COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND
HUMAN RESOURCES

ENTERPRISE FUNDS
FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

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FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Secretary and Management of the Commonwealth of Puerto Rico Department of Labor and Human Resources San Juan, Puerto Rico

Qualified Opinion and Unmodified Opinions

We have audited the accompanying financial statements of the Unemployment Insurance Fund, the Disability Insurance Fund, the Drivers' Insurance Fund and the Vocational Rehabilitation Administration Fund of **the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department),** as of and for the year ended June 30, 2024, and the related notes to the financial statements. These financial statements collectively comprise the **Department's** Enterprise Funds financial statements, as listed in the table of contents.

Qualified Opinion on Unemployment Insurance Fund

In our opinion, based on our audit, except for the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements of the Unemployment Insurance Fund present fairly, in all material respects, the financial position of the Unemployment Insurance Fund of the **Department** as of June 30, 2024, and the changes in the financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Disability Insurance Fund, the Drivers' Insurance Fund and the Vocational Rehabilitation Administration Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Disability Insurance Fund, the Drivers' Insurance Fund and the Vocational Rehabilitation Administration Fund of the **Department** as of June 30, 2024, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the **Department**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

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Basis for Qualified and Unmodified Opinions (continued)

Matter Giving Rise to the Qualified Opinion on Unemployment Insurance Fund

As of the date of our report, the **Department** was unable to provide complete and accurate information associated with their determination of potential non-fraud and fraudulent overpayments within the CARES Act Unemployment Insurance Program (UI). The **Department's** records do not allow us, nor is it practical, to extend other auditing procedures in order to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the Unemployment Insurance Fund were free of material misstatement. As a result of this matter, we were unable to determine whether further audit adjustments may have been necessary. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in **Note 1**, the financial statements of the Unemployment Insurance Fund, the Disability Insurance Fund, the Drivers' Insurance Fund and the Vocational Rehabilitation Administration Fund of the **Department**, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion that is attributable to the transactions of the Enterprise Funds of the **Department**. Accordingly, they do not purport to, and do not, present fairly the financial position of the **Department** as of June 30, 2024, 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.

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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

In performing an audit in accordance with generally accepted auditing standards, we:

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Department's** internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Department's** ability to continue as a going concern for a reasonable period of time.

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

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 **4** through **10**, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures which do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (continued)

Required Supplementary Information (continued)

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the enterprise funds financial statements in an appropriate operational, economic, or historical context. Our opinions on the enterprise funds financial statements are not affected by this missing information.

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
April 29, 2025

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

The **Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department)** provides this Management's Discussion and Analysis (MD&A) to the readers of the **Department's** enterprise funds' financial statements. These basic financial statements include only the **Department's** Unemployment Insurance Fund, Disability Insurance Fund, Drivers' Insurance Fund, and the Vocational Rehabilitation Administration Fund (collectively the enterprise funds), which are the proprietary funds of the **Department**. This MD&A provides a narrative overview and analysis of the financial activities of the **Department's** enterprise funds as of and for the fiscal year ended June 30, 2024.

The MD&A is designed to: (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the **Department's** enterprise funds' financial activities and (c) highlight individual fund matters. Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the **Department's** enterprise funds' basic financial statements, including the notes thereto.

The Statement of Net Position provides information on the **Department'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 the **Department's** net position may serve as a useful indicator of whether the financial position of the **Department** is improving or deteriorating because of the year's operations.

The Statement of Activities presents information on how the **Department's** net position changed during the reporting period. 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, the current year's revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

FINANCIAL HIGHLIGHTS

- The total assets of the **Department's** enterprise funds exceeded its total liabilities by $571 million at the close of fiscal year 2024.

- Total assets of the **Department's** enterprise funds amounted to $759.8 million which represents an increase of $106.7 million (16%) compared with fiscal year 2023. Total liabilities of the **Department's** enterprise funds amounted to $188.7 million which represents a decrease of $22.9 million (11%), as compared with fiscal year 2023.

- The net position of the **Department's** enterprise funds increased by $133.3 million (30%) when compared with fiscal year 2023.

- The operating revenue of the **Department's** enterprise funds amounted to $302.6 million which represents a decrease of $24.8 million (8%) during the current fiscal year when compared with last fiscal year 2023.

- Total operating expenses amounted to $138 million for the fiscal year ended June 30, 2024, which represents a decrease of $36.1 million (21%), when compared to fiscal year 2023.

