Decrease 2.54%	**At Current Discount Rate 3.54%**	**At 1 Percent Increase 4.54%**
Proportional Share of Total Pension Liability	$ 159,235,202	$ 142,297,378	$ 128,217,169

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note N, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

(1) Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a "Pay-As-You-Go" basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB plan.

continue

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continuation

Healthcare Benefits

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. 3-2013).

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013 (Act No. 144, as Amended by Act No. 3-2013).

Medication Bonus

The Plan covers 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. (Act No. 155, as Amended by Act No. 3-2013).

(2) Allocation Methodology

GASB Statement No. 75 requires that the primary government and the component units that provide OPEB benefits through the same defined benefits OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

(3) Total OPEB Liabilities and Actuarial Information

On June 30, 2023, PRDH reported a liability of $4,773,114 for its proportionate share of total collective OPEB liability. Total OPEB liability was measured as of June 30, 2022 and was determined by an actuarial valuation as of that date. The OPEB expense for the year ended June 30, 2023, amounted to $453,200.

The PRDH's proportionate share of the Total OPEB Liability used was as follows:

Proportion – June 30, 2023	0.68618%
Proportion – June 30, 2022	0.68270%
Change – Increase (Decrease)	0.00348%

Total OPEB Liability	June 30, 2023	
	Total	Proportional Share (0.68618%)
Commonwealth Total OPEB Liability	$ 695,603,332	$ 4,773,114

Actuarial Methods and Assumptions

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

continue

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continuation

Discount Rate

The discount rate on June 30, 2023 was as follows:

	June 30, 2023
Discount Rate	3.54%
20 Year Tax-Exempt Municipal Bond Yield	3.54%

Mortality

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, 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 No. 127-1958.

– *Post-retirement Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 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' experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

continue

NOTE L – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continuation

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

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

	At 1 Percent Decrease 2.54%	At Current Discount Rate 3.54%	At 1 Percent Increase 4.54%
Proportional Share of Total OPEB Liability	$ 5,195,317	$ 4,773,114	$ 4,410,152

NOTE M – FIDUCIARY FUNDS

Ponce en Marcha

By Law No. 206 of August 28, 2003, the Department of Justice of the Commonwealth of Puerto Rico obtained a line of credit of $90 million with the purpose of complying with a judicial settlement in the case of the Municipality of Ponce vs. the Puerto Rico Highway Authority and others. In relation to such a settlement, the PRDH is the fiscal agent of the funds for planning and development of several Municipality of Ponce projects. The amount of Other State Funds Receivable balance is $336,410 on June 30, 2023 and is presented in the *Statement of Fiduciary Net Position*.

Special Communities

The PRDH is responsible for receiving and distributing funds assigned by the Perpetual Trust Fund for Special Communities for the Development Program ("the Program"). The Program was established by Act No. 271 of November 21, 2002 and is funded through legislative appropriations and other grants. Program funds are distributed to the services providers based on the contracts made with the Perpetual Trust Fund for Special Communities. The amount of Other State Funds Receivable balance is $24,948 on June 30, 2023 and is presented in the *Statement of Fiduciary Net Position*.

Remedy Fund

The Municipality of Juncos established and funded a trust fund for the purpose of implementing the two remedies selected by the U.S. Environmental Protection Agency ("EPA") for the old Juncos Landfill Superfund site as set forth in the EPA "Decision Summary" documents dated September 24, 1991, and October 5, 1993, as amended by EPA, to correct environmental damage left by the old Juncos Landfill. As part of these remedies the PRDH was appointed as the administrator agent of the Remedy Fund. As part of the settlement agreement the PRDH established $1.5 million as Remedy Fund for construction. The amount of Other State Funds Receivable balance is $1,107,178 on June 30, 2023 and is presented in the *Statement of Fiduciary Net Position*.

continue

NOTE N – COMMITMENTS AND CONTINGENCIES

Interagency Agreement

On August 7, 2008, the PRDH (also referred to as the "General Partner"), the Puerto Rico Public Housing Authority (PRPHA), the Puerto Rico Housing Finance Authority ("the Authority"), and the Government Development Bank for Puerto Rico ("the GDB") entered into an Interagency Agreement ("the Agreement").

Pursuant to the Agreement, the PRPHA and the PRDH determined it would be advantageous for the housing projects to undergo comprehensive modernization and/or construction, which will be undertaken and operated by the Vivienda Modernization 1, LLC ("the Project Company"), whose sole member is the partnership, of which the PRDH is the General Partner (see Note E). Pursuant to the Agreement, the PRDH determined that the PRPHA is better suited to satisfy certain obligations and authorized the PRPHA to perform certain duties on behalf of the PRDH, as further detailed in Section 1(a-1) of the Agreement.

The PRDH, with agreement from the Authority and the GDB, created a fund to support the programs of the PRDH ("the Program Modernization Fund"). The Program Modernization Fund will be held jointly by the GDB and the PRDH. The PRDH will use the Program Modernization Fund from time to time to finance the costs of modernizing and/or constructing other affordable units and to provide grants to the Authority.

The Authority shall assign to the PRPHA all payments received from the Project Company in accordance with appropriate loan documents. The PRDH also assigned to the PRPHA a portion of the purchase price as reimbursement of certain costs incurred previously by the PRPHA for the rehabilitation or construction of a portion of the units.

Finally, the PRDH and the PRPHA acknowledged that some of the public housing rental developments included in the Projects were subdivided from larger projects owned by the PRPHA. The PRDH and PRPHA will permit the use of the facilities by all residents of the main and subdivided rental developments.

Ground Lease

On August 1, 2008, the PRDH entered into a ground lease agreement with Vivienda Modernization Holdings 1, S.E., and a related entity. The lease is for a period of 99 years and requires a payment of $1 per project. The related entity is required to use the land and property to rehabilitate, construct, develop and maintain public housing apartments.

Litigation – PRDH

The PRDH is a defendant in a number of lawsuits. As stated by legal counsel, the PRDH has recorded a provision of $17,066,779 in its governmental activities to cover its exposure to these lawsuits. The amount of the required reserve in other litigations that may result from the final settlement of these other lawsuits cannot be presently determined. In these cases, the ultimate amount that the PRDH may be required to pay as a result of the financial settlement of these lawsuits, if any, shall be funded through an appropriation from the Legislature of the Commonwealth of Puerto Rico.

The activity for the year related to the provision is as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Current	Noncurrent
$ 15,700,481	$ 1,366,298	$ -	$ 17,066,779	$ -	$ 17,066,779

continue

NOTE N – COMMITMENTS AND CONTINGENCIES – continuation

Federal and State Awards

The PRDH participates in a number of federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the PRDH may be required to reimburse the grantors for such expenditures.

The PRDH is from time to time audited by the Office of the Comptroller for Puerto Rico ("the Comptroller") which audits could result in request for reimbursements or other resolutions. These amounts, if any, of expenditures, which may be disallowed, cannot be determined at this time. Management believes that such disallowances, if any, will not have a material effect on the financial statements of the PRDH.

NOTE O – FUND BALANCES

The PRDH has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Below is the detail included in the fund balance classification for the governmental funds on June 30, 2023:

General Fund

The General Fund includes the current financial resources, which relate to the general operations of the PRDH. These operations consist of the general administration and other activities not accounted for by other major funds. The Assigned Fund Balance of $43,282,980 on June 30, 2023 is for general administration.

CDBG Fund

This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant program. This program provides annual grants to municipalities to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

CDBG-DR Fund

This major fund accounts for grants received from HUD. The grant is restricted to the Community Development Block Grant Disaster Recovery Program. This program provides grants to rebuild areas affected by Presidentially declared disasters and provide crucial seed money to start the recovery process. Since CDBG Disaster Recovery (CDBG-DR) assistance may fund a broad range of recovery activities, it is designed to communities and neighborhoods that otherwise might not recover due to limited resources.

Self-Contribution Fund

The Self-Contribution Fund has a Nonexpendable Fund Balance of $30,248,091 million related mainly to accounts and note receivable related to the Partnership Agreement (see Note D), Committed funds of $3,855,822 for construction, and a deficiency of ($4,844,049) on unassigned deficit funds.

Sales and Acquisition Funds

The fund has a Restricted Fund Balance of $3.8 million related to cash restricted, and $13 million as Assigned Fund Balance for the construction of houses for low income.

continue

NOTE O – FUND BALANCES – continuation

<u>Other Governmental Funds</u>

The non-major fund has a Special Revenue Restricted Fund Balance designated for specific purposes of $7.7 million related to state assignments for housing projects. Also, the PRDH has a Committed Fund Balance of $14.5 million related to legislation resolutions. The remaining Assigned Fund Balance of $7.3 million is related to welfare activities.

NOTE P – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA created a structure for exercising federal oversight over the fiscal affairs of territorial governments and their agencies and public corporations. More specifically, PROMESA did the following: (a) it established the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) with broad powers of budgetary and financial control over Puerto Rico; and (b) it created procedures for adjusting debts accumulated by the Puerto Rico government and its instrumentalities and potentially for adjusting debts of other territories as well. During the fiscal years subsequent to June 30, 2016, the Commonwealth and eight other governmental entities in Puerto Rico have initiated proceedings at the request of the Governor under either Title III or Title VI of PROMESA to restructure or adjust their existing debt. On March 15, 2022, the Commonwealth Plan of Adjustment became effective, thereby significantly reducing the Commonwealth's debt levels and ending the Island's fiscal crisis.

PROMESA

In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and other instrumentalities and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below:

(a) *Title I – Establishment of Oversight Board and Administrative Matters*

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets". On August 31, 2016, the President of the United States announced the appointment of the initial group of Oversight Board members, several of whom have been replaced with new members after their three-year terms expired.

Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government".

The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board".

continue

NOTE P – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(b) *Title II – Fiscal Plan and Budget Certification Process and Compliance*

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets."

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature.

In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board's powers related to fiscal plan and budgetary compliance. In addition, the United States Court of Appeals for the First Circuit has issued certain rulings regarding the interpretation of the Oversight Board's powers under PROMESA sections 204(a) and 108(a) that apply administrative law principles to statutes passed by the Commonwealth and certified as not significantly inconsistent with a Board-certified fiscal plan.

(c) *Title III – In-Court Restructuring Process*

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, COFINA, and HTA.

(d) *Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions*

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to "Liability Claims", relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government's small business HUBZone program in Puerto Rico.

Pursuant to PROMESA Section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA's enactment), through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015.

continue

NOTE P – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

A "Liability Claim" is defined as any right to payment or equitable remedy for breach of performance related to "a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]" for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016.

The Title IV Stay was subject to a one-time 75-days extension by the Oversight Board or a one-time 60-days extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75-days to May 1, 2017, at which time the Title IV Stay expired.

Title IV of PROMESA also requires several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico's current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017. On June 30, 2021, the GAO published its latest biannual report on the public debt of the U.S. territories.

(e) *Title V – Infrastructure Revitalization*

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for "critical projects" as identified by the Revitalization Coordinator.

(f) *Title VI – Consensual, Out-of-Court Debt Modification Process*

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico's debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish "pools" of bonds issued by each Puerto Rico government-related issuer based upon relative priorities.

After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer's bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

Finally, the United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds.

The Title VI process was successfully implemented to restructure the debts of GDB, PRIDCO, and PRCCDA.

continue

NOTE P – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

(g) *Title VII – Sense of Congress*

Title VII of PROMESA sets forth the sense of Congress that "any durable solution for Puerto Rico's fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States".

NOTE Q – RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2023, the Puerto Rico Department of Housing (PRDH) entered into the following related party or intergovernmental transactions:

1. Puerto Rico Electric Power Authority (PREPA) – The Electric power company is a government-owned corporation of Puerto Rico responsible for electricity generation, power transmission, and power distribution in Puerto Rico. During the year, the PRDH incurred electricity expenditures amounting to $1,393,899.

2. Puerto Rico Aqueducts and Sewers Authority (PRASA) – Water company and government-owned corporation of Puerto Rico responsible for water quality, water management, and water supply in Puerto Rico. The PRDH incurred expenditures regarding the services provided by the PRASA amounting to $403,119.

3. The Puerto Rico Public Housing Administration (PRPHA) – The PRDH received from the PRPHA rent income and indirect costs reimbursements in the amounts of $750,000 and $6,249,290, respectively, for the space used by the PRPHA on the PRDH's main building and other related expenses. This income is used to pay half of the principal and interest expense on a Loans Payable related to the acquisition of the PRDH main building and to cover other administrative expenses. The amounts receivable and payable between the PRPHA and the PRDH, as of June 30, 2023 are presented in the financial statements as follows:

Financial Statements Accounts	Statement of Net Position	Balance Sheet – Governmental Funds
Other Accounts Receivable	$17,693,153	$17,693,153
Account Payable – Section 8	$ 44,653	$ 44,653
Account Payable Long Term	$10,649,475	$ 0

Also, an account payable long term is registered as part of the Developer advance made by PRPHA on behalf of the PRDH as part of the mixed financing agreements. This amount as of June 30, 2023 is $46,792,944. The account payable long term to the PRPHA relates to the mixed finance projects and other housing programs. This account is payable from the resources that are expected from the Note Receivable from Related Entity and Developer. Total payable amount long term amounts to $57,442,419.

4. Puerto Rico Department of the Treasury (PRDT) – As of June 30, 2023 the PRDH had an amount due to the PRDT of $4,265,739 related to expenditures incurred for the Community Development Block Grant Program. Such amounts will be repaid as soon as federal funds are received from HUD.

continue

NOTE Q – RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS – continuation

5. Special Communities Perpetual Trust (the Trust) – The PRDH grants leases to the participants of the housing program of the Special Communities Perpetual Trust (the Trust), a component unit of the Commonwealth of Puerto Rico, when circumstances cause a delay in the process of granting the mortgage loans. Once the circumstances preventing the granting of the mortgage are resolved, the lease granted by the PRDH is terminated and a mortgage loan is granted by the Trust. The revenue generated by the leases is passed on from the PRDH to the Trust. The PRDH collects lease and mortgage payments from the Trust's program participants and charges the Trust a fee of 15% of the collections processed. These fees amounted to approximately $16,834 for the year ending on June 30, 2023.

   The Trust may contribute funds to the PRDH for the expropriations of land, housing and buildings. Pursuant to the Trust's programs and objectives, these properties have been purchased in order to either develop the infrastructure of a special community and later transfer such developments to the community or to acquire housing for relocated residents, who would in turn eventually enter into a rental or mortgage agreement with the Trust, through the PRDH. These properties have been purchased in the name of PRDH (or the Department of Transportation and Public Works) because the Trust does not have the power and authority to purchase such assets and register them on the Trust's name. The amounts contributed by the Trust are recorded as program expenditure in the year the disbursements are made. During the year ended June 30, 2023 no contributions were made by the Trust.

NOTE R – SUBSEQUENT EVENTS

The PRDH has evaluated subsequent events through May 29, 2024, the date on which the financial statements were available to be issued. Except for the subsequent events mentioned above, no additional events were identified that should be disclosed or adjusted in the Financial Statements or their Notes.

END OF NOTES

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REQUIRED SUPPLEMENTARY INFORMATION

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	Budget Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues:				
Appropriations from Commonwealth	$ 16,234,000	$ 19,438,620	$ 19,438,620	$ -
Expenditures and Tranfers:				
General and Administrative	14,421,757	17,626,377	14,924,267	2,702,110
Capital Outlays	1,812,243	1,812,243	1,812,243	-
Total Expenditures and Tranfer	16,234,000	19,438,620	16,736,510	2,702,110
Excess of Revenues Over Expenditures and Other Financing Uses	$ -	$ -	$ 2,702,110	$ (2,702,110)

The accompanying Notes to the Schedule of Revenues and Expenditures – Budget and Actual – General Fund are an integral part of this schedule.

NOTE A – BUDGETS AND BUDGETARY ACCOUNTING

The Department of Housing of the Commonwealth of Puerto Rico ("PRDH") follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for the General Fund. The Department of the Treasury and the Office of Management and Budget of Puerto Rico have the responsibility to ensure that budgetary spending control is maintained in the PRDH. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System ("PRIFAS").

2. On or before November 15, the Secretary submits to the Office of Management and Budget of Puerto Rico a proposed operating budget for review and approval. OMB will submit the revised budget to the Legislature of the Commonwealth of Puerto Rico for final approval to be effective for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.

3. The budget is legally enacted through passage of a law.

4. Unused appropriations for the annual budgeted funds lapse at the end of the year.

5. The budget is prepared on the budgetary basis of accounting. The actual results of operations presented in the *Budgetary Comparison Schedule – Budget and Actual – General Fund* are in conformity with the budgetary accounting for a better comparison with the budget information. See Note A to the basic financial statements.

6. Explanation of Differences Between Budgetary Inflows and Outflows Revenues and Expenditures:

Excess of Revenues Over Expenditures	$	2,702,110
Entity differences—excess of revenues and other financing sources over expenditures and other financing uses for:		
Nonbudgeted Funds		4,930,274
Timing Differences:		
Current Year Expenditures Against Prior Year Special Appropriation		(7,141,389)
Net Change In Fund Balances – U.S. GAAP Basis	$	490,995

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	2023	2022	2021	2020	2019	2018
Proportion of the Collective Total Pension Liability	0.64235%	0.68882%	0.69401%	0.70368%	0.70645%	0.70511%
Proportionate Share of Total Pension Liability*	$142,297,378	$187,251,494	$194,807,757	$174,867,629	$173,004,986	$198,873,255
Covered - Employee Payroll **	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.
* There are no assets accumulated in a trust that meets the criteria in GASBS No. 73, paragraph 4, to pay related benefits.

** The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (“2022 Plan of Adjustment”) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022. These changes reduced the Total Pension Liability as of June 30, 2023 by $2.0 billion. The reduction is recognized by the PRDH as a plan change and included in the FY2023 financial statements as stated by GASB No. 73.

Note: Fiscal year 2019 was the first year that PRDH transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the "Pay-Go" implementation. This schedule is required to ilustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

	2023	2022	2021	2020	2019	2018
Proportion of the Collective Total OPEB Liability	0.68618%	0.68270%	0.69800%	0.70957%	0.71584%	0.69958%
Proportionate Share of Total OPEB Liability*	$4,773,114	$5,448,780	$6,104,865	$5,905,286	$6,028,444	$6,439,762
Covered - Employee Payroll **	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.
* There are no assets accumulated in a trust that meets the criteria in GASBS No. 75, paragraph 4, to pay related benefits.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented. This schedule is required to ilustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The notes to the Required Supplementary Information are an integral part of this Schedule.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the PRDH and not the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

2. The data provided in the schedules is based as of the measurement date of the total pension and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

3. On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "*Pay-As-You-Go*" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government, and the Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

END OF NOTES

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PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE PROGRAM:				
Puerto Rico Department of Education – Child and Adult Care Food Program	10.558	N/A	$ -	$ 34,178
Total U.S. Department of Agriculture Program			-	**34,178**
U.S DEPARTMENT OF TREASURY PROGRAM:				
Puerto Rico Office of Management and Budget – Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	1,391,280
Total U.S. Department of Treasury Program			-	**1,391,280**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS:				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228		448,313,342	1,111,379,091
COVID 19 – Community Development Block Grant/State's Programand Non-Entitlement Grants in Hawaii	14.228		9,389,169	9,519,224
Total Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii			457,702,511	1,120,898,315
Continuum of Care Program	14.267		-	981,553
Total U.S. Department of Housing and Urban Development Programs			**457,702,511**	**1,121,879,868**
Total Expenditures of Federal Awards			**$ 457,702,511**	**$ 1,123,305,326**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activities of the Department of Housing of the Commonwealth of Puerto Rico (PRDH) under programs of the Federal government for the fiscal year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the PRDH, it is not intended to and does not present the financial position, changes in net position, or cash flows of the PRDH.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. PRDH reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget Circular A-87, State and Local Governments, or the cost principles contained in Subpart E of Title 2 U.S. Code of Federal Regulation Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available and applicable.

D. PRDH has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTS

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies.

4. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

5. COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

This Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG) program provides annual grants to municipalities to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. The CDBG program includes funds for the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Disaster Recovery Program or CDBG-DR program which provides funds to rebuild areas affected by Presidentially declared disasters and provide crucial seed money to start the recovery process.

continue

5. COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII – continuation

Expenditures under this program and amounts pass-through to subrecipients for the year ended June 30, 2023 was as follows:

	Grant Number	Passed Through to Subrecipients	Total Federal Expenditures
Sub Total Community Development Block Grant/State Program and Non-Entitlement Grants in Hawaii			
FY 2008 Grant	B08DC7201	$ -	$ 38,161
FY 2015 Grant	B15DC7201	455,899	457,081
FY 2016 Grant	B16DC7201	2,948,575	2,991,178
FY 2017 Grant	B17DC7201	2,257,772	2,342,647
FY 2018 Grant	B18DC7201	3,381,410	3,381,410
FY 2019 Grant	B19DC7201	2,586,921	2,586,960
FY 2020 Grant	B20DC7201	-	5,151,393
FY 2020 Grant – COVID 19	B20WC7201	9,389,169	9,519,225
FY 2021 Grant	B21DC7201		2,850,244
FY 2022 Grant	B22DC7201	-	102,272
Sub Total Community Development Block Grant/State Program and Non-Entitlement Grants in Hawaii		21,019,746	29,420,571
CDBG Program – Disaster Recovery	B17DM7201	436,682,765	1,091,477,744
		$ 457,702,511	**$ 1,120,898,315**

6. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Expenditures of Federal awards are reported in PRDH's *Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund* in the Community Development Block Grant Fund, Community Development Block Grant – Disaster Recovery Fund, Self-Contribution Fund, Sales and Acquisition Fund, and Other Governmental Funds columns.

7. LATE ISSUANCE OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2023, could not be submitted in a timely manner.

END OF NOTES

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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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

Honorable Secretary of the
Department of Housing of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Department of Housing of the Commonwealth of Puerto Rico** (**PRDH**), as of and for the fiscal year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the **PRDH**'s basic financial statements, and have issued our report thereon dated May 29, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the **PRDH**'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 opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **PRDH**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **PRDH**'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **PRDH**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **PRDH**'s internal control or on compliance. This report is an integral part of an audit reformed 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.

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
May 29, 2024

Stamp No. E569563 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.

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"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"

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

Honorable Secretary of the
Department of Housing of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited **Department of Housing of the Commonwealth of Puerto Rico** (**PRDH**)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of **PRDH**'s major Federal programs for the fiscal year ended June 30, 2023. **PRDH**'s major Federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion Section of our report, the **PRDH** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii for the fiscal year ended June 30, 2023.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **PRDH** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major Federal program. Our audit does not provide a legal determination of the **PRDH**'s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii

As described in the accompanying Schedule of Findings and Questioned Costs, **PRDH** did not comply with requirement regarding Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii as described in Finding Reference Number 2023-001 for reporting.

Compliance with such a requirement is necessary, in our opinion, for **PRDH** to comply with the requirements applicable to this program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, status, regulations, rules, and provisions of contracts or grant agreements applicable to the **PRDH**'s Federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **PRDH**'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **PRDH**'s compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **PRDH**'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the **PRDH**'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **PRDH**'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instance of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002. Our opinion on each major Federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the **PRDH**'s response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The **PRDH**'s response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The **PRDH** is responsible for preparing a Corrective Action Plan to address each audit finding included in our auditor's report. The **PRDH**'s Corrective Action Plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weakness and significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the **PRDH**'s response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The **PRDH**'s response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PRDH's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **PRDH**'s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

CPA DM, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
May 29, 2024

Stamp No. E569564 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

PART III

FINDINGS AND QUESTIONED COSTS

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Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with special reporting	X	Unmodified Opinion		
		Modified:	☐	Qualify Opinion
			☐	Adverse Opinion
			☐	Disclaimer Opinion
Internal control over financial reporting:				
• Significant deficiency (ies) identified?	☐	Yes	X	No
• Material weakness (es) identified?	☐	Yes	X	No
Noncompliance material to financial statements noted?	☐	Yes	X	No

Federal Awards

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?	X	Yes	☐	No
Type of auditor's report issued on compliance for each Major Federal Programs:	☐	Unmodified Opinion		
	X	Qualify Opinion • Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii		
	☐	Adverse Opinion	☐	Disclaimer Opinion
Internal control over Major Federal Programs::		**Questioned Costs**		
• Significant deficiency (ies) identified?	X	Yes	☐	No
• Material weakness (es) identified?	X	Yes	☐	No
• Known Questioned Costs Greater than $25,000 for a Compliance Requirement on a Major Program?	☐	Yes $ -	X	None Reported
• Known Questioned Costs Greater than $25,000 on an Nonmajor Program?	☐	Yes $ -	X	None Reported
• Known or Likely Fraud Affecting a Federal Award?	☐	Yes $ -	X	None Reported

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
14.228	COVID 19 – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B Programs:	$ 3,369,916			
Auditee qualified as low-risk auditee?	☐	Yes	X	No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed no findings that are required to be reported herein under the *Government Auditing Standards*.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2023-001**
FEDERAL PROGRAM	**(ALN – 14.228) COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII** **(ALN – 14.228) COVID19 – COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBERS	**B-14-DC-7201 ~ B-19-DC-72-0001; B-17-DM-7201; B-18-DP-7201; B-20-DW-72-0001 (Federal Award Years 2014-2023)**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA	2 CFR § 200.512 Report Submission, (a) (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.
STATEMENT OF CONDITION	**PRDH** did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2023 during the required period.
QUESTIONED COSTS	None
PERSPECTIVE INFORMATION	**PRDH** was unable to provide timely financial statements and related supporting documentation in order to apply required audit procedures.
STATEMENT OF CAUSE	**PRDH** did not have an effective accounting system and procedures to assure that the required financial statements and supporting documentation was made available for audit purposes within the required period established to comply with the Federal regulations.
POSSIBLE ASSERTED EFFECT	**PRDH** did not comply with the submission date required for the Data Collection Form and Reporting Package, this could affect the continuance and new approvals of Federal funds. In addition, for the next two (2) fiscal years **PRDH** cannot be considered by the auditor as a low risk auditee.
IDENTIFICATION AS A REPEAT FINDING	This is a repeat finding (Finding Reference No. 2022-001).
RECOMMENDATION	We recommend the **PRDH** maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, **PRDH** needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.
VIEWS OF RESPONSIBLE OFFICIALS	During the fiscal year we implemented the Yardi Software to improve the efficiency of the accounting system and the related procedures and ensure that the required financial statements are submitted in compliance with 2 CFR § 200.512 for the Single Audit for fiscal year 2024.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2023-001 –** continuation

IMPLEMENTATION DATE March 31, 2025

RESPONSIBLE PERSON Juan R. Rivera Carrillo
Assistance Secretary for Finance and Administration

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2023-002**

FEDERAL PROGRAM **(ALN – 14.228) COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII**
(ALN – 14.228) COVID19 – COMMUNITY DEVELOPMENT BLOCK GRANT/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

AWARD NUMBERS **B-14-DC-7201 ~ B-19-DC-72-0001; B-17-DM-7201; B-18-DP-7201; B-20-DW-72-0001; B-21-DZ-72-0001 (Federal Award Years 2014-2023)**

COMPLIANCE REQUIREMENT **REPORTING**

TYPE OF FINDING **NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

CRITERIA

In accordance with 2 CFR Part 170, establish that recipients (i.e., direct recipients) of grants or cooperative agreements are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). The non-Federal entity or Federal agency must report each obligating action to http://www.fsrs.gov. For subaward information, report no later than the end of the month following the month in which the obligation was made.

STATEMENT OF CONDITION

The audit revealed that the **PRDH** did not adhere to the FFATA reporting procedures during the fiscal year. We found that all required reports were submitted after fiscal year end. The summary of our tests results is:

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
25	0	25	0	0

Dollar Amount of Tested Transactions	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
$270,191,453	$0	$270,191,453	$0	$0

QUESTIONED COSTS

Not applicable.

PERSPECTIVE INFORMATION

The **PRDH** did provide a detail of those awards or contracts subject to the FFATA requirements, totaled about 136 contracts with a grant total of $1,629,865,755.12. Although they acquired the necessary knowledge later in the fiscal year, the reports were still submitted after the 2022-2023 fiscal year.

STATEMENT OF CAUSE

The **PRDH** staff were unaware of the requirements related to the Federal Funding Accountability and Transparency Act (FFATA) applicable to the CDGB funds they manage.

POSSIBLE ASSERTED EFFECT

The **PRDH** is in non-compliance with the requirements to report through the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) platform. This condition does not allow for the transparency that this report requires.

IDENTIFICATION OF REPEAT FINDING

This is a repeat finding (Finding Reference No. 2022-002).

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2023-002 –** continuation
RECOMMENDATIONS	We recommend that the **PRDH** provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRS portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.
VIEWS OF RESPONSIBLE OFFICIALS	We implemented the procedures to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) on July 13, 2023. Accordingly, we expect to be in full compliance with the Single Audit for the fiscal year 2024.
IMPLEMENTATION DATE	Single Audit for fiscal year 2023-24
RESPONSIBLE PERSON	Félix Hernández Cabán Director of Disaster Recovery for CDBG-DR and Juan R. Rivera Carrillo Assistance Secretary for Finance and Administration

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

Findings Related to the Federal Programs:

FISCAL YEAR 2022

Finding Number	**2022-001**	**Material Noncompliance and Material Weakness – Reporting**
Assistance Listing Numbers	14.228	Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
	14.228	COVID19 – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
Statement of Condition	PRDH did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2022 during the required period	
Questioned Cost	None	
Recommendations	We recommend the PRDH maintain adequate accounting records related to the non-Federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, PRDH needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available in a timely manner.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

Finding Number	**2022-002**	**Noncompliance and Significant Deficiency – Reporting**
Assistance Listing Numbers	14.228	Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
	14.228	COVID19 – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
Statement of Condition	As part of our audit procedures, we interviewed staff responsible for the CDBG program, and we were told that they had not been submitted the required Federal Funding Accountability and Transparency Act (FFATA) reports during the 2021-2022 fiscal year	
Questioned Cost	None	
Recommendations	We recommend management to provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRS portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

FISCAL YEAR 2021

Finding Number	**2021-002**	**Noncompliance and Significant Deficiency – Reporting**
Assistance Listing Numbers	14.228	Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
	14.228	COVID19 – Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
Statement of Condition	As part of our audit procedures, we interviewed staff responsible for the CDBG program, and we were told that they had not been submitted the required Federal Funding Accountability and Transparency Act (FFATA) reports during the 2020-2021 fiscal year	
Questioned Cost	None	
Recommendations	We recommend management to provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRS portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

FISCAL YEAR 2020

Findings Related to the Federal Programs:

Finding Number	**2020-001**	**Noncompliance and Significant Deficiency – Reporting**
Assistance Listing Numbers	14.228	Section 8 Housing Choice Vouchers Program
Statement of Condition	During our audit procedures over the reporting of FASS-PH System, we noted that the Unaudited REAC report for fiscal year 6/30/2020 was submitted on November 16, 2020	
Questioned Cost	None	
Recommendations	We recommend management implement proper internal controls in order to ascertain that the reports are submitted in a timely manner.	
Current Status	No final determination has been received from the Federal Awarding Agency.	

Finding Number	**2020-002**	**Material Weakness and Material Noncompliance – Reporting**
Assistance Listing Numbers	**All Federal Programs**	
Statement of Condition	The PRDH did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020, during the required period	
Questioned Cost	None	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Recommendations	We recommend the PRDH maintain adequate accounting records related to the non-federal and Federal funds in order to properly prepare the financial statements accurately and in a timely manner. In addition, the PRDH needs to implement adequate internal controls procedures in order to assure that the supporting documentation is available in a timely manner.
Current Status	No final determination has been received from the Federal Awarding Agency.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF HOUSING

Single Audit FY 2022-2023
Corrective Action Plan

FINDING NUMBER	2023-001
AUDITOR'S TYPE OF FINDING	Noncompliance
CONDITION	The PRDH did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2023 during the required period.
AUDITOR'S RECOMMENDATION	To maintain adequate accounting records related to the non-federal and federal funds in order to properly prepared the financial statements accurate and in a timely manner. In addition, the PRHD needs to implement adequate internal controls procedures in order to ensure that the supporting documentation is available on a timely manner.
CORRECTIVE ACTION PLAN	During the fiscal year we implemented the Yardi Software to improve the efficiency of the accounting system and the related procedures and ensure that the required financial statements are submitted in compliance with 2 CFR § 200.512 for the Single Audit for fiscal year 2024.
LEAD PERSONS ACCOUNTABLE FOR ACTION COMPLETION	Juan R. Rivera Carrillo Assistance Secretary for Finance and Administration
DELIVERABLE	Single Audit Reporting Package
EVIDENCE INCLUDED	No
TARGET COMPLETION DATE	March 31, 2025

FINDING NUMBER	2023-002
AUDITOR'S TYPE OF FINDING	Noncompliance
CONDITION	The audit revealed that the Housing Department did not adhere to the FFATA reporting procedures during the fiscal year. We found that all required reports were submitted after the fiscal year end.
AUDITORS' RECOMMENDATION	To provide training and technical assistance to the personnel they designate to monitor all the funds delegation contracts that meet the requirements to be reported on the FSRS portal, and to be able to keep track of when they had to be reported, the date in which they submitted the information to the portal, and all the elements required to be submitted on the platform.
CORRECTIVE ACTION PLAN	We implemented the procedures to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) on July 13, 2023. Accordingly, we expect to be in full compliance for the Single Audit for fiscal year 2024.
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	Félix Hernández Cabán Director of Disaster Recovery for CDBG-DR, and Juan R. Rivera Carrillo Assistance Secretary for Finance and Administration
DELIVERABLE	FFATA Report
EVIDENCE INCLUDED YES/NO	Yes
TARGET COMPLETION DATE	Single Audit for fiscal year 2023-24

Certifying Official:

Juan R. Rivera Carrillo
Assistance Secretary for Finance and Administration

Date: May 29, 2024

DEPARTMENT OF
HOUSING
Government of Puerto Rico