Commonwealth of Puerto Rico
Department of Housing

Basic Financial Statements and Supplementary Information

For the Fiscal Year Ended June 30, 2020

(With The Additional Reports Required By The Government Auditing Standards and Uniform Guidance)

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PART I

FINANCIAL

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2020, and the related notes to the financial statements, which collectively comprise **PRDH**'s basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the **PRDH**, as of June 30, 2020, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Prior Year Financial Statements

As discussed in Note B to the financial statements, the 2019 financial statements have been restated to adjust and/or recognized total pension liability, total other postemployment benefits liability, and deferred outflows/inflows of resources. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 5-17, budgetary comparison information, on pages 101-102, and employees' retirement systems information and employees' Other Postemployment Benefits information, on pages 103 through 105 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 related to management's discussion and analysis, and budgetary comparison 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.

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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 Financial Data Schedules – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 107 through 110, and the 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 112 through 115, is presented for purposes of additional analysis and is not required part of the basic financial statements. The Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are 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 Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2022 on our consideration of **PRDH**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **PRDH**'s internal control over financial reporting and compliance.

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CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 17, 2022

Stamp No. E491004 of the Puerto Rico Society of Certified
Public Accountants was 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, 2020. We encourage readers to read the information presented here in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets decreased from $526 million in fiscal year 2019 to $394 million on June 30, 2020, representing a decrease of approximately $132 million or 25% in comparison with prior year. This decrease is mainly due to the reduction of approximately $101 million in grants receivable related to Federal programs and $33 million in cash mainly related to the Sheltering and Temporary Essential Power (STEP) Pilot Program.

- Total liabilities decreased from $532 million in fiscal year 2019 to $355 million at June 30, 2020, representing a decrease of approximately $177 million or 33% in comparison with prior year, also mainly related to the Sheltering and Temporary Essential Power (STEP) Pilot Program.

- Prior period adjustments of $98,727,205 resulted from adjustments to the PRDH's pension and OPEB obligations and its related deferrals by the implementation of the GASB's Statements No. 73 and No. 75, respectively, with audited schedules as of June 30, 2019 issued by the Puerto Rico Retirement System Administration.

- The net position decreased by approximately $43.2 million due to the net effect of prior period adjustments of $98.7 million described above which reduced the beginning net position and the change in net position of $50.1 million for the year ended June 30, 2020.

- The change in net position amounted to approximately $50.1 million and ($703) thousand for the years ended June 30, 2020 and 2019, respectively, a variance of approximately $50.9 million when compared to prior year.

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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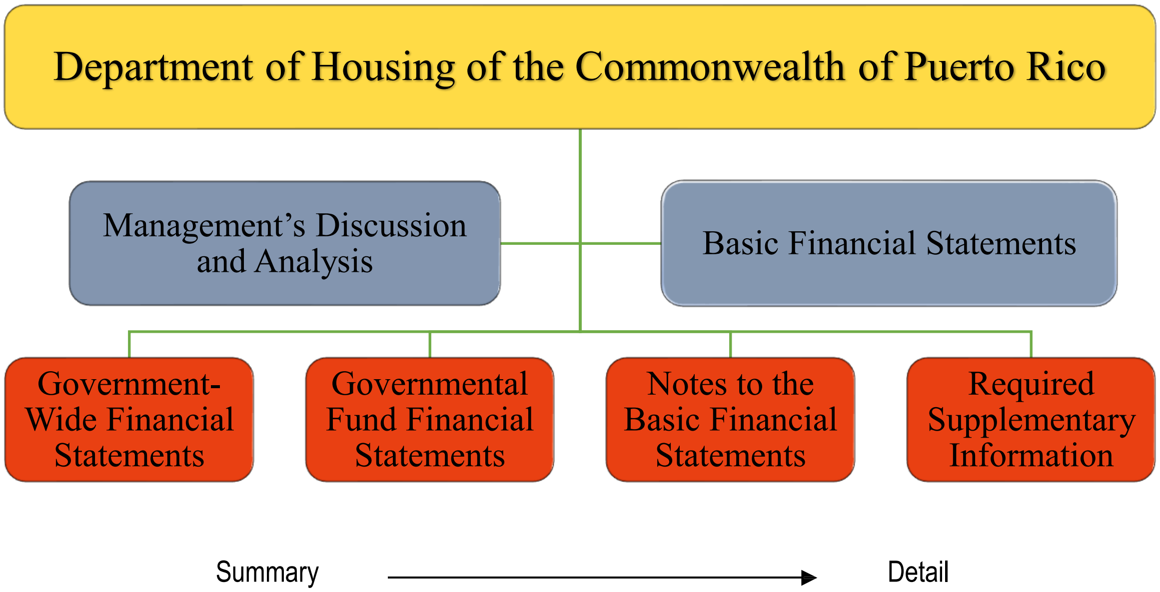
Figure 1

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 **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 statements.

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.

New Significant Accounting Standards Implemented

In Fiscal Year 2019, the Department adopted the Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision issued by the Governmental Accounting Standards.

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.

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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 cash involved has not been received or paid. The government-wide financial statements include two statements:

- 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 the 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 the governments near term financing requirements. This approach is known as 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.

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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.

- *Section 8 Housing Choice Voucher Program Fund* – This major fund accounts for grants received from HUD. The Grant is restricted for accomplishing objectives of the Housing Voucher Program, which provides rental assistance to help very low-income families afford decent, safe and sanitary rental housing. Effective January 1, 2020 this federal program was transferred to another State Agency.

- *FEMA Recovery Fund* – This major fund accounts for grants received from Federal Emergency Management Administration (FEMA) through the Sheltering and Temporary Essential Power (STEP) Pilot Program. The grant is restricted for providing minor emergency repairs to single-family owner-occupied residences.

- *CDBG Fund* – This major fund accounts for grants received from HUD. The grant is restricted for 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 for 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).

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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 with such settlement, the PRDH is the fiscal agent of the funds for planning and development of several Municipality of Ponce projects. The restricted cash balance is $336,751 on June 30, 2020 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 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 cash balance is $195,455 on June 30, 2020, 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 establish a $1.5 million Remedy Fund for construction. The restricted cash balance is $1,051,775 on June 30, 2020 and is presented in the Statement of Fiduciary Net Position.

The Statement of Fiduciary Net Position can be found immediately following the governmental fund financial statements (page 25).

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 26 through 99).

Required Supplementary Information – Budgetary Comparison

Provides additional information to better understand the financial position of the PRDH and contains the Budgetary Comparison Schedule for the General Fund, are presented immediately following the notes to the financial statements and can be found on pages 101-102 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 define contribution plan was created and the GASB Statement No. 73 is effective as 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 2019-2020.

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The required supplementary information reported related to the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 2019-2020.

These information for Pension Plan and OPEB Plan can be found on pages 103 through 105 of this report

1. Government-wide Financial Analysis Statement of Net Position

- Total assets decreased from $526 million in fiscal year 2019 to $394 million on June 30, 2020, representing a decrease of approximately $132 million or 25% in comparison with prior year. This decrease is mainly due to the reduction of approximately $101 million in grants receivable related to Federal programs and $33 million in cash mainly related to the Sheltering and Temporary Essential Power (STEP) Pilot Program.

- Total liabilities decreased from $532 million in fiscal year 2019 to $355 million on June 30, 2020, representing a decrease of approximately $177 million or 33% in comparison with prior year, also mainly related to the Sheltering and Temporary Essential Power (STEP) Pilot Program.

- Out of the $43.2 million in net position, $27.4 million are invested in capital assets, $1.8 million are restricted for specific program initiatives and $14 million are unrestricted on the use. The net position increase by approximately $50.1 due to the net effect of prior period adjustments of $98.7 million reducing the beginning net position and the change in net position of $48.6 million for the year ended June 30, 2020.

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

	2020	2019	Change	Percent
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 105,520,707	$ 138,396,348	$ (32,875,641)	-24%
Certificate of Deposit	-	195,050	(195,050)	-
Interest Receivable on Note	3,127,770	2,720,399	407,371	15%
Grants Receivable	63,264,923	164,144,855	(100,879,932)	-61%
Other State Funds Receivable	6,025,736	9,116,123	(3,090,387)	-34%
Prepaid and Other Assets	254,155	515,470	(261,315)	-51%
Total Current Assets	178,193,291	315,088,245	(136,894,954)	-43%
Capital Assets				
Furniture, Equipment and Vehicles	7,025,736	6,645,161	380,575	6%
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%
Less Accumulated Depreciation	(29,494,499)	(27,403,207)	(2,091,292)	8%
	34,220,634	35,931,351	(1,710,717)	-5%
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	-	
Total Capital Assets	35,411,389	37,122,106	(1,710,717)	-5%
Other Noncurrent Assets				
Note Receivable from Related Entity	8,754,831	8,754,831	-	0%
Notes Receivable from Developer	46,511,876	39,733,679	6,778,197	17%
Due from Related Entity	72,114,579	72,522,474	(407,895)	-1%
Housing Units and Land Lots Held for Sale	33,601,444	33,598,468	2,976	0%
Restricted Land Lot	19,200,000	19,200,000	-	0%
Total Other Noncurrent Assets	180,182,730	173,809,452	6,373,278	4%
Total Assets	**$ 393,787,410**	**$ 526,019,803**	**$ (132,232,393)**	**-25%**
Deferred Outflows of Resources	**$ 15,419,773**	**$ 9,642,216**	**$ 5,777,557**	**60%**

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Unaudited

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

	2020	2019	Change	Percent
LIABILITIES				
Current Liabilities				
Acounts Payable	$ 61,265,480	$ 277,052,769	$ (215,787,289)	-78%
Cash Overdraft	22,234,689	813,962	21,420,727	-
Due to Other Governmental Entities	8,911,464	829,284	8,082,180	975%
Notes Payable	12,849,142	11,127,393	1,721,749	15%
Accrued Compensated Absences	117,263	124,713	(7,450)	-6%
Accrued Termination Benefits	699,724	839,126	(139,402)	-17%
Total Pension Liability	9,013,140	-	9,013,140	100%
Total Other Postemployment Benefits Liability	477,086	-	477,086	100%
Total Current Liabilities	115,567,988	290,787,247	(175,219,259)	-60%
Noncurrent Liabilities				
Accounts Payable	49,286,599	43,977,565	5,309,034	12%
Note Payable	5,632,001	9,660,560	(4,028,559)	-42%
Accrued Legal Claims	8,043,642	3,280,284	4,763,358	145%
Accrued Compensated Absences	2,138,690	1,334,715	803,975	60%
Accrued Termination Benefits	3,058,081	3,639,952	(581,871)	-16%
Total Pension Liability	165,854,489	173,004,986	(7,150,497)	-4%
Total Other Postemployment Benefit Liability	5,428,200	6,028,444	(600,244)	-10%
Total Noncurrent Liabilities	239,441,702	240,926,506	(1,484,804)	-1%
Total Liabilities	**355,009,690**	**531,713,753**	**(176,704,063)**	**-33%**
Deferred Inflows of Resources	**11,025,121**	**10,905,760**	**119,361**	**1%**
Net Position (Deficit)				
Net Investment in Capital Assets	27,381,871	28,145,863	(763,992)	-3%
Restricted	1,847,534	9,534,794	(7,687,260)	-81%
Unrestricted (Deficit)	13,942,967	(44,635,151)	58,578,118	-131%
Total Net Position (Deficit)	**$ 43,172,372**	**$ (6,954,494)**	**$ 50,126,866**	**-721%**

2. Government-Wide Financial Analysis Statement of Activities

- The net revenue (expenses) and changes in net position from governmental activities amounted to approximately $52.8 million in fiscal year 2020 and ($1.2) million in the fiscal year 2019, representing an increase in net revenue of approximately $54 million. Within the governmental activities, the net revenues (expenses) from general, administrative and other activities increased from approximately ($15.3) million to approximately $46.1 million. Additionally, the net revenue from tenant, utility services and maintenance activities decreased from approximately $13.2 million to approximately $6.1 million, mainly due to the transfer of the Section 8 Housing Choice Vouchers Program to the Puerto Rico Public Housing Administration effectively January 1, 2020.

- The general revenues decreased by approximately $777 thousand in the fiscal year 2020, or 37%, in comparison with the prior year. This decrease is mostly driven by a decrease in interest and investment income from a mixed finance project. On the other hand, the transfers and special items increased by approximately $2.4 million due to the net effect of the transfer out of the Section 8 Housing Choice Vouchers Program, reduced by the proceeds from insurance claims related to the Hurricanes Irma and María.

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

- There were prior period adjustments in 2020 reducing the Net Position by approximately $98.7 million related to adjustments to the total pension and OPEB liabilities and the related deferrals.

For the year ended June 30, 2020 net position changed as follows:

Net (Expenses) Revenues and Changes in Net Position

Figure 1

	Changes in Net Position			
	2020	**2019**	**Change**	**Percent**
Governmental Activities:				
Function/Program				
General, Administrative	$ 46,063,817	$ (15,303,645)	$ 61,367,462	-401%
Construction and Rehabilitation	(243,923)	(88,514)	(155,409)	176%
Housing Sales and Adjustments	1,241,182	1,522,178	(280,996)	-18%
Tenants, Utility Services and Maintenance	6,146,320	13,219,667	(7,073,347)	-54%
Interest Expenses	(451,443)	(587,021)	135,578	-23%
Total Governmental Activities	52,755,953	(1,237,335)	53,993,288	-4364%
General Revenues:				
Management and Developer Fees	122,262	153,555	(31,293)	-20%
FMV Adjustment in Housing Units and Lots Held for Sale	2,976	(1,523,117)	1,526,093	-100%
Proceeds from Insurance Claims	4,947,460	-	4,947,460	100%
Interest and Investment Income	1,177,543	1,923,445	(745,902)	-39%
Total General Revenues	6,250,241	553,883	5,696,358	1028%
Special Items:				
Net Transfers to Other Agencies/Entities	(8,879,328)	(20,000)	(8,859,328)	44297%
Total General Revenues and Special Items	(2,629,087)	533,883	(3,162,970)	-592%
Change in Net Position	50,126,866	(703,452)	50,830,318	-7226%
Net Position at Beginning of the Year, as Restated	(6,954,494)	(6,251,042)	(703,452)	11%
Net Position (Deficit), Ending	$ 43,172,372	$ (6,954,494)	$ 50,126,866	-721%

continue

3. Governmental Fund Results – Balance Sheet

- Total assets decreased from $346.7 million in fiscal year 2019 to $212.5 million on June 30, 2020, a decrease of approximately $134.2 million or 39% in comparison with prior year. This decrease is mainly due to the reduction of approximately $32.9 million and $100.9 million in the cash and cash equivalents and accounts receivable, respectively.

- Total liabilities decreased from $285 million in fiscal year 2019 to $101.3 million on June 30, 2020, representing a decrease of approximately $183.6 million or 64% in comparison with prior year. Within liabilities, there is a decrease of $216 million in accounts payable, mostly related to amounts owed to contractors of the STEP program.

	2020 Combined	2019 Combined	Change	Percent
ASSETS				
Cash and Cash Equivalent	$ 105,520,707	$ 138,396,348	$ (32,875,641)	-24%
Certificate of Deposit	-	195,050	(195,050)	-100%
Note Receivable - Related	11,882,601	11,475,230	407,371	4%
Other Account Receivable				
Grants Receivable	63,264,923	164,144,855	(100,879,932)	-61%
Other State Funds Receivable	22,649,578	25,739,365	(3,089,787)	-12%
Due from Other Funds	8,923,923	6,220,822	2,703,101	43%
Prepaid and Other Assets	254,155	516,070	(261,915)	-51%
Total Assets	**$ 212,495,887**	**$ 346,687,740**	**$ (134,191,853)**	**-39%**
LIABILITIES				
Account Payable and and Accrual Liabilities	$ 61,265,480	$ 277,052,769	$ (215,787,289)	-78%
Cash Overdraft	22,234,689	813,962	21,420,727	100%
Due to Other Governmental Entities	8,911,464	829,284	8,082,180	975%
Due to Other Funds	8,923,923	6,220,822	2,703,101	43%
Total Liabilities	**101,335,556**	**284,916,837**	**(183,581,281)**	**-64%**
DEFERRED REVENUES	**1,446,315**	**1,291,585**	**154,730**	**12%**
FUND BALANCE	**109,714,016**	**60,479,318**	**49,389,428**	**82%**
Total Liabilities, Deferred Revenues and Fund Balance	**$ 212,495,887**	**$ 346,687,740**	**$ (134,191,853)**	**-39%**

continue

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

- Total revenues and expenditures decreased by approximately $900 million and $953 million, respectively, which is mostly driven by the conclusion of the activities financed by the STEP Federal Program.

	2019 Combined	2019 Combined	Change	Percent
Revenues				
Appropriation from the Commonwealth	$ 84,765,712	$ 54,163,050	$ 30,602,662	57%
Sale and Lease of Land Lots	1,241,182	1,522,178	(280,996)	-18%
Rent	1,727,585	1,754,123	(26,538)	-2%
Indirect Costs	7,024,914	4,986,252	2,038,662	41%
Federal Grants	154,758,383	1,087,015,006	(932,256,623)	-86%
Interest and Investment Income	460,329	1,446,972	(986,643)	-68%
Management and Developers Fees	122,262	153,555	(31,293)	-20%
Other	1,209,010	77,572	1,131,438	1459%
Total Revenue	**251,309,377**	**1,151,118,708**	**(899,809,331)**	**-78%**
Expenditures				
General and Administrative	152,211,289	121,187,852	31,023,437	26%
Construction and Rehabilitation	13,847,801	969,595,505	(955,747,704)	-99%
Tenant, Utility Services and Maintenance	28,944,893	56,379,849	(27,434,956)	-49%
Capital Outlay	567,833	782,486	(214,653)	-27%
Debt Services Payments				
Principal	2,306,810	2,994,710	(687,900)	-23%
Interest	451,443	587,021	(135,578)	-23%
Total Expenditures	**$ 198,330,069**	**$ 1,151,527,423**	**$ (953,197,354)**	**-83%**

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 Budgetary	
	Original	Final	Basis	Variance
Revenues:				
Legislative Appropriations	$ 19,750,000	$ 72,661,000	$ 72,757,193	$ (96,193)
Expenditures and Transfers:				
General and Administrative	18,558,000	71,469,000	16,876,931	54,592,069
Transfers - Out	1,192,000	1,192,000	1,192,000	-
Total Expenditures and Transfers	19,750,000	72,661,000	18,068,931	54,592,069
Excess of Revenues Over Expenditures and Transfers	$ -	$ -	**$ 54,688,262**	**$ (54,688,262)**

continue

6. Capital Assets

On June 30, 2020, the PRDH had $35,411,389 invested in Capital Assets, net of depreciation, including building, equipment, furniture and fixtures, and vehicles. The net decrease of $1,710,717 when compared with balance on June 30, 2019 is mostly related to the depreciation expense during the year. Please, find below the summarized information regarding the capital assets as of June 30, 2020:

Capital Assets:	
Non Depreciable Capital Assets	
Land	$ 850,831
Construction in Progress	339,924
	1,190,755
Depreciable Capital Assets	
Building	30,000,000
Building Improvements	21,525,268
Furniture, Equipment and Vehicles	7,025,736
Parking and Building	5,164,129
Total Depreciable Capital Assets	63,715,133
Less Accumulated Depreciation	(29,494,499)
Total Depreciable Capital Assets, Net	34,220,634
Total Capital Assets, Net	**$ 35,411,389**

7. Long-Term Liabilities

As of June 30, 2020, the PRDH had a short-term line of credit to the Puerto Rico Housing Finance Authority (PRHFA) and a note payable to the Governmental Development Bank (GDB) with outstanding balances of $5,230,118 and $8,029,518, respectively. Management is in the process of refinancing the balance due of the short-term line of credit. The note payable to GDB is debt backed by the full faith and credit of the PRDH. In addition, the PRDH had a note payable to the Federal Emergency Management Agency (FEMA) with an outstanding balance of $5,221,507 as of June 30, 2020. Please see Note J for further details.

8. Deferred Outflows of Resources

Deferred outflows of resources, although similar to "assets", is set apart because these items do not meet the technical definition of being an asset of the PRDH on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

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.

continue

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 I to the basic financial statements on page 66 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 January 27, 2022, 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 S to the financial statements on pages 87 through 95 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.

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	Primary Government
	Governmental Activities
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$ 105,520,707
Interest Receivable on Note	3,127,770
Due From Federal Government	63,264,923
Due From Other Governmental Entities	6,025,736
Prepaid and Other Assets	254,155
Total Current Assets	178,193,291
Non Current Assets:	
Note Receivable frorm Related Entity	8,754,831
Notes Receivable from Developer	46,511,876
Due from Related Entity	72,114,579
Housing Units and Land Lots Held for Sale	33,601,444
Restricted Land Lot	19,200,000
Capital Assets, Net	35,411,389
Total Noncurrent Assets	215,594,119
TOTAL ASSETS	**393,787,410**
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	14,942,687
Other Post Employment Benefits Related	477,086
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**15,419,773**

continue

	Primary Government Governmental Activities
LIABILITIES:	
Current Liabilities:	
Account Payable	$ 61,265,480
Cash Overdraft	22,234,689
Due to other Governmental Entities	8,911,464
Notes Payable	12,849,142
Accrued Compensated Absences	117,263
Accrued Termination Benefits	699,724
Total Pension Liability	9,013,140
Total Other Postemployment Benefit Liability	477,086
Total Current Liabilities	115,567,988
Long-Term Liabilities:	
Accounts Payable	49,286,599
Note Payable	5,632,001
Accrued Legal Claims	8,043,642
Accrued Compensated Absence	2,138,690
Accrued Termination Benefits	3,058,081
Total Pension Liability	165,854,489
Total Other Postemployment Benefit Liability	5,428,200
Total Long-Term Liabilities	239,441,702
TOTAL LIABILITIES	**355,009,690**
DEFERRED INFLOWS OF RESOURCES:	
Pension Related	11,025,121
TOTAL DEFERRED INFLOWS OF RESOURCES	**11,025,121**
NET POSITION:	
Net Investment in Capital Assets	27,381,871
Restricted for Special Revenue Funds	1,847,534
Unassigned	13,942,967
TOTAL NET POSITION	**$ 43,172,372**

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

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grant and Contributions	Net (Expenses) Revenue and Changes in Net Position
Governmental Activities:					
General and Administrative	$ 154,881,426	$ 9,961,509	$ 191,079,927	$ -	$ 46,160,010
Construction and Rehabilitation	13,847,801	-	13,553,878	50,000	(243,923)
Housing Sales and Adjustments	-	1,241,182	-	-	1,241,182
Tenant, Utility Services and Maintenance	28,944,893	-	35,091,213	-	6,146,320
Interest Expenses	451,443	-	-	-	(451,443)
Total Governmental Activities	**$ 198,125,563**	**$ 11,202,691**	**$ 239,725,018**	**$ 50,000**	**52,852,146**
General Revenues:					
Management and Developer Fees					122,262
FMV Adjustment in Housing Units and Lots Held for Sale					2,976
Proceeds from Insurance Claims					4,947,460
Interest and Investment Income					1,177,543
Total General Revenues					6,250,241
Special Item:					
Loss on the Disposal of Operations					(8,975,521)
Total General Revenues and Special Items					(8,975,521)
CHANGE IN NET POSITION					50,126,866
Net Position - Beginning of Year					91,772,711
Prior Period Adjustments					(98,727,205)
Net Position (Deficit) - Beginning of Year, As Restated					(6,954,494)
NET POSITION - END OF YEAR					**$ 43,172,372**

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

	General Fund	Section 8 Housing Choice Voucher Program Fund	FEMA Recovery Fund	CDBG	CDBG-DR	Self-Contribution Fund	Sales and Acquisition Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Cash and Cash Equivalent	$ 57,411,020	$ 7,055,651	$ 17,817,987	$ -	$ -	$ 7,160,473	$ 325,998	$ 15,749,578	$ 105,520,707
Notes Receivable - Related	-	-	-	-	-	11,882,601	-	-	11,882,601
Other Account Receivable									
Grants Receivable	-	-	8,737,490	10,767,316	43,618,607	-	-	141,510	63,264,923
Other State Funds Receivable	-	-	-	-	-	16,861,096	-	5,788,482	22,649,578
Due from Other Funds	-	-	-	-	-	1,476,432	6,105,667	1,341,824	8,923,923
Prepaid and Other Assets	254,155	-	-	-	-	-	-	-	254,155
Total Assets	**$ 57,665,175**	**$ 7,055,651**	**$ 26,555,477**	**$ 10,767,316**	**$ 43,618,607**	**$ 37,380,602**	**$ 6,431,665**	**$ 23,021,394**	**$ 212,495,887**
LIABILITIES:									
Account Payable and Accrual Liabilities	$ -	$ -	$ 26,408,412	$ 7,562,900	$ 19,892,285	$ 5,959,918	$ 28,019	$ 1,413,946	$ 61,265,480
Cash Overdraft	-	-	-	2,007,733	20,226,956	-	-	-	22,234,689
Due to Other Governmental Entities	-	5,608,649	-	-	3,302,815	-	-	-	8,911,464
Due to Other Funds	835,000	1,447,002	147,065	-	-	5,608,953	-	885,903	8,923,923
Total Liabilities	**835,000**	**7,055,651**	**26,555,477**	**9,570,633**	**43,422,056**	**11,568,871**	**28,019**	**2,299,849**	**101,335,556**
DEFERRED INFLOWS OF RESOURCES:									
Deferred Revenues	-	-	1,245,081	4,683	196,551	-	-	-	1,446,315
FUND BALANCES:									
Nonspendable	254,155	-	-	-	-	28,666,162	-	-	28,920,317
Restricted	-	-	-	1,192,000	-	-	-	655,534	1,847,534
Committed	-	-	-	-	-	2,174,494	-	16,737,001	18,911,495
Assigned	56,576,020	-	-	-	-	-	6,403,646	3,329,010	66,308,676
Unassigned (Deficit)	-	-	(1,245,081)	-	-	(5,028,925)	-	-	(6,274,006)
Total Fund Balances (Deficit)	**56,830,175**	**-**	**(1,245,081)**	**1,192,000**	**-**	**25,811,731**	**6,403,646**	**20,721,545**	**109,714,016**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	**$ 57,665,175**	**$ 7,055,651**	**$ 26,555,477**	**$ 10,767,316**	**$ 43,618,607**	**$ 37,380,602**	**$ 6,431,665**	**$ 23,021,394**	**$ 212,495,887**

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

Total Fund Balance - Government Fund (Page 21)		**$ 109,714,016**
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Account Receivable from Related Entity is not a financial resources and not reported in the funds.		55,490,737
Account Receivable from Developer is not a financial resources and not reported in the funds.		46,511,876
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		35,411,389
Land Lots Held for Sale or Lease are not current financial resources and therefore not reported in the funds		33,601,444
Land Lots Restricted for Long-Term Credit Line are not current financial resources and therefore not include in the funds		19,200,000
Contributions to the pension plan in the current fiscal year are Deferred Outflows of Resources on the Statement of Net Position		15,419,773
Deferred Inflows of Resources reported in the governmental funds are recognized as revenue in the governmental activities		1,446,315
Pension Related Deferrals		(11,025,121)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accounts Payable Long-Term	$ (49,286,599)	
Note Payable	(18,481,143)	
Legal Claims	(8,043,642)	
Compensated Absences	(2,255,953)	
Accrued Termination Benefits	(3,757,805)	
Total Pension Liability	(174,867,629)	
Total Other Postemployment Benefit Liability	(5,905,286)	
Total Noncurrent Liabilities		(262,598,057)
Total Net Position (Page 19)		**$ 43,172,372**

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, 2020

	General Fund	Section 8 Housing Choice Voucher Program Fund	FEMA Recovery Fund	CDBG	CDBG-DR	Self-Contribution Fund	Sales and Acquisition Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:									
Appropriation from Commonwealth	$ 72,757,193	$ -	$ -	$ 89,448	$ -	$ 11,965,264	$ -	$ 50,000	$ 84,861,905
Sale and Lease of Housing Units and Land Lots	-	-	-	-	-	823,785	413,447	3,950	1,241,182
Rent	-	-	-	-	-	-	-	1,727,585	1,727,585
Indirect Cost	-	-	-	-	-	-	-	7,024,914	7,024,914
Federal Grant	-	32,749,674	236,575	14,314,394	106,562,516	-	-	895,224	154,758,383
Interest and Investment Income	-	11,305	-	-	-	407,371	21,111	20,542	460,329
Management and Developers Fees	-	-	-	-	-	87,082	-	35,180	122,262
Other	-	43,570	-	-	30,179	17,280	-	1,117,981	1,209,010
Total Revenues	72,757,193	32,804,549	236,575	14,403,842	106,592,695	13,300,782	434,558	10,875,376	251,405,570
EXPENDITURES:									
Current									
General and Administrative	16,876,931	3,327,628	236,575	991,927	106,077,986	15,407,353	615,731	8,677,158	152,211,289
Construction and Rehabilitation	-	-	-	13,411,915	141,963	140,552	-	153,371	13,847,801
Tenant, Utility Services and Maintenance	-	28,045,089	-	-	-	-	-	899,804	28,944,893
Capital Outlays	-	118,039	-	-	372,746	5,457	-	71,591	567,833
Debt Service:									
Principal	-	-	-	-	-	-	-	2,306,810	2,306,810
Interest	-	-	-	-	-	-	-	451,443	451,443
Total Expenditures	16,876,931	31,490,756	236,575	14,403,842	106,592,695	15,553,362	615,731	12,560,177	198,330,069
EXCESS OF REVENUE OVER (UNDER) EXPENDITURE	55,880,262	1,313,793	-	-	-	(2,252,580)	(181,173)	(1,684,801)	53,075,501
OTHER FINANCING SOURCES (USES):									
Proceeds from Insurance Claims	-	-	-	-	-	-	-	4,947,460	4,947,460
Transfers - In	-	-	-	1,192,000	-	6,304,468	-	871,650	8,368,118
Transfers - Out	(1,192,000)	-	-	-	-	(3,423,668)	-	(3,752,450)	(8,368,118)
Total Other Financing Sources (Uses)	**(1,192,000)**	**-**	**-**	**1,192,000**	**-**	**2,880,800**	**-**	**2,066,660**	**4,947,460**
SPECIAL ITEM:									
Loss on the Disposal of Operations	-	(8,788,263)	-	-	-	-	-	-	(8,788,263)
Net Change In Fund Balances	**54,688,262**	**(7,474,470)**	**-**	**1,192,000**	**-**	**628,220**	**(181,173)**	**381,859**	**49,234,698**
Fund Balances - Beginning	2,141,913	7,474,470	(1,245,081)	-	-	25,183,511	6,584,819	20,339,686	60,479,318
FUND BALANCES - ENDING (DEFICIT)	**$ 56,830,175**	**$ -**	**$ (1,245,081)**	**$ 1,192,000**	**$ -**	**$ 25,811,731**	**$ 6,403,646**	**$ 20,721,545**	**$ 109,714,016**

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Net Change in Fund Balances - Government Fund (Page 23)		**$ 49,234,698**
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	$ 567,833	
Depreciation Expense	(2,091,292)	
Excess of Depreciation Expense over Capital Outlays		(1,523,459)
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		154,730
Interest on Mortgage Receivable from Related Party		717,214
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.		2,976
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	(407,895)	
Pension Expense	3,318,467	
Other Postemployment Benefits	600,244	
Change in Due to Other Governmental Agencies	751,949	
Loss on Retirement of Capital Assets	(187,258)	
Accrued Legal Claims	(4,763,358)	
Principal Payments on Notes Payable	2,306,810	
Compensated Absences	(796,525)	
Accrued Termination Benefits	718,273	
Total Additional Expenses		1,540,707
Change in Net Position of Governmental Activities (Page 20)		**$ 50,126,866**

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

	Agency Funds		
	Ponce en Marcha Fund	Special Communities Fund	Remedy Fund
ASSETS:			
Restricted Cash	$ 336,751	$ 195,455	$ 1,051,775
TOTAL ASSETS	**$ 336,751**	**$ 195,455**	**$ 1,051,775**
LIABILITIES:			
Due to Government Units	$ 336,751	$ 195,455	$ 1,051,775
TOTAL LIABILITIES	**$ 336,751**	**$ 195,455**	**$ 1,051,775**

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 for financial reporting purposes, part of the Commonwealth of Puerto Rico. Because PRDH is part, for financial reporting purposes, of the Commonwealth, 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).

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, 2020, 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, 2020 in conformity with GAAP.

The minimum required financial statement 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).

continue

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

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

Management's discussion and analysis is required 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 of 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.

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*] provide 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 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.

continue

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

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, 2020:

General Fund – 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.

Section 8 Housing Choice Vouchers Program Fund – This major fund accounts for grants received from HUD. The Grant is restricted for accomplishing objectives of the Housing Vouchers Program, which provides rental assistance to help very low-income families afford decent, safe and sanitary rental housing. Effective January 1, 2020 this federal program was transferred to another State Agency.

FEMA Recovery Fund – This major fund accounts for grants received from Federal Emergency Management Administration (FEMA) through the Sheltering and Temporary Essential Power (STEP) Pilot Program. The grant is restricted for providing minor emergency repairs to single-family owner-occupied residences.

CDBG Fund - This major fund accounts for grants received from HUD. The grant is restricted for 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 for 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.

continue

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

The financial statements of the governmental funds are the following:

Balance Sheet – Governmental Funds – Report's information on June 30, 2020 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, 2020.

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 the following fiduciary fund:

Agency – This fiduciary fund is custodial in nature (assets equal liabilities) and does not involve measurement of the PRDH results of operations (see Note O).

The financial statement of the fiduciary fund 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.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at 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.

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.

continue

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

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.

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.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. 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.

continue

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

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, 2020, 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 matured (when payment is due). Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

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.

continue

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

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 to 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.

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.

continue

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

Inter-Fund Balances

Inter-fund 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.

Inter-Fund Transfers corresponds to invoices for security services paid from Other Governmental Fund for services received by 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 extent 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.

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, represent 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 is 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 is 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.

continue

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

Note J provide 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 employee accumulates 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.

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, 2020. 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 represents 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.

Reduction of Working Day

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

Mortgage Interest Income

Interest income on mortgages is recorded when collected due to the high delinquency rate.

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 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 with the Governmental Development Bank, Commercial Banks.

continue

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

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.

Housing Units and Lots Held for Sale

In June 2015, the Governmental Accounting Standards Board (GASB) issue Statement No. 75, *Fair Value Measurement and Application*. This Statement requires 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 apply Level 3 as the measure of evaluating its fair values for the Housing Units and Lots Held for Sale base 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.

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 takes 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, 2020.

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, 2020, 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, 2020. 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 is 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, 2020 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 reflects 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, 2020.

Accounting for Pension Costs

As further disclosed in Note 18, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). 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 liquidated, and its proceeds 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.

Act No. 106-2017 impacts the benefits provided to ERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not become ERS members.

- Effective July 1, 2017, current ERS members will no longer make any contributions to ERS. Prospectively, active members will participate in a separate defined contribution plan.

In addition, Act No. 106-2017 provides that ERS will be funded on a "Pay-As-You-Go" basis. This funding change 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.

continue

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

- Act No. 32-2013 Additional Uniform Contribution.

- Act No. 3-2013 Supplemental Contributions – was $2,000 for each pensioner who was previously benefitting 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.

As ERS 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 employers, like Municipality, also participate in ERS.

Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 N, 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 O).

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 – These consist of capital assets, less accumulated depreciation and reduced by any outstanding debt related to the acquisition, construction or improvement of those assets.

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 – These consist of net position 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, a flow assumption must be made about the order in which the resources are considered to be applied. It is PRDH's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

continue

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

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 the 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). Assigned fund balance is established by the PRDH through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Future Adoption of Accounting Pronouncements

The provisions of the following Governmental Accounting Standards Board (GASB) Statement *are effective immediately*:

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

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

continue

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

- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation guide No. 2019-2, *Fiduciary Activities*

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

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

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

1. Future Adoption of Governmental Accounting Standards Board (GASB) Statements – Postponed One Year

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The PRDH is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

continue

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

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for reporting periods beginning after June15, 2019 *(FY 2019-2020)*. Earlier application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

continue

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

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specifies in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debts.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resources flows.

The requirements of this Statement are effective for reporting periods beginning after June15, 2018 *(FY 2018-2019)*. Earlier application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

continue

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 *(FY 2020-2021)*. Earlier application is encouraged. The requirement of this Statement should be applied prospectively.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 90, *Majority Equity Interest—An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows or resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

continue

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer. (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntarily commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangement, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

continue

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

Issuers should not report those arrangements as leases, not should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflows of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FY 2021-2022). Early application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The requirements related to the effective date of Statement No. 87 and Implementation Guide No. 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. As per GASB Statement No. 95 the effective date is postponed by additional 18 months.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

continue

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

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.
- Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement No. 53, as amended

continue

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

- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional one year.

2. Future Adoption of Governmental Accounting Standards Board (GASB) Statements – Postponed by Eighteen Months

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The PRDH is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by eighteen months.

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

DEFINITION OF A LEASE

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this Statement.

LEASE TERM

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

continue

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

d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option. A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

SHORT-TERM LEASES

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

LESSEE ACCOUNTING

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives), the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

LESSSOR ACCOUNTING

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

continue

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

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

LEASE MODIFICATIONS AND TERMINATIONS

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

SUBLEASES AND LEASEBACK TRANSACTIONS

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease. A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 *(FY 2020-2021)*. Earlier application is encouraged.

As per GASB Statement No. 95 the effective date is postponed by additional eighteen months.

continue

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

3. Future Adoption of Governmental Accounting Standards Board (GASB) Statements

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

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

PPPS

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.

continue

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

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement No. 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

APAS

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

continue

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

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

GASB 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.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government of SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, --which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in a subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

continue

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

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the state in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or no subscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract if 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information abouts its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting period thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstance that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

continue

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

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

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

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

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement No. 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67 or paragraph 3 of Statement No. 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

GASB Statement No 98, *The Annual Comprehensive Financial Report*, this Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

continue

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

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 practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- Terminology used in Statement 53 to refer to resource flows statements.

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 leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- 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.

continue

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

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 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.

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.

The 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.

continue

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

RECOGNITION AND MEASUREMENT

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

NOTES TO FINANCIAL STATEMENTS

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.

Implementation Guide No. 2020-1, *Implementation Guidance Update—2020*

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.5, 4.18, and 5.3 for reporting periods beginning after June 15, 2021 (FY 2021-2022)
Questions 4.6–4.17 for fiscal years beginning after December 15, 2021 (FY 2022-2023), and all reporting periods thereafter
Questions 4.19–4.21 for reporting periods beginning after December 15, 2021 (FY 2022-2023)
Questions 5.1, 5.2, 5.4, and 5.5 for fiscal years beginning after June 15, 2021 (FY 2021-2022)

continue

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

The provisions of paragraph 6 are effective immediately.

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

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

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022 (FY 2022-2023)
Questions 4.4–4.21 for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter
Question 4.22 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
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.

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

NOTE B – NET POSITION RESTATEMENT

For the year ended June 30, 2019, PRDH adjusted net position for the following concept:

Beginning Net Position, As Previously Reported, June 30, 2019		$ 91,772,711
Adjustments Not Recognized on Prior Year:		
Deferred Outflows - Measurement Date as of June 30, 2019	$ 45,157	
Total Pension Liability - Measurement Date as of June 30, 2019	(106,182,683)	
Deferred Inflows - Measurement Date as of June 30, 2019	6,999,003	
Total Other Postemployment Benefit Liability - Measurement Date as of June 30, 2019	411,318	
Total Adjustments		(98,727,205)
Beginning Net Position (Deficit), As Restated, July 1, 2019		$ (6,954,494)

NOTE C – 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, 2020, the PRDH invested its funds in bank accounts bearing interest.

continue

NOTE C – CASH AND CASH EQUIVALENTS, AND RESTRICTED DEPOSITS – continuation

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. These balances are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2020, the uninsured portion of this balance was $9.1 million. Additionally, approximately $119.9 million, are 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 poling 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, 2020, 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 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.

NOTE D – MORTGAGES AND ACCOUNTS RECEIVABLE

Mortgages and accounts receivable as of June 30, 2020, consist of the following:

Mortgages Receivable

Mortgage notes receivable consist of first mortgages arising from the sale of housing units with interest rates ranging from 3.125% to 9%, maturing within a period of two (2) to nineteen (19) years. Due to delinquency of the portfolio as of June 30, 2020, management's opinion is that certain mortgages notes are not collectible and that in order to realize a portion of their value, the housing units will have to be repossessed and subsequently sold. Therefore, a valuation allowance equal to the value of the asset ($2,403,747) was recorded on June 30, 2020.

continue

NOTE D – MORTGAGES AND ACCOUNTS RECEIVABLE – continuation

Description	Amount
Mortgage Notes	$ 1,885,718
Other Accounts Receivable	543,482
	2,429,200
Less Valuation Allowance	(2,429,200)
	$ -

Grants and Other Receivables

Grant's receivable on June 30, 2020 consists of federal grants receivable as follows:

Federal Program	Amount
Sheltering and Temporary Essential Power	$ 8,737,490
Community Development Block Grant Program	10,767,316
Community Development Block Grant Program - Disaster Recovery Program	43,618,607
Continuum of Care Program	141,510
	$ 63,264,923

Additionally, the PRDH have accounts receivable from Other State Funds as follows:

Other State Funds	Amount
Amount due from Assurance Reserve Fund of Partnership Agreement (see Note E)	$ 16,861,096
Amount due from Related Entity (see Note T)	5,730,008
Other	58,474
	$ 22,649,578

NOTE E – 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").

continue

NOTE E – PARTNERSHIP AGREEMENT – continuation

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.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2020, the 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, 2020, 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 (refer to Note M for details). The fees are payable in December of each year and shall accrue. As of June 30, 2020, the General Partner has earned and was owed $213,275.

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 the course of construction and rehabilitation of the Projects, with the expectation of amending and restating the Partnership Agreement. The contemplated resolution include change 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, 2020, such reserve was maintained in the Partnership. The amount owed to PRDH for the assurance reserve fund as of June 30, 2020, amounted to $16,776,514, presented as Other Accounts 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").

continue

NOTE E – PARTNERSHIP AGREEMENT – continuation

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.

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

The note shall be a full recourse liability of the Project Company; however, none of the Project Company's members have personal liability. As of June 30, 2020, the principal balance outstanding on the deferred purchase price note was $8,754,831 and accrued interest was $3,127,770.

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, 2020, 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 $72,522,474 ($16,616,341 from the Assurance Reserve Fund plus $55,498,238 of Developer’s Fees) is presented in the *Statement of Net Position*.

NOTE F – NOTES RECEIVABLE FROM DEVELOPER

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. Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

continue

NOTE F – NOTES RECEIVABLE FROM DEVELOPER – continuation

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.

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 leases is for 75 years, 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 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, 2020, the account receivable for advances made to the Developers for predevelopment costs of the projects amounted to $3,837,863 (see Note U).

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 development 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. Developer shall seek proposals from prospective investors in the Low-Income Housing tax credit allocated to the rental phase of the project.

continue

NOTE F – NOTES RECEIVABLE FROM DEVELOPER – continuation

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.

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, 2020 total Note Receivable from Developer and accrued interest receivable amount to $39,961,239 and $2,712,774, respectively, segregated by project as follow:

Project	Note Receivable	Accrued Interests	Total
Las Gladiolas Public Housing	$ 11,291,288	$ 1,100,000	$ 12,391,288
Puerta de Tierra Public Housing	13,692,554	801,000	14,493,554
Gautier Benítez - Multifamily	10,733,433	562,644	11,296,077
Gautier Benítez – Elderly Home	4,243,964	249,130	4,493,094
Total	**$ 39,961,239**	**$ 2,712,774**	**$ 42,674,013**

NOTE G – 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, 2020, 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) issue Statement No. 72, *Fair Value Measurement and Application*. This Statement requires 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 apply Level 3 as the measure of evaluating its fair values for the Housing Units and Lots Held for Sale base 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.

continue

NOTE G – 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. 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 base on the changes in Purchase-only House Price Index prepared by management.

The PRDH has an inventory of housing units under the Sale and Acquisition fund for a total $33,601,444, measured at fair value as of June 30, 2020, as follows:

Description	Amount
Housing Units and Land Lots	$ 37,318,280
Adjustment to FMV	(3,716,836)
Housing Units and Lots Held for Sale, Net	$ 33,601,444

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 base on the changes in 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 H – 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
Total Capital Assets Not Being Depreciated	1,190,755	-	-	1,190,755
Capital Assets Depreciated:				
Vehicles, Fixtures and Equipment	6,645,161	567,833	(2,203,165)	5,009,829
Parking and Building	5,164,129	-	-	5,164,129
Building	30,000,000	-	-	30,000,000
Building Improvements	21,525,268	-	-	21,525,268
Total Capital Assets Before Depreciation	63,334,558	567,833	(2,203,165)	61,699,226
Less Accumulated Depreciation	(27,403,207)	(2,091,292)	2,015,907	(27,478,592)
Total Depreciable Capital Assets (Net)	35,931,351	(1,523,459)	(187,258)	34,220,634
CAPITAL ASSETS NET	$ 37,122,106	$ (1,523,459)	$ (187,258)	$ 35,411,389

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

continue

NOTE I – 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 L).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds *Balance Sheet* do not report *Deferred Outflows/Inflows of Resources*.

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

Governmental Activities:	
Deferred Outflows of Resources	
Pension and OPEB Related	$15,419,773
Deferred Inflows of Resources	
Pension Related	$11,025,121

NOTE J – SHORT AND LONG-TERM OBLIGATIONS

Short and long-term obligations as of June 30, 2020, are composed of the followings:

Short-term obligation consists of a line of credit to the Puerto Rico Housing Finance Authority (PRHFA) for the Santurce Rehabilitation Plan, through the approval by corporate resolutions during fiscal year ended June 30, 2002. The loan is secured by properties owned by another governmental agency. The credit line carries interest based on quarterly variable labor rate plus 1.25%, with a minimum annual interest rate of six percent (6%). Principal and interest are payable annually. The line of credit was due on March 15, 2009. Management is on the process of refinancing the balance due.	$ 5,230,118
Note payable to Federal Emergency Management Agency (FEMA) in seventy-two monthly cash payments of $141,000, starting July 31, 2017, and continuing every month on the same date until the entire debt and all related charges are paid. The first payment is for $241,000, which includes an initial down-payment of $100,000. The payment plan includes interest accrued prior to the first payment date, plus interest set at 1% per year, pursuant to U.S. Department of Treasury regulations. If the PRDH fails to make full payment within thirty (30) days of the date payment is due, the debt is delinquent, and the entire balance is due immediately. Refer to note below for additional information.	5,221,507
Note payable to the Government Development Bank of Puerto Rico (GDB) in monthly installments of $250,000, including principal, escrow and interest on a quarterly variable rate of .75% over LIBOR. The note is pledged by an assignment of the rent agreements of two (2) tenants.	8,029,518
Total Notes Payable	18,481,143
Less Current Portion	(12,849,142)
Note Payable, Long-Term Portion	$ 5,632,001

continue

NOTE J – SHORT AND LONG-TERM OBLIGATIONS – continuation

On June 30, 2020, scheduled aggregate principal and interest maturities of notes payable were approximately as follows (these amounts exclude the $5,230,118 owed to PRHFA that was due and is on the process of refinancing):

Year Ending June 30,	Principal	Interest	Total
2021	$ 7,619,024	$ 86,623	$ 7,705,647
2022	4,000,526	35,398	4,035,924
2023	1,631,475	8,646	1,640,121
Total	$ 13,251,025	$ 130,667	$ 13,381,692

NOTE K – COMPENSATED ABSENCES

Total vested pay benefits accrued for compensated absences on June 30, 2020, amount to $2,255,953 which activity for the year ended June 30, 2020, is summarized as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Due Within One (1) Year	Due After One (1) Year
$ 1,459,428	$ 1,355,568	$ (559,043)	$ 2,255,953	$ 117,263	$ 2,138,690

NOTE L – 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 of June 30, 2020.

(1) Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the ERS was administered by the Board of Trustees of the ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-As-You-Go" ("Pay-Go") system for the payment of pensions. Also pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer make any contributions to ERS, and ERS will be funded on a "Pay-As-You-Go" basis.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

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

(2) Pension Benefits

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 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). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

Al regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) ***Service Retirement Eligibility Requirements***

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 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, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are 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 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

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

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

2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

   Act No. 1-1990 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. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

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

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

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

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

(b) *Compulsory Retirement*

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

(c) ***Service Retirement Annuity Benefits***

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

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

   If the Act No. 447-1951 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 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. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth 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 up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

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 defined, 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-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, 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 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

   For all other Act No. 1-1990 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. Maximum benefit is 90% of highest compensation as a Mayor.

(d) ***Special Benefits***

1) Minimum Benefits

- *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.
- *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)
- *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 L – EMPLOYEES' RETIREMENT PLAN - continuation

2) *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).

3) *Special "Bonus" Benefits*

- *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)*

- *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)*

(e) *Changes in Plan Provisions since Prior Valuation*

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

(3) 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.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

(4) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB No. 73 is now implemented in substitution of GASB No. 68. The PRDH's Total Pension Liability was measured as of June 30, 2020 based on the audited financial information of January 28, 2022 and actuarial valuation as January 25, 2022.

(a) Total Pension Liability

Effective July 1, 2014, the PRDH implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the PRDH's accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. The PRDH's Total Pension Liability was measured as of June 30, 2020. The measurement Date is June 30, 2019, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2019 through June 30, 2020.

As June 30, 2020, the PRDH's proportional share of the Total Pension Liability used was as follows:

Proportion - June 30, 2020	0.70368%
Proportion - June 30, 2019	0.70645%
Change - Increase (Decrease)	-0.00277%

As June 30, 2020, the PRDH reported $174,867,629 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2020	
	Total	Proportional Share (0.70368%)
Commonwealth Total Pension Liability	$ 24,850,437,978	$ 174,867,629
Covered Payroll	$ 2,355,985,196	$ 16,578,603
Commonwealth Total Pension Liability as a % of Covered Payroll	1054.78%	1054.78%

(b) Pension Expense

For the fiscal year ended June 30, 2021, the PRDH recognized pension expense of $5,694,673 of total pension payments of the "Pay-As-You-Go" system.

(c) Deferred Outflows/Inflow of Resources

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

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 5,928,523
Changes of assumptions	5,678,385	4,520,797
Changes in proportions	251,162	575,801
Current year employer's contribution	9,013,140	-
	$ 14,942,687	$ 11,025,121

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
2021	$ (1,273,892)
2022	(1,273,892)
2023	(1,273,892)
2024	(1,273,892)
2025	-
Therafter	-
	$ (5,095,568)

(d) Actuarial Methods and Assumptions

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate has decreased from 3.87% as of June 30, 2019 to 3.50% as of June 30, 2020. The projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020 to reflect the projected mortality improvement scale issued in the valuation year.

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly-used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that , if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by ERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2020 are based on projecting the System obligations determined as of the census data collection date of July 1, 2019 for one year using roll-forward methods, assuming no liability gains or losses.

Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2020 is provided below, including any assumptions that differ from those used in the June 30, 2019 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Municipal Bond Rate: 3.50% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.50% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as result of the Act No. 3-2017 four year extension of the Act No. 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

Define Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to "Pay-As-You-Go" funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for Demographic Assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with ERS staff for reasonableness and are documented in this Section.

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality improvement Scale MP-2020 from the 2006 base year, and projected forward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scales MP-2020 from the 2006 base year, and projected forward using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scales AA. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, 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 plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For members retiring after June 30, 2013 under Act No. 127-1958, a Joint & 100% Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016 but was not provided as of July 1, 2017 for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed (as shown in the following table), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No, 211-1958 and those not married were assumed to have a modified cash refund (as shown in the following table). The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

continue

NOTE L – 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, (see Note 2 E. 12). The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2019 and 2020, was as follow:

	June 30, 2019	June 30, 2020
Discount Rate	3.87%	3.50%
20 Year Tax-Exempt Municipal Bond Yield	3.87%	3.50%

Changes in Total Pension Liability

Changes in Total Pension Liability	Increase (Decrease)	
	Total Pension Liability	Proportional Share
Balance of the Commonwealth of Puerto Rico, as of June 30, 2019	$ 24,489,519,237	$ 172,327,915
Changes for the year:		
Service Cost	65,433,707	460,444
Interest on Total Pension Liability	924,869,040	6,508,121
Effect of Plan Changes	-	-
Effect of Economic/Demographic (Gains) or Losses	(312,438,756)	(2,198,570)
Effect of Assumptions Changes or Inputs	1,008,694,161	7,097,982
Benefit Payments	(1,325,639,411)	(9,328,263)
Balance of the Commonwealth of Puerto Rico, as of June 30, 2020	$ 24,850,437,978	$ 174,867,629

(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:

	1% Decrese 2.50%	Current Discount Rate 3.50%	1% Increse 4.50%
Total Pension Liability	$ 198,852,232	$ 174,867,629	$ 155,382,220

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 26) on April 23, 2021. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% in the aggregate to beneficiaries of more to $1,500 of monthly benefits:

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2018 valuation. Also, note that the Fiscal Plan anticipates that ERS will be funded on a "Pay-As-You-Go" basis.

"Pay-As-You-Go" Funding

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

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

Furthermore, Act No. 106-2017 modified the ERS's governance. Under Act No. 106-2017, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

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

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

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

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

continue

NOTE L – EMPLOYEES' RETIREMENT PLAN - continuation

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

- If the ERS be permitted to develop a budget request of a “Pay-Go” amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

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

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

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 M – 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 $3,757,805 in the accompanying statement of net position as of June 30, 2020 and a charge of $718,273 under general and administrative in the accompanying statement of activities for the year ended June 30, 2020. On June 30, 2020, unpaid long-term benefits granted on this program were discounted at 2.03%.

NOTE N – 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.

continue

NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Healthcare Benefits

The PRDH accounts for OPEB under the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made. This statement has substantially revised the accounting requirements previously mandated under GASB Statements No. 43 and 45. The most notable change is that the Annual Required Contribution (ARC) has been eliminated and the Net OPEB Liability will be an item on the employer's financial statement rather than a footnote entity.

GASB Number 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers.

Funding Policy – the contribution requirement of ERS Medical Insurance Plan (MIP), are established by Act No. 95-1963. Its benefit consists of a maximum of $100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIPC. These benefits are financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and municipalities.

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2018. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2019. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year date. This report is for measurement year July 1, 2018 to June 30, 2019 for reporting period ending June 30, 2020.

Significant Changes

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2019 was 97,708 retirees.

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows of resources as changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year. A deferred outflows of resources of $477,086 was presented for payments made after June 30, 2019 to the plan.

continue

NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Total OPEB Liability

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB No. 75.

Total OPEB Liability	June 30, 2020	
	Total	Proportional Share (0.70957%)
Total OPEB Liability	$ 832,234,462	$ 5,905,286
Covered Payroll	N/A	N/A
Total OPEB Liability as a % of Covered Payroll	N/A	N/A

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

Proportion - June 30, 2019	0.71584%
Proportion - June 30, 2020	0.70957%
Change - Increase (Decrease)	-0.00627%

Discount Rate

The discount rate on June 30, 2019 and 2020, was as follow:

	June 30, 2019	June 30, 2020
Discount Rate	3.87%	3.50%
20 Year Tax-Exempt Municipal Bond Yield	3.87%	3.50%

Changes in Total OPEB Liability	Total OPEB Liability	Proportional Share
Balance Commonwealth of PR as of June 30, 2019	$ 842,153,064	$ 5,975,687
Changes for the year:		
Service Cost	-	-
Interest on Total OPEB Liability	31,268,790	221,875
Effect of Plan Changes	-	-
Effect of Economic/Demographic (Gains) or Losses	4,816,709	34,178
Effect of Assumptions Changes or Inputs	22,995,708	163,171
Benefits Payments	(69,002,809)	(489,625)
Balance Commonwealth of PR as of June 30, 2020	**$ 832,231,462**	**$ 5,905,286**

continue

NOTE N – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Actuarial Assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Inflation	Not Applicable
Municipal Bond Index	3.50%, as per Bond Buyer General Obligation 20-Bond Municipal bond Index
Projected Salary Increases	Not Applicable
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from the 2006 base year, and projected formward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from 2006 base year, and projected forward using MP-2020 on a generational basis. As generational tables, 100.0% of deaths while in active service are assumed to be occupational for members covered under under Act No. 127-1958. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These rates are projected using Mortality Improvement Scales MP-2020 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 plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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:

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	**$ 6,476,961**	**$ 5,905,286**	**$ 5,419,728**

continue

NOTE O – AGENCY FUND

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 with such settlement, the PRDH is the fiscal agent of the funds for planning and development of several Municipality of Ponce projects. The restricted cash balance is $336,751 on June 30, 2020 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 restricted cash balance is $1,051,775 on June 30, 2020 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 restricted cash balance is $1,051,775 on June 30, 2020 and is presented in the *Statement of Fiduciary Net Position*.

NOTE P – 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 F). 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.

continue

NOTE P – COMMITMENTS AND CONTINGENCIES – continuation

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 apartment.

Operating Leases

The PRDH has long-term operating lease agreements for substantially all of its office facilities for periods up to thirty (30) years.

Litigation – PRDH

The PRDH is a defendant in a number of lawsuits. As stated by legal counsel, the PRDH has recorded a provision of $8,043,642 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	Due Within One (1) Year	Due After One (1) Year
$ 3,280,284	$ 4,763,358	$ -	$ 8,043,642	$ -	$ 8,043,642

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.

PRDH received two Federal Emergency Management Agency (FEMA) grant awards totaling $186.13 million to implement the New Secure Housing Program following Hurricane Georges in September 1998. In August 2012, the Puerto Rico Department of Housing submitted final expenditure claims totaling $184.34 million. FEMA requested the audit of these claims to facilitate closeout of the grants.

The U.S. Office of Inspector General (OIG) performed an examination of the New Secure Housing Program covering fiscal years ended prior to June 30, 2013. This examination identified instances of non-compliance with terms and conditions of the grant's agreements, applicable federal law, and the New Secure Housing Program's regulations, including but not limited to the expenditure of resources for ineligible purposes. OIG identified in its examination ineligible construction costs amounting to approximately $90.79 million. On April 10, 2017, the Secretary of the PRDH signed the New Secure Housing Program Voluntary Repayment Settlement Agreement (the Voluntary Settlement Agreement) with FEMA. PRDH entered into a six-year repayment plan, staring on July 31, 2017, with FEMA to return New Secure Housing funds amounting to approximately $9.8 million that were determined to be ineligible costs within the $90.79 million discussed above.

continue

NOTE P – COMMITMENTS AND CONTINGENCIES – continuation

The Voluntary Settlement Agreement establishes the reimbursement to the New Secure Housing Program of the $9.8 million, from non-federal funds, for ineligible expenditures, in seventy-two monthly cash payments of $141,000, starting July 31, 2017, and continuing every month on the same date until the entire debt and all related charges are paid. (See Note J for more detail.)

The PRDH is from time to time audited by the Office of the Controller for Puerto Rico ("the Controller") 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 in the financial statements of the PRDH.

NOTE Q – MORTGAGE INTEREST REVENUES

During the fiscal year ended June 30, 2020, the PRHD recorded mortgage interest revenues and principal payments of $21,111 in mortgage collections.

NOTE R – FUND BALANCE

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. 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 the authority.
- Unassigned – all amounts not included in other spendable classifications.

Below is the detail included in the fund balance classification for the governmental funds on June 30, 2020:

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 other major funds. The Nonspendable balance of $254,155 is related to prepaid and other assets and the Assigned Fund Balance of $56,576,020 on June 30, 2020 is for general administration.

continue

NOTE R – FUND BALANCE – continuation

Section 8 Housing Choice Vouchers Fund

Effective January 1, 2020 the PRDH transferred its Section 8 Housing Choice Vouchers Program (CFDA No. 14.871) to the Puerto Rico Public Housing Administration (PRPHA). Also as instructed by U.S. HUD, the PRDH must transfer the remaining balance of the Unrestricted Net Position account to PRPHA. As of June 30, 2020, there are $5,608,649 of remaining administrative fees corresponding to the Unrestricted Net Position account that will be transferred directly to the PRPHA, net of any accrued expenses covers by the PRDH. The transfer will be made once the program closing audit is completed.

FEMA Fund

The FEMA Fund has unassigned deficit of ($1,245,081) on June 30, 2020 related to pending legislative resolutions to fulfill the program funding for providing minor emergency repairs to single-family owner-occupied residences

CDBG Fund

This major fund accounts for grants received from HUD. The grant is restricted for 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 for 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 Nonexpendable Fund Balance of $25,811,731 million related mainly to accounts and note receivable related to the Partnership Agreement (see Note E), Nonexpendable Funds of $28,666,162 for general administrative expenditures not accounted for in the General Fund, and a deficiency of ($5,028,925) on unassigned funds.

Sales and Acquisition Funds

The fund has an Assigned Fund Balance of $6.4 million for the construction of houses for low income.

Other Governmental Funds

The non-major fund has a Special Revenue Restricted Fund Balance designated for specific purposes of $656 thousand related to state assignments for housing projects. Also, the PRDH has a Committed Fund Balance of $16.7 million related to legislation resolution. The remaining Assigned Fund Balance of $3.3 million, is related to a Debt Service Fund.

continue

NOTE S – 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.

PROMESA Overview

Background

Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade. As of 2018, the economy was $18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth's outstanding debt and pension liabilities had grown to over $120 billion – with more than $70 billion in financial debt and more than $50 billion in pension liabilities – an amount almost twice the size of Puerto Rico's economy.

Also, before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in *Puerto Rico v. Franklin Cal. Tax-Free Trust, et al.*, 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

continue

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

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an “instrumentality of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

Conditions for Termination of the Oversight Board

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, and economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA, that define when the Oversight Board can be dissolved, were incorporated into the federal law to ensure the board disappeared, for good, once Puerto Rico’s financial outlook stabilized and better financial management processes have been put in place.

An Oversight Board shall terminate upon certification by the Oversight Board that:

> **the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and**
>
> **for at least 4 consecutive fiscal years—**
>
> > **the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and**
> >
> > **the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting**

Progress on Requirement Number 1: Adequate Access to Credit Markets at Reasonable Interest Rates

Sustainable Debt Restructuring

The Oversight Board has and is following a “once and done” approach to the restructurings, to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico’s debt, the largest debt restructuring in the history of the municipal bond market. The confirmed PoA reduces the outstanding Commonwealth’s debt and other claims by almost 80%, from $33 billion of existing claims to $7.4 billion in new debt. In addition, the Commonwealth’s total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from $90 billion to $34 billion, saving Puerto Rico almost $60 billion in debt service payments.

continue

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

In May 2017, the Puerto Rico Government and the Government Development Bank (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title IV. The RSA, as amended in April 2018, reduced about $5 billion of debt to about $3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring cushioned municipalities by offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by $6 billion, from $18 billion to $12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately $17.5 billion that will now be available to support the financial needs of the Commonwealth.

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification of about $1 billion of outstanding loans under PROMESA's Section 207. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about $380 million over the next 10 years and eliminates approximately $1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provides PRASA with access to $400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing $2,600 to the Act 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

Key to the sustainability of any debt restructuring is the growth of the Puerto Rico economy. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of these aim to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, the creation of jobs, and ultimately a better life for the residents of the Island.

continue

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

Timely Financial Reporting

The requirement related to timely financial reporting includes expectations that the Government publish past due audited financials begin issuing audited financial statements on a best practice basis (e.g., issue audited financial statements within six months after the fiscal year ends).

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019-FY2020. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two recent public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (~38 months) to issuance. According to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (ACFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017. Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs.

To achieve timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

As seen in ***Exhibit 8***, the Government is behind on meeting many of these requirements, but with steadfast political will and leadership, the Oversight Board is convinced that these objectives can be reached, past due ACFRs can be issued within the next two years, and a system can be put in place that assures continued timely issuance as expected by the credit markets.

Progress on Requirement Number 2: Four Years of Budgets Developed with Modified Accrual Accounting Principles and Expenditures which have not Exceeded Revenues

Four Years of Developing Budgets in Line with Modified Accrual Accounting Standards

The Government is expected to develop and implement a budget in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing ACFRs. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending and help Puerto Rico avoid overspending and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the City.

continue

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

Four Years of Balanced Budgets According to Accrual Based Accounting Method

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today.

The key principles that will need to be met for the Government to achieve this requirement are the formulation of an accrual based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund. In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

To fully implement accrual budgeting, the Government would need to adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Government and other covered instrumentalities have unfortunately not yet demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board. As shown in ***Exhibit 8***, rapid progress will be needed across a number of dimensions to meet the key requirements under PROMESA.

continue

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

EXHIBIT 8: PROGRESS TOWARDS ACHIEVING KEY REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD

Not started · Some Progress · Completed

Category	Details		Current Progress
Complete Sustainable Debt Restructuring	**Exchanged / New Debt**	• Exchanged / new bonds trading well in the public markets	Some Progress
	Muni bond market / buyers	• Interest from traditional, institutional municipal bond buyers	Not started
	Investors	• Evidence investors ready to invest in Puerto Rico again	Not started
	Debt Management Policy	• Prepare a written debt management policy as required by the CW PoA • Present the debt management policy to the Oversight Board for approval	Some Progress
Timely Financial Reporting	**Timeline and Action Plan**	• Provide detailed timeline and implementation plan for issuance financial statements	Some Progress
	Financial reporting division	• Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units	Some Progress
	Multiyear master audit contract	• Secure multi-year contracts with auditors and other essential contractors in conformance with best practices	Not started
	Implement monthly closing procedures	• Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings) • Medium-term: Implement ERP system (quarterly closing procedure) • Longer-term: ERP system fully implemented (monthly closing procedures)	Some Progress
	Strict monitoring and publish delays	• Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays	Not started
Budgets in accordance with modified accrual accounting standards	**Modified Accrual Budgeting**	• Adopt policies and train employees to book budget and book expenses • Adjusting entries are communicated and coordinated across agencies • Accruals and interagency reconciliations automated	Not started
	Revenue / Expenses	• Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes • Detailed resolution certifications and expense system registration	Some Progress
	Payroll Systems	• Appropriations for termination of payroll accruals • Integrate systemwide payroll system into a financial reporting system	Some Progress
	Accounts Payable	• Maintain government wide monthly accounts payable procedures • Automate process and journal entries	Some Progress
	Purchase Orders	• Book encumbrances for entire year when contract is approved • Multi-year contract encumbered at the beginning of subsequent years	Not started
	Other Funds	• Consolidate as many special revenue funds into the General fund as possible; better maintained through annual General Fund appropriation procedures • Track and record all expenses and standardize chart of accounts	Not started
Implementing a balanced budget	**Payroll spending**	• Connect time and expense to payroll systems	Some Progress
	Closing of books	• Reconcile bank balances and monies held outside of the TSA • Issue consistent systemwide guidance	Not started
	Real time spending reports	• Perform quarterly budget to actual review and forecast adjustment by senior leadership • Issue public reporting and strategic guidance to stay within means	Some Progress
	Visibility into all funds	• Gain visibility into special revenue funds and federal funds • Require reporting and sweep back unused general fund appropriations	Not started
	Financial accounting systems	• Integrate financial systems • Ensure reporting is consistent across all agencies	Not started

***Fiscal Plans, Budgets, and Other Oversight Board Tools*:**

Under PROMESA, covered territorial instrumentalities/entities can be required by the Oversight Board to prepare and submit annual fiscal plans, who then reviews and either rejects or certifies them. The Oversight Board certifies fiscal plans and budgets to achieve PROMESA's goals to provide a method to achieve fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

continue

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

The certification and timely implementation of fiscal plans and balanced budgets are invaluable tools to achieve fiscal responsibility and restore Puerto Rico's access to the capital markets. Among other things, the certified fiscal plans and budget provide for estimates of revenues and expenditures in conformance with agreed accounting standards; funds essential public services; provides adequate funding for public pension systems; provides for the elimination of structural deficits; improves fiscal governance, accountability, and internal controls; and provides for capital expenditures and investments necessary to promote economic growth. Fiscal plans provide a route to direct the economy and finances of the Government of Puerto Rico towards economic growth and fiscal accountability. This is crucial for Puerto Rico to avoid repeating the mistakes of the past.

To ensure that covered entities deliver against fiscal plan measures, the Oversight Board has a variety of potential tools available, including: Setting Budgets; Budget and Fiscal Plan Compliance; Approval and Review of Contracts, Legislation, Executive Orders, Administrative Orders, Rules, and Regulations; Recommendations; Public Hearings; Implementation Tracking with Monthly and Quarterly Reporting; Working Group Meetings; Stakeholder Engagement; Policy Research and Data Analysis; and Publication of Documents.

Fiscal Plan – 2022

On January 27, 2022, the Oversight Board certified the New Fiscal Plan of the Commonwealth. **The 2022 Fiscal Plan are limited in scope and do not revisit the broad range of forecasts and assumptions included in the 2021 Fiscal Plan.** Specific updates include incorporating new information about the macroeconomic environment, increased federal funding for NAP, incorporating the impact of legislation passed by the Government of Puerto Rico expanding the EITC program, incremental Federal funding under the Infrastructure Investment and Jobs Act, and an increased Medicaid FMAP through early December 2021. The 2022 Fiscal Plan also incorporates terms of the confirmed PoA, detail on the use of funds from the Municipal Revenue Collection Center (CRIM, by its Spanish acronym), and on the status of “Pay-Go” payments. Finally, the Plan includes details on the LUMA transaction and costs related to the mobilization of certain previous PREPA employees to Commonwealth agencies as well as certain budgetary decisions and adjustments that were part of the FY2022 Budget.

The 2022 Fiscal Plan projects that ~$84 billion of disaster relief funding in total, from federal and private sources, will be disbursed in the reconstruction effort over a period of 18 years (FY2018 to FY2035). It will be used for a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), funding for the public (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of the Commonwealth’s share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend).

Of the total, ~$47 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated $7 billion will come from private and business insurance payouts, and $8 billion is related to other sources of federal funding.

The 2022 Fiscal Plan includes ~$20 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program, of which ~$2.7 billion is estimated to be allocated to offset the Commonwealth and its associated entities’ expected FEMA-related cost-share requirements. This portion of CDBG-DR funding will go towards covering part of the ~10% cost-share burden on expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2022 Fiscal Plan allocates $4.2 billion for Puerto Rico’s cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to $1.5 billion for Puerto Rico, of which $1 billion is attributable to the Commonwealth.

continue

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

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The IIJA bill allocates around $2.3 billion federal funds to Puerto Rico with the purpose of improving the Island's infrastructure stock over FY2022-2026. These funds will support repairing and rebuilding roads and bridges; improving public transportation options; building a network of electric vehicle chargers; increasing broadband coverage; preparing infrastructure for climate change, cyber-attacks, and extreme weather events; improving water infrastructure; developing airport infrastructure; among other purposes. Incremental funding from the IIJA (accounting for prior Federal infrastructure support) is estimated to be around $1.6 billion. The 2022 Fiscal Plan accounts for the impact of these incremental funds, which have a positive temporary impact on economy and growth due to the temporary nature of the funds.

Although Puerto Rico has a 55% statutory federal medical assistance percentage (FMAP) for most populations, the amount of annual federal funding for non-CHIP Medicaid expenditures received under Section 1108 is capped each year – meaning the Commonwealth is fully responsible for covering costs above this cap. Prior to recent CMS guidance, this cap was set at around $400 million annually. While the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), this growth rate does not keep pace with the Island's projected healthcare expenditure growth.

Historically, the actual cap applied to Puerto Rico's Medicaid program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid program. Under a September 2021 CMS interpretation of Section 1108 of the Social Security Act, Puerto Rico is now permanently expected to receive a higher federal funding allotment cap (starting at $2.943 billion in FFY2022). The growth rate remains pegged to the medical component of CPI-U. Each year, ~$100 million of federal Section 1108 funds are allocated to the Department of Health to cover the eligible federal match on expenditures related to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations. That portion of federal funding is, therefore, considered unavailable for use on other Medicaid expenditures.

The 2022 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that the amount of federal funds expected to become available during any future fiscal year changes, and, depending on the conditions imposed on the federal funds granted, the Oversight Board reserves the right to revise the projected General Fund appropriation for ASES appropriately.

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2022 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.).

For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

continue

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

Long-Term Macroeconomic, Revenue, and Expenditure Projections including PoA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico confirmed an amended PoA to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The PoA creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year CBA which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106-2017 Defined Contribution program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106-2017 accounts outside of Government control, and providing $2,600 to the Act No. 106-2017 accounts of active Act No. 1 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

Risks to the long-term projections in the 2022 Fiscal Plan. While the 2022 Fiscal Plan projects that ~$14.4 billion in surplus will be generated from FY2022-FY2048, there are several variables that have a material impact on the long-term financial projections. The extent to which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

NOTE T – RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2018, 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 $1,196,314.

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 in expenditures regarding the services provided by the PRASA amounting $333,000.

continue

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

3. The Puerto Rico Public Housing Administration (PRPHA) – The PRDH received from the PRPHA rent income and indirect costs reimbursements in the amounts of $1,500,000 and $4,500,000, 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, 2020 are presented in the financial statements as follows:

Financial Statements Accounts	Statement of Net Position	Balance Sheet – Governmental Funds
Other Accounts Receivable	$5,730,008	$5,730,008
Account Payable - Section 8	$5,608,649	$5,608,649
Account Payable Long Term	$9,325,518	$0

Also, an account payable long term is register 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, 2020 is $39,961,239. 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.

4. Puerto Rico Department of the Treasury (PRDT) – As of June 30, 2020 the PRDH had an amount due to the PRDT of $25,537,504 related to expenditures incurred for the Community Development Block Grant Program and the Community Development Block Grant – Disaster Recovery Program. Such amounts will be repaid as soon as federal funds are received from HUD.

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 $53,908 for the year ended on June 30, 2020.

   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 names 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, 2020 no contributions were made by the Trust.

continue

NOTE U – DISASTER RECOVERY EFFORTS – STEP PROGRAM

Following the widespread devastation of Hurricanes Irma and María on September 6, 2017 and September 20, 2017, respectively, the U.S. and Federal agencies responded with one the largest and most complex disaster recovery efforts in U.S. history. On September 21, 2017 the U.S. President issued a *Major Disaster Declaration for Puerto Rico*, ordering federal assistance to supplement Puerto Rico's recovery efforts and authorizing federal funding for emergency works in all seventy-eight (78) Municipalities of Puerto Rico.

As part of the recovery efforts, the PRDH started the implementation of a *Sheltering and Temporary Essential Power Program* (hereinafter "STEP"), locally known as *Tu Hogar Renace*. Under STEP, the PRDH performed minor emergency repairs in single-family owner-occupied residences, as to provide citizens displaced from their homes with the option of returning and sheltering in-place in a safe, sanitary and secure matter. The program officially began on January 10, 2018, while repair work began on January 22, 2018. The Federal Emergency Management Agency (FEMA), an agency ascribed to the U.S. Department of Homeland Security, set the budget for the STEP program. For the Project Manager, a budget of $180 million (75,000 households @ $2,400 per household) was established for the administration and management of the Program. In addition, a budget of $1.5 billion was established for repairs (75,000 homes @ $20,000 per household). In total, the STEP program established $1,680 million in federal funds approved by FEMA at no cost sharing until May 18, 2018 (date that was later extended until September 15, 2018).

During fiscal year ended June 30, 2020, the STEP Program was on its final stage and PRDH expended $236,575 on payments to contractors for the repairs made.

NOTE V – SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM

Effective January 1, 2020 the PRDH transferred its Section 8 Housing Choice Voucher Program (RQ901) to the Puerto Rico Public Housing Administration (RQ005). Accordingly, the PRDH remitted to U.S HUD $847,414 of Housing Assistance Payments in the Restricted Net Position account. Those funds were transferred by U.S. HUD to the Puerto Rico Public Housing Administration.

Also as instructed by U.S. HUD, the PRDH must transfer the remaining balance of the Unrestricted Net Position account to PRPHA. As of June 30, 2020, there are $5,608,649 of remaining administrative fees corresponding to the Unrestricted Net Position account will be transferred directly to the PRPHA, net of any accrued expenses covers by the PRDH. The transfer will be made once the program closing audit is completed.

NOTE W – SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

Covid-19 Pandemic

On March 15, 2020, the Government of Puerto Rico lockdown must of government and private business operations in Puerto Rico in order to avoid the spreading of the COVID-19 infection among the people in Puerto Rico. This situation will have an economic impact over the PRDH, as exceptions and dates for filing taxes were waived for more than 3 months. The economic damages to the PRDH finances could not been estimated at this time. On March 19, 2020, the OMB issued the memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, which provided administrative remedies for entities impacted by COVID-19. Among other remedies, provides for awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 – Audit Requirements, to six (6) months beyond the normal due date, not applicable to this financial statements.

continue

NOTE W – SUBSEQUENT EVENTS – continuation

PROMESA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits.

For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing $2,600 to the Act No. 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

2022 Fiscal Plan for Puerto Rico

In accordance with the provisions described on Note S of the basic financial statements, the Oversight Board approved on January 27, 2022 the Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. With the New Fiscal Plan, the municipalities will receive the same subsidy of 2020 that will be amortized until fiscal year 2025. The scope of the Fiscal Plan is described in that Note.

Distribution of Federal funds Previously Deposited at GDB

On June 24, 2020, pursuant to Section 1.7 of the Deed of Constitution of Trust Number Fifty-Six – GDB Public Entity Trust, the GDB, as Trustee of the GDB Public Entity Trust, certified that the PRDH has complied with the requirements set forth in Section 1.7 for the distribution of Federal funds previously deposited at GDB and was authorized to submit a budgetary disbursement request in the amount of $9,801,281 through the Office of Management and Budget. On August 7, 2020, PRDH received the transfer of such deposits previously recorded as a loss during fiscal year ended June 30, 2016.

Joint Circular Letter 2022-01

On January 27, 2022, the Commonwealth of Puerto Rico issued Joint Circular Letter 2022-01 related to Obligations of the Government Entities under the confirmation order of the Adjustment Plan of the Commonwealth of Puerto Rico and the Ordered Transfers by the U.S. District Court for Puerto Rico. Such Circular Letter notified the Court approval of the fiscal plan and the amounts to be transferred by each governmental agency under Title III Joint Plan. As a result of this decision, on February 2022 the PRDH paid $6,000,000.

continue

NOTE W – SUBSEQUENT EVENTS – continuation

The PRDH has evaluated subsequent events through June 17, 2022, the date 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 its Notes.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

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	Budget Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues:				
Appropriations from Commonwealth	$ 19,750,000	$ 72,661,000	$ 72,757,193	$ (96,193)
Expenditures and Transfers:				
General and Administrative	18,558,000	71,469,000	16,876,931	54,592,069
Transfers - Out	1,192,000	1,192,000	1,192,000	-
Total Expenditures and Transfers	19,750,000	72,661,000	18,068,931	54,592,069
Excess of Revenues Over Expenditures and Transfers	**$ -**	**$ -**	**$ 54,688,262**	**$ (54,688,262)**

The accompanying Notes to 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. Generally, unused appropriations for the annual budgeted funds lapse at the end of the year. However, for fiscal year ended June 30, 2020, the PRDH received a special appropriation from the Commonwealth of $51,431,000 to assist five municipalities in the reconstruction process after a series of earthquakes that affected mostly the southwest of Puerto Rico during the year 2020. These funds will be available until June 30, 2023.

END OF NOTES

	2020	2019	2018
Proportionate Share of the Collective Total Pension Liability	0.70368%	0.70645%	0.70511%
Proportion of theTotal Pension Liability *	$ 174,867,629	$ 173,004,986	$ 198,873,255
Covered - Employee Payroll	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	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.

Note: Fiscal year 2019 was the first year that PRDH transtitioned 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.

	2020	2019	2018
Proportionate Share of Total Other Post-Employment Benefit Liability	0.70957%	0.71584%	0.69958%
Proportion of Total Other Post-Employment Benefit Liability *	$ 5,905,286	$ 6,028,444	$ 6,439,762
Covered - Employee Payroll **	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

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.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented by PRH. 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.

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 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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SUPPLEMENTARY INFORMATION REQUIRED BY U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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Line Item No.		
Assets		**Value**
	Current Assets - Cash:	
111	Cash - Unrestricted	$ -
113	Cash - Other Restricted	-
115	Cash - Resticted For Payments of Current Liabilities	5,750,679
100	**Total Cash**	**5,750,679**
	Receivable:	
124	Account Receivable - Other Government	-
128	Fraud Recovery	-
120	**Total Receivable, Net of Allowances for Doubtful Accounts**	-
131	Investments - Unrestricted	1,304,972
132	Investments - Restricted	-
150	Total Current Assets	7,055,651
144	Due from Other Funds	-
174	Other Assets	-
290	Total Assets and Deferred Outflows of Resources	**$ 7,055,651**
Liabilities and Equity		
	Current Liabilities:	
331	Account Payable - HUD PHA Program	$ 5,608,649
345	Other Current Liabilities	1,447,002
310	**Total Current Liabilities**	7,055,651
	Non-current Liabilities:	
353	Non-Current Liabilities - Other	-
350	**Total Non-Current Liabilities**	-
300	**Total Liabilities**	**7,055,651**
	Equity	
511.4	Restricted Net Position	-
512.4	Unrestricted Net position	-
513	**Total Equity - Net Assets / Position**	-
600	**Total Liabilities and Equity/ Net Position**	**$ 7,055,651**

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

Line Item No. **Revenue**		**Value**
70600	HUD PHA Operating Grant	$ 32,695,834
71100	Investment Income - Unrestricted	11,305
71400	Fraud Recovery	190,308
71500	Other Revenue	4,303
70000	**Total Revenue**	**32,901,750**
	Administrative:	
91100	Administrative Salaries	1,023,678
91200	Auditing Fees	49,106
91500	Employee Benefit Contribution - Administrative	235,892
91600	Office Expenses	711,096
91800	Travel	36,583
91000	**Total Operating - Administrative**	**2,056,355**
	Tenant Services	
92400	Tenant Services - Other	789,686
92500	**Total Tenants Services**	**789,686**
95200	Protective Services - Other Contract Cost	216,007
95000	**Total Protective Services**	**216,007**
96130	Workmen's Compensation	20,454
96100	**Total Insurance Premiums**	**20,454**
	General Expenses	
96200	Other General Expenses	9,107,859
96000	**Total Other General Expenses**	**9,107,859**
96900	**Total Operating Expenses**	**12,190,361**
97000	**Excess of Operating Revenue over Operating Expenses**	**20,711,389**
97300	Housing Assitance Payment	28,045,089
97350	HPA Portability - In	140,770
90000	**Total Expenses**	**40,376,220**

continue

Line Item No.		Value
10000	**Excess (Deficiency) of Total Revenue over (under) Total Expenses**	**$ (7,474,470)**

Memo Account Information:

*11130	Beginning Equity	$ 7,474,470
*11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	$ -
*11170	Administrative Fee Equity	$ -
*11180	Housing Assitance Payment Equity	$ -
*11190	Unit Month Available	58,905
*11210	Number of Units Month Leased	57,725

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. GENERAL

The accompanying Financial Data Schedules presents the expenditures of Section 8 Housing Choice Vouchers Program Federal award, for the fiscal year ended June 30, 2020, of the Puerto Rico Department of Housing.

2. ACCOUNTING BASIS

The schedule was prepared on accrual basis of accounting except for fraud recoveries plans that are accounted using the Section 8 Housing Choice Voucher following the statutory basis of accounting required by the US Department of Housing and Urban Development.

END OF NOTES

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	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture Program:				
Pass-Through the Puerto Rico Department of Education:				
Child and Adult Care Food Program	10.558	N/A	$ -	$ 8,277
Total U.S. Department of Agriculture Program			-	**8,277**
U.S. Department of Housing and Urban Development Programs:				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228		42,656,566	120,996,537
Continuum of Care Program	14.267		-	920,674
Section 8 Housing Choice Vouchers Program	14.871		-	31,490,756
Total U.S. Department of Housing and Urban Development Programs			42,656,566	153,407,967
U.S. Department of the Treasury:				
Pass-Through the Puerto Rico Office of Management and Budget:				
Coronavirus Relief Fund	21.019	N/A	-	132,300
Total U.S. Department of the Treasury			-	**132,300**
U.S. Department of Homeland Security:				
Pass-Through the Puerto Rico Governor Authoritative Representative Office:				
Sheltering and Temporary Essential Power	97.U01	N/A	-	236,575
Total U.S. Department of Homeland Security			-	**236,575**
Total Expenditures of Federal Awards			**$ 42,656,566**	**$ 153,785,119**

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, 2020. 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. FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

5. SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM

Effective January 1, 2020 the PRDH transferred its Section 8 Housing Choice Vouchers Program (CFDA No. 14.871) to the Puerto Rico Public Housing Administration (PRPHA). Also as instructed by U.S. HUD, the PRDH must transfer the remaining balance of the Unrestricted Net Position account to PRPHA. As of June 30, 2020, there are $5,608,649 of remaining administrative fees corresponding to the Unrestricted Net Position account that will be transferred directly to the PRPHA, net of any accrued expenses covers by the PRDH. The transfer will be made once the program closing audit is completed. Accordingly, the Schedule present expenditures from July 1, 2020 through December 31, 2020.

continue

6. 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.

Expenditures under this program and amounts pass-through to subrecipients for the year ended June 30, 2020 was as follows:

	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii:	14.228			
FY 2008 Grant		B08DC7201	$ 16,797	$ 16,797
FY 2009 Grant		B09DC7201	123,700	124,124
FY 2010 Grant		B10DC7201	570,842	570,997
FY 2011 Grant		B11DC7201	176,934	177,543
FY 2012 Grant		B12DC7201	146,028	146,028
FY 2013 Grant		B13DC7201	483,131	483,731
FY 2014 Grant		B14DC7201	382,862	382,862
FY 2015 Grant		B15DC7201	489,128	489,128
FY 2016 Grant		B16DC7201	2,516,488	2,516,488
FY 2017 Grant		B17DC7201	3,326,625	3,349,781
FY 2018 Grant		B18DC7201	4,768,205	5,667,616
FY 2019 Grant		B19DC7201	383,864	478,747
Sub Total Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii			13,384,604	14,403,842
CDBG Program - Disaster Recovery		B17DM7201	29,271,962	106,592,695
Total Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii			**$ 42,656,566**	**$ 120,996,537**

7. 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 Section 8 Housing Choice Vouchers Program, FEMA Recovery Fund, Community Development Block Grant Fund, Community Development Block Grant – Disaster Recovery Fund, Self-Contribution Fund, Sales and Acquisition Fund, and Other Governmental Funds columns.

continue

8. LATE ISSUANCE OF SINGLE AUDIT REPORTING PACKAGE

As described in finding 2020-002 in Section III of the Schedule of Findings and Questioned Costs, the PRDH was unable submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period. The main reason for the delay was the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. As further explain in Note V to the financial statements, the Pandemic delayed the operations of the government and the audit procedures. PRDH develop a plan to continue providing its services to the community and comply with the Federal grants' requirements.

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, 2020, and the related notes to basic financial statements, which collectively comprise the **PRDH**'s basic financial statements, and have issued our report thereon dated June 17, 2022.

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 weakness. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 DM, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 17, 2022

Stamp No. E491005 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.

CPA DIAZ-MARTINEZ, CSP
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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

We have audited **Department of Housing of the Commonwealth of Puerto Rico** (**PRDH**)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **PRDH**'s major Federal programs for the fiscal year ended June 30, 2020. **PRDH**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Major Federal Programs

As described in the accompanying Schedule of Findings and Questioned Costs, **PRDH** did not comply with requirement regarding all Federal Programs as described in Finding Number 2020-002 for Reporting. Compliance with such requirement is necessary, in our opinion, for the **PRDH** to comply with the requirements applicable to those programs.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the *"Basis for Qualified Opinion on Major Federal Programs"* paragraph, **PRDH** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an 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 2020-001. Our opinion on each major Federal program is not modified with respect to this matter.

PRDH's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The **PRDH**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified 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 2020-002 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 2020-001 to be significant deficiency.

The **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. The **PRDH**'s response was not subjected 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 DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 17, 2022

Stamp No. E491006 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

PART III

FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	☒ Unmodified Opinions ☐ Qualified Opinion ☐ Adverse Opinion	☐ Disclaimer Opinion
Internal control over financial reporting:		
• Material weakness (es) identified?	☐ Yes	☒ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over Major Federal Programs:		
• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☒ Yes	☐ None Reported
Type of auditors' report issued on compliance for Major Federal Programs:	☐ Unmodified Opinion Modified:	☒ Qualified Opinion All Federal Programs ☐ Adverse Opinion ☐ Disclaimer Opinion
Any audit finding disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☒ Yes	☐ No

Identification of Major Federal Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.218	Community Development Block Grant/Entitlement Grant
14.871	Section 8 Housing Choice Vouchers Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$3,000,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ 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	**2020-001**
FEDERAL PROGRAM	**(CFDA 14.871) SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBERS	**RQ901 (Federal Award Year 2019-2020)**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**
CRITERIA OR SPECIFIC REQUIREMENT	Financial Assessment Sub-system, FASS-PH. The Uniform Financial Reporting Standards (24 CFR section 5.801) require PHAs to submit timely GAAP-based unaudited and audited financial information electronically to HUD. The Uniform Financial Reporting Standards requires PHA to submit the Unaudited REAC 60 days after fiscal year end. Due to the COVID-19 Pandemic, a waiver was granted, extending the due date 60 more days (October 31, 2020) after fiscal year end. The FASS-PH system is one of HUD's main monitoring and oversight systems for the HCVP.
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 COSTS	None
CONTEXT	Only one (1) Unaudited REAC report is due from the **PRDH**. The required report is submitted annually. This is a new finding.
EFFECT	The **PRDH** failed to submit the required REAC report within the 60 calendar days required by the regulation, which leads to the noncompliance of the reporting requirement.
CAUSE	The program staff faced performance challenges due to the Covid-19 Pandemic, also the accounting records were delayed for such event.
IDENTIFICATION AS A REPEAT FINDING	Not applicable.
RECOMMENDATION	We recommend management to implement proper internal controls in order to ascertain that the reports are submitted timely.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS	The unaudited REAC report for fiscal year 06/30/2020 was prepared as soon as the information needed was available. However, since this was the final REAC report for **PRDH** (federal program was voluntarily transferred to another State agency) additional procedures were performed to reconcile the final figures. Additionally, the COVID-19 pandemic delayed the completion of the accounting closing procedures. The report was issued on November 16, 2020 (16 days after the due date) and approved by the reviewer. To preclude this condition in the future, **PRDH** is changing the accounting software (Yardi) that will allow the year-end closing procedures to be performed more effectively and efficiently.
IMPLEMENTATION DATE	Single Audit for fiscal year 2022-2023, due on March 31, 2024
RESPONSIBLE PERSON	Mr. Juan R. Rivera-Carrillo, Assistance Secretary for Finance and Administration

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2020-002**
FEDERAL PROGRAM	**ALL PROGRAMS**
AWARD NUMBERS	**ALL**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA OR SPECIFIC REQUIREMENT	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.
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 COSTS	None
CONTEXT	The **PRDH** was unable to provide timely the financial statements and related supporting documentation in order to apply required audit procedures.
EFFECT	The **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 the **PRDH** cannot be considered by the auditor as a low-risk auditee.
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.
IDENTIFICATION AS A REPEAT FINDING	Finding Reference Number 2019-001.
RECOMMENDATION	We recommend the **PRHD** 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** need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS	The COVID-19 pandemic delayed the completion of the accounting closing procedures. Nonetheless, the auditor's report on the financial statements was an unqualified opinion. To preclude this condition in the future, **PRDH** is changing the accounting software (Yardi) that will allow the year-end closing procedures to be performed more effectively and efficiently.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2020-002** – continuation

IMPLEMENTATION DATE Single Audit for fiscal year 2022-23, due on March 31, 2024

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

END OF SCHEDULE

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(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2019

Findings Related to the Federal Programs:

Finding Number	**2019-001**	**Reporting** The Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2018, not submitted during the required period.
CFDA Numbers	All	
Questioned Cost	None	
Auditee Comments	By letter dated May 18, 2022, Oversight Agency closed this finding.	

FISCAL YEAR 2017

Findings Related to the Federal Programs:

Finding Number	**2017-001**	**Reporting** Difference in the HAP payments expenditures reported against the amount reported in REAC and in the financial statements.
CFDA Numbers	14.871	
Questioned Cost	None	
Auditee Comments	By letter dated May 18, 2022, Oversight Agency closed this finding.	

(2) Audit Findings not Corrected or Partially Corrected:

NONE

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

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Single Audit FY 2019-2020
Corrective Action Plan

FINDING NUMBER	2020-001
AUDITOR'S TYPE OF FINDING	Noncompliance and Significant Deficiency
CONDITION	During the 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.
AUDITOR'S RECOMMENDATION	We recommend **PRDH**'s management to implement proper internal controls in order to ascertain that the reports are submitted timely.
CORRECTIVE ACTION PLAN	The unaudited REAC report for fiscal year 6/30/2020 was prepared as soon as the information needed was available. However, since this was the final REAC report for PRDH (federal program was voluntarily transferred to another State agency) additional procedures were performed to reconciliate the final figures. Additionally, the COVID-19 pandemic delayed the completion of the accounting closing procedures. The report was issued on November 16, 2020 (16 days after the due date) and approved by the reviewer. To preclude this condition in the future, **PRDH** is changing the accounting software (*Yardi*) that will allow the year-end closing procedures to be performed more effectively and efficiently.
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	Juan R. Rivera-Carrillo Assistance Secretary for Finance and Administration
DELIVERABLE	REAC report
EVIDENCE INCLUDED YES/NO	No
TARGET COMPLETION DATE	Single Audit for fiscal year 2022-23, due on March 31, 2024

FINDING NUMBER	2020-002
AUDITOR'S TYPE OF FINDING	Material Noncompliance and Material Weakness
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.
AUDITORS' RECOMMENDATION	We recommend the PRHD 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 need to implement adequate internal controls procedures in order to assure that the supporting documentation is available on a timely manner.
CORRECTIVE ACTION PLAN	The COVID-19 pandemic delayed the completion of the accounting closing procedures. Nonetheless, the auditors' report on the financial statements was an unqualified opinion. To preclude this condition in the future, **PRDH** is changing the accounting software (*Yardi*) that will allow the year-end closing procedures to be performed more effectively and efficiently.
LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	Juan R. Rivera-Carrillo Assistance Secretary for Finance and Administration
DELIVERABLE	Single Audit Report package
EVIDENCE INCLUDED YES/NO	No
TARGET COMPLETION DATE	Single Audit for fiscal year 2022-23, due on March 31, 2024

Certifying Official: ______________________

Name and Position: Juan R. Rivera-Carrillo, Assistance Secretary for Finance and Administration

Date: May 27, 2022

DEPARTMENT OF HOUSING
Government of Puerto Rico