- Total benefits paid by the enterprise funds to eligible citizens during the year ended June 30, 2024, amounted to $139.4 million which represents a decrease of approximately $28.4 million (17%) compared with fiscal year 2023.

FINANCIAL HIGHLIGHTS (CONTINUED)

The following table presents the Condensed Statements of Net Position of the **Department** as of June 30, 2024 and 2023, in millions:

Condensed Statements of Net Position

	Enterprise Funds		
	2024	2023	Change
Current assets	$ 727,350	$ 622,263	$ 105,087
Non-current assets	32,455	30,766	1,689
Total assets	$ 759,805	$ 653,029	$ 106,776
Deferred outflows of resources	4,071	6,328	(2,257)
Current liabilities	150,365	170,069	(19,704)
Non-current liabilities	38,325	41,513	(3,188)
Total liabilities	$ 188,690	$ 211,582	$ (22,892)
Deferred inflows of resources	264	6,160	(5,896)
Net position:			
Invested in capital assets	-	-	-
Restricted for benefit payments	519,330	407,384	111,946
Unrestricted	55,591	34,231	21,360
Total net position	$ 574,921	$ 441,615	$ 133,306

The following table presents the Condensed Statements of Revenues, Expenses and Changes in Fund Net Position for the years ended June 30, 2024 and 2023, in millions:

Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

	Enterprise Funds		
	2024	2023	Change
Operating revenues	$ 302,635	$ 327,478	$ (24,843)
Operating expenses	138,007	174,105	(36,098)
Operating income	164,628	153,373	11,255
Non-operating revenues	20,418	21,765	(1,347)
Income before transfers	185,046	175,138	9,908
Transfers from (to) other funds	(51,740)	(48,846)	(2,894)
Net change in net position	133,306	126,292	7,014
Net position, beginning of year	441,615	315,323	126,292
Net position - end of year	$ 574,921	$ 441,615	$ 133,306

FINANCIAL HIGHLIGHTS (CONTINUED)

Net Position

The net position serves over time as a useful indicator of the **Department's** enterprise funds financial position at the end of the fiscal year and represents the residual interest in the assets after liabilities are deducted. The **Department's** enterprise funds reported combined ending fund net position amounting to $574.9 million at the close of the current fiscal year.

OVERVIEW OF THE ENTERPRISE FUNDS' BASIC FINANCIAL STATEMENTS

This Management's Discussion and Analysis requires supplementary information to the enterprise funds' financial statements and is intended to serve as an introduction to the basic financial statements of the **Department's** enterprise funds. The **Department's** enterprise funds' basic financial statements are comprised of: (1) fund financial statements and (2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These components are described below.

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 **Department's** enterprise funds, like other state departments, use fund accounting to ensure and demonstrate compliance with finance related legal requirements. The **Department's** funds are divided in three categories: governmental funds, enterprise funds, and agency funds. The **Department's** funds presented in these financial statements are only its enterprise funds.

Enterprise funds: The **Department** uses enterprise funds to account for the Unemployment Insurance, the Disability Insurance, Drivers' Social Security Insurance, and the Vocational Rehabilitation Administration Programs, which are all considered major funds. The Vocational Rehabilitation Administration functions, for all practical purposes, as an organizational component of the **Department**.

The **Department's** enterprise funds' financial statements can be found on pages **12** through **14** of this report.

Notes to Enterprise Funds' Basic Financial Statements: The notes provide information that is essential to a full understanding of the data provided about the **Department's** enterprise funds. The notes to the enterprise funds' basic financial statements can be found on pages **15** through **51** of this report.

DEBT ADMINISTRATION

Long-term Debt

The **Department's** enterprise funds' long-term debt decreased by $3.2 million (8%), when compared to fiscal year 2023. The following table summarizes the long-term debt for the enterprise funds for the fiscal years ended June 30, 2024 and 2023, in millions:

	2024	2023	Change
Enterprise Funds:			
Lease Liability	$ 917	$ 971	$ (54)
Compensated absences	554	645	(91)
Other postemployment benefit liability	1,138	1,230	(92)
Total pension liabiliy	35,716	38,667	(2,951)
	$ 38,325	$ 41,513	$ (3,188)

GASB Statements No. 73 and No. 75

In Fiscal Year 2020, 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" and the 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 **Department's** pension plan is administered by the Employees' Retirement System Administration (ESR).

Deferred Outflows of Resources

Deferred outflows of resources, although similar to "assets", are set apart because these items do not meet the technical definition of being an asset of the **Department** 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 No. 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.

DEBT ADMINISTRATION (CONTINUED)

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 **Department** 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 **Department's** deferred outflows of resources and deferred inflows of resources is presented in page **20** of this report.

ECONOMIC FACTORS

Worldwide pandemic of Coronavirus (COVID-19)

The **Department** has been impacted by the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, in this case, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. While the disruption is expected to be temporary, there was a considerable uncertainty around the duration of the closings. Due to this, the **Department** expects that this matter should have an impact in its oncoming operating results, cause by a reduction in the operating grants and contributions revenues included the enterprise funds operations.

On March 18, 2020, the Families First Coronavirus Response Act (FFCRA) was signed into law which provided additional flexibility for state unemployment insurance agencies and additional administrative funding to respond to the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27.

It expanded states' ability to provide unemployment insurance for many workers impacted by the COVID-19 pandemic, including for workers who are not ordinarily eligible for unemployment benefits. The CARES Act also gives states the option of extending unemployment compensation to independent contractors and other workers who are ordinarily ineligible for unemployment benefits. Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC). Additional insurance programs were implemented during the fiscal period 2021-2022: Mixed Earner Unemployment Compensation (MEUC), Extended Benefits (EB), and First Week (FW).

Pandemic Unemployment Assistance (PUA) provided unemployment benefits for workers not otherwise eligible for regular unemployment benefits, including self-employed individuals, contract workers, and business owners. Individuals who qualify for PUA must self-certify weekly that they are unemployed, partially employed, or unable or unavailable to work because of a COVID-19 related reason.

ECONOMIC FACTORS (CONTINUED)

Worldwide pandemic of Coronavirus (COVID-19) (Continued)

Pandemic Emergency Unemployment Compensation (PEUC) provided an additional 53 weeks of unemployment benefits for unemployed workers who have exhausted regular unemployment benefits.

Federal Pandemic Unemployment Compensation (FPUC) provided an additional $600 and later on $300 per week to all unemployed workers receiving traditional unemployment compensation, PUA, or PEUC. To qualify to receive the FPUC payment, a claimant had to be eligible to receive at least $1 of compensation through the traditional unemployment insurance, PEUC, or PUA program for that week.

Mixed Earner Unemployment Compensation (MEUC) provided an additional $100 weekly benefit to eligible individuals receiving regular state unemployment, Pandemic Emergency Unemployment Compensation (PEUC), or Trade Readjustment Allowances (TRA). Eligibility requirements: 1) Earned at least $5,000 or more in net self-employment income during the most recent taxable year ending prior to your application for state unemployment insurance and 2) Submit financial proof of self-employment.

Extended Benefits (EB) provided up to 20 weeks of additional Unemployment Insurance (UI) benefits to workers who have exhausted their regular unemployment compensation and Federal Pandemic Emergency Unemployment Compensation (PEUC).

First Week (FW) provided full federal funding of the first week of regular Unemployment Compensation (UC) for states with no waiting week. States that provide compensation to individuals for their first week of unemployment (i.e., states which do not require a waiting week), and that enter into an agreement with the **Department** will receive 100 percent federal funding for the total amount of regular UC paid to individuals for their first week of regular UC. This funding is available for weeks of unemployment beginning after the date on which the state enters into an agreement with the **Department** and ends with weeks of unemployment ending on or before December 31, 2020.

On August 8, 2020, a Presidential Memorandum Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 was issued instructing the Secretary of Homeland Security through FEMA to make available other needs assistance (ONA) for lost wages in accordance with Section 408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2)). LWA will be administered by States and territories through a grant agreement with FEMA. States and territories will distribute the funds through their UI system, as a supplemental payment.

Lost Wages Assistance (LWA), which provided a $300 weekly supplemental benefit to eligible claimants. Eligibility requirements include: (a) a self-certification from claimant that he or she is unemployed or partially unemployed due to disruptions caused by the COVID-19, and (b) who is eligible to a weekly benefit of at least $100 from one of the UC programs available for the week of unemployment for which LWA is claimed.

Normative Letter No. 1-2024

On February 21, 2024, the Office of the Administration and Transformation of Human Resources of the Government of Puerto Rico issued the Normative Letter No. 1-2024 in order to comply with the provisions and requirements of Law 8-2017 enacted on February 4, 2017. Law No. 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico," establishes the Government of Puerto Rico as the Sole Employer, which means that public employees will be employees of the Central Government and not of the agencies. In addition, it centralizes the human resources administration system, eliminating from the category of individual administrators all those agencies and public instrumentalities of the Government of Puerto Rico, to guarantee the best use of the services offered by public servants.

As of the date of the financial statements, the economic impact, if any, of the implementation of the Normative Letter No. 1-2024 described above has not been determined.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the **Department's** finances and to demonstrate the accountability of the funds administered by the **Department**. For questions regarding the information provided or additional financial information requests please, contact the Assistant Secretary of Management Affairs of the Department of Labor and Human Resources, P.O. Box 19540, San Juan, Puerto Rico 00919-5540.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF NET POSITION (DEFICIT) - ENTERPRISE FUNDS
JUNE 30, 2024

	Unemployment Insurance Fund	Disability Insurance Fund	Drivers' Insurance Fund	Vocational Rehabilitation Administration	Total
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	$ -	$ 1,000	$ 791	$ 3,868	$ 5,659
Cash held by PR Secretary of Treasury	-	74,846,632	11,728,044	-	86,574,676
Receivables, net					
Due from federal government	1,464,767	-	-	-	1,464,767
Insurance premiums	54,488,943	4,220,634	1,023,756	-	59,733,333
Accrued insurance penalties, charges, and interest	-	107,212	-	-	107,212
Accrued investment interest	-	167,839	-	-	167,839
Other	72,552	55,412	-	-	127,964
Inventories	-	-	-	76,657	76,657
Prepaid expenses	-	-	-	90	90
Restricted assets:					
Cash held by US Treasury Department	562,975,552	-	-	-	562,975,552
Cash and cash equivalents in commercial banks	2,357,307	4,326,377	9,432,782	-	16,116,466
Total current assets	621,359,121	83,725,106	22,185,373	80,615	727,350,215
Noncurrent assets:					
Due from other funds	457,764	-	-	-	457,764
Restricted investments	-	31,092,878	-	-	31,092,878
Right-of-use Assets	-	503,526	400,891	-	904,417
Total assets	621,816,885	115,321,510	22,586,264	80,615	759,805,274
Deferred outflows of resources:					
OPEB related	-	89,556	41,915	-	131,471
Pension related	-	2,683,560	1,255,988	-	3,939,548
Total deferred outflows of resources	-	2,773,116	1,297,903	-	4,071,019
Liabilities:					
Current liabilities:					
Accounts payable	533,060	709,782	528,354	45,413	1,816,609
Insurance benefits payable	121,942,303	252,742	47,305	151,123	122,393,473
Interest payable	-	747	595	-	1,342
Unearned revenue	24,611,662	1,536,381	5,529	-	26,153,572
Total current liabilities	147,087,025	2,499,652	581,783	196,536	150,364,996
Noncurrent liabilities:					
Due within one year:					
Compensated absences	-	144,884	60,031	6,484	211,399
Lease liability	-	211,342	168,263	-	379,605
Total other postemployment benefit liability	-	89,556	41,915	-	131,471
Total pension liability	-	1,733,514	811,337	-	2,544,851
Noncurrent portion:					
Compensated absences	-	227,595	115,319	-	342,914
Lease liability	-	299,197	238,211	-	537,408
Total other postemployment benefit liability	-	685,510	320,840	-	1,006,350
Total pension liability	-	22,595,873	10,575,553	-	33,171,426
Total liabilities	147,087,025	28,487,123	12,913,252	203,020	188,690,420
Deferred inflows of resources:					
Pension related	-	180,109	84,296	-	264,405
Net position:					
Restricted for payment of insurance benefits	474,729,860	35,167,513	9,432,782	-	519,330,155
Unrestricted (deficit)	-	54,259,881	1,453,837	(122,405)	55,591,313
Total net position (deficit)	$ 474,729,860	$ 89,427,394	$ 10,886,619	$ (122,405)	$ 574,921,468

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	Unemployment Insurance Fund	Disability Insurance Fund	Drivers' Insurance Fund	Vocational Rehabilitation Administration	Total
Operating revenues:					
Insurance premiums	$ 280,306,681	$ 18,117,423	$ 4,397,662	$ -	$ 302,821,766
Net sales	-	-	-	10,245	10,245
Total operating revenue	280,306,681	18,117,423	4,397,662	10,245	302,832,011
Cost of sales					
Material, direct labor, indirect cost	-	-	-	196,100	196,100
Total cost of sales	-	-	-	196,100	196,100
Excess of costs over sales	-	-	-	(185,855)	(185,855)
Operating expenses:					
Insurance benefits	136,706,671	1,771,221	914,247	-	139,392,139
General and administrative expenses	-	3,496,316	1,719,045	80,699	5,296,060
Pension benefit	-	(4,551,097)	(2,130,051)	-	(6,681,148)
Total operating expenses	136,706,671	716,440	503,241	80,699	138,007,051
Operating income (loss)	143,600,010	17,400,983	3,894,421	(266,554)	164,628,860
Non-operating revenues (expenses):					
Contributions from federal government	4,287,347	-	-	-	4,287,347
Interest and investment earnings (losses)	13,347,252	2,783,364	-	-	16,130,616
Total non-operating revenues	17,634,599	2,783,364	-	-	20,417,963
Income before transfers	161,234,609	20,184,347	3,894,421	(266,554)	185,046,823
Transfers from other funds	-	-	-	329,469	329,469
Transfers to other funds	(52,069,354)	-	-	-	(52,069,354)
Net change in net position	109,165,255	20,184,347	3,894,421	62,915	133,306,938
Net position (deficit) - beginning of year	365,564,605	69,243,047	6,992,198	(185,320)	441,614,530
Net position (deficit) - end of year	$ 474,729,860	$ 89,427,394	$ 10,886,619	$ (122,405)	$ 574,921,468

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	Unemployment Insurance Fund	Disability Insurance Fund	Drivers' Insurance Fund	Vocational Rehabilitation Administration	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from insurance premiums	$ 277,356,857	$ 17,842,245	$ 4,649,098	$ -	$ 299,848,200
Payments from customers	-	-	-	11,088	11,088
Payments to suppliers	-	(196,024)	(106,023)	(343,957)	(646,004)
Advances from other funds	-	-	-	329,469	329,469
Payments to employees	-	(2,850,767)	(1,312,448)	-	(4,163,215)
Payments for insurance benefits	(152,471,194)	(1,959,562)	(950,458)	-	(155,381,214)
Net cash provided (used by) operating activities	124,885,663	12,835,892	2,280,169	(3,400)	139,998,324
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Contributions from federal government	5,134,016	-	-	-	5,134,016
Principal and interest paid on leases	-	(60,665)	(173,559)	-	(234,224)
Transfer from (to) other funds	(52,069,354)	-	-	-	(52,069,354)
Net cash provided by financing activities	(46,935,338)	(60,665)	(173,559)	-	(47,169,562)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest proceeds from US Treasury Department cash account	13,347,252	-	-	-	13,347,252
Proceeds from sales and maturities of investments	-	1,037,063	-	-	1,037,063
Net cash provided by investing activities	13,347,252	1,037,063	-	-	14,384,315
Net change in cash and cash equivalents	91,297,577	13,812,290	2,106,610	(3,400)	107,213,077
Cash and cash equivalents - Beginning of year	474,035,282	65,361,719	19,055,007	7,268	558,459,276
Cash and cash equivalents - End of year	$ 565,332,859	$ 79,174,009	$ 21,161,617	$ 3,868	$ 665,672,353
Reconciliation of operating income to Net cash provided operating activities:					
Operating income	$ 143,600,010	$ 17,400,983	$ 3,894,421	$ 62,915	$ 164,958,329
Adjustments to reconcile income to net cash provided by (used in) operating activities:					
Amortization expense	-	63,512	174,520	-	238,032
Non-cash reduction in pension obligation (actuarial gain)	-	(2,817,583)	(1,318,714)	-	(4,136,297)
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	1,277,772	(277,357)	254,333	843	1,255,591
Decrease in inventories	-	-	-	23,547	23,547
Decrease in deferred outflow of resources	-	2,487,357	1,164,159	-	3,651,516
Increase (decrease) in accounts payable and accrued liabilities	312,320	483,599	114,322	(90,705)	819,536
Decrease (increase) in unearned revenues	(4,227,596)	2,179	(2,897)	-	(4,228,314)
Increase (decrease) in compensated absences	-	(97,586)	11,732	-	(85,854)
Decrease in insurance benefits payable	(16,076,843)	(188,341)	(36,211)	-	(16,301,395)
Decrease in other postemployment benefits	-	(62,699)	(29,344)	-	(92,043)
Decrease in pension liability	-	(2,010,045)	(940,762)	-	(2,950,807)
Decrease in deferred inflow of resources	-	(2,148,127)	(1,005,390)	-	(3,153,517)
Total adjustments	(18,714,347)	(4,565,091)	(1,614,252)	(66,315)	(24,960,005)
Net cash provided by (used in) operating activities	$ 124,885,663	$ 12,835,892	$ 2,280,169	$ (3,400)	$ 139,998,324

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department)** is an Executive Department of the Commonwealth of Puerto Rico created by Act 15 of April 14, 1931, as amended, to promote the working-class welfare, improve the job conditions, and help reduce unemployment in Puerto Rico. The Governor of the Commonwealth of Puerto Rico appoints the Secretary of the **Department**.

The accompanying basic financial statements of the **Department** are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position, the results of operations and the cash flows of the **Department**'s enterprise funds.

A. Reporting Entity

The **Department** is included for financial reporting purposes as an instrumentality of the Commonwealth of Puerto Rico's ('the Commonwealth") financial statements, while its proprietary funds' financial data is included as part of the business-type activities for enterprise funds of the Commonwealth. The accompanying enterprise funds' basic financial statements include only the proprietary funds of the **Department**, which are the Unemployment Insurance Fund, the Disability Insurance Fund, the Drivers' Insurance Fund and the Vocational Rehabilitation Administration Fund (collectively the "enterprise funds").

Unemployment Insurance Fund – It was created by Act 74 on June 21, 1956. It is used to account for contributions made by employers to provide unemployment benefits under the State Unemployment Insurance Program.

Disability Insurance Fund – It was created by Act 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment under the Temporary Non-occupational Disability Insurance Program.

Drivers' Insurance Fund – It was created by Act 428 on June 15, 1950. It is used to account for contributions made by the Drivers' and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico under the Drivers' Social Security Insurance Program. The plan also includes benefits for health and life insurance.

State Unemployment Insurance Program – The structure of the Federal-State UI Program partnership is based upon federal law; however, it is implemented primarily through state law. Unless otherwise noted, responsibilities of the US Department of Labor (US DOL) include: (1) allocating available administrative funds among states; (2) administering the Unemployment Trust Fund (UTF) through the US Treasury and monitoring activities of the UTF; (3) establishing program performance measures; (4) monitoring state performance; (5) ensuring conformity and substantial compliance of state law and operations with federal law; and (6) setting broad overall policy for program administration. State UI program operations are accounted for in the **Department's** Unemployment Insurance Fund.

State responsibilities include: (1) establishing specific, detailed policies and operating procedures which comply with the requirements of federal laws and regulations; (2) determining the State UI tax structure; (3) collecting State UI contributions from employers (commonly called "unemployment taxes"); (4) determining claimant eligibility and disqualification provisions; (5) making payment of Regular Unemployment (UC) benefits to claimants; (6) managing the program's revenue and benefit administrative functions; (7) administering the programs in accordance with established policies and procedures; and (8) enacting State UC law that conforms with Federal UC law.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

The Federal Unemployment Tax Act (FUTA) imposes a federal tax on covered employers. Currently, the FUTA tax on covered employment (generally employment subject to a State UI tax) is 6.2 percent of the first $7,000 of covered employee wages. Employers, however, receive two credits against the FUTA tax. One credit is equal to the amount of State UI tax paid by the employer. The employer receives this credit when the State UI law, and its application, conforms and substantially complies with FUTA requirements.

A second credit is awarded only to employers in states, which have a federally approved experience-rate State UI tax system. All states currently meet the federal criteria for both credits to be applicable to the states' employers. The two credits combined cannot exceed 5.4 percent of taxable employee wages.

FUTA revenues, from the remaining 0.8 percent, are collected by the IRS and deposited into the general fund of the US Treasury, which by statute are appropriated to the UTF. FUTA revenues are used primarily to finance federal and state administrative expenses, the federal share of Extended Benefits (EB) and advances to states whose UTF account balances are low or exhausted. US DOL allocates available administrative grant funds (as appropriated by Congress) to states based on forecasted workload and costs and adjusted for increases or decreases in workload during the current year.

The quarterly tax rate imposed for the State UI Program is computed based on experience rates determined for each employer individually. In addition, a special tax of 1% of taxable compensation will be collected from all nongovernmental employers to promote activities related to the creation of jobs and other related working initiatives. However, the total tax imposed will never be more than 5.4% of the taxable salaries as established by federal regulations.

Unemployment benefits are provided under UC and the EB programs as follows:

UC provides benefits to workers generally after a waiting period of one week of unemployment, provided that each claimant has worked during a base period generally established as the first 4 of the last 5 completed calendar quarters prior to filing the claim. A waiting period is defined as a non-compensable period of unemployment for such acts as leaving voluntarily without good cause, discharge for misconduct connected with work, and refusal of suitable work. The normal benefit will be dependable on the worker's age and weeks of work covered employment in the base period.

EB provides benefits for claimants that have exhausted the UC. To be eligible for the work of EB, a claimant must apply for and be able to and available to accept suitable work, if offered. What constitutes suitable work is dependent on a required evaluation of the claimant's employment prospects and as part of this process the claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" that he or she has done so.

Temporary Non-occupational Disability Insurance Program – This program consists of a benefit plan for workers. A tax of .6% is levied by the program of which the employer and employee pays .3% each. The taxable amount is limited to the first $9,000 of the employee's yearly salary. Contributions received under the program are accounted for in the **Department's** Disability Insurance Fund and are deposited in an interest-bearing account to provide for future claims, as established by law.

Disability benefits are provided for a maximum of 26 weeks to workers that have suffered accidents or illness not related to the workplace. Disbursements per week will range from $12 to $113 and are dependent on the claimant's salary. In order to qualify for benefits, claimants must also comply with certain working time as established in the regulations.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Drivers’ Social Security Insurance Program – This program provides benefits to workers that use motor vehicles as part of their job duties. The program's benefits include payments to claimants due to death, disability and other benefits to dependents. Funding for the program is provided by a quarterly contribution of eighty cents per employee of which the employer pays thirty cents and fifty cents are paid by the employee. The program’s operations are accounted for in the **Department’s** Drivers’ Insurance Fund. Workers claiming benefits under this program must have worked at least 25 weeks prior to any claim related to disability benefits, and at least 10 weeks for death benefits. Benefits payables are calculated in a similar fashion as benefits paid in the disability program, but claimants under the Drivers’ Insurance program must be workers that use a motor vehicle as part of their primary job duties.

Taxes and contributions of all programs are due the next day following the levy date, although a 30 day grace period is provided. All of the above taxes and contributions are recognized as operating revenue in the corresponding enterprise fund.

The accompanying enterprise funds’ basic financial statements of the **Department** have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The enterprise funds’ basic financial statements of the **Department** are presented as of June 30, 2024. Such enterprise funds’ basic financial statements do not purport to, and do not present fairly the financial position of the **Department** as of June 30, 2024, and the changes in its financial position, or where applicable its cash flows for the year then ended in conformity with US GAAP.

B. Fund Financial Statements

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

The financial statements of the enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Enterprise funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund’s principal ongoing operations. The major operating revenues of the **Department** are as follows:

- Unemployment Insurance Fund - Amounts for charges made to individual employers for payment of unemployment benefits.

- Disability Insurance Fund - Amounts for charges made to individual employers for payment of temporary non-occupational disability benefits.

- Drivers' Insurance Fund - Amounts for charges made to individual employers for payment of benefits for drivers in Puerto Rico. Also, provides benefits for health and life insurance.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

- Vocational Rehabilitation Administration - Accounts for operating revenues of the program for the Industry of Blind and Physical, Mental and Development Disabilities Persons.

Revenues and expenses that do not result from principal ongoing operations are reported as non-operating revenues and expenses. The major non-operating revenues of the **Department's** enterprise funds are mainly contributions from the federal government under various extended unemployment benefits programs.

D. Cash and Cash Equivalents

The **Department** considers currency on hand, demand deposits and highly liquid investments (including restricted cash purchased with a maturity of three (3) months or less) to be cash equivalents.

All securities pledged as collateral are held by the Secretary of the PR Treasury. As required by federal law, all resources not necessary for current benefit payments are placed on deposit in the Unemployment Trust Fund (UTF) of the US Treasury.

E. Restricted Investments

Restricted investments include mainly US Government and agencies obligations, mortgage-backed securities, and corporate debt and equities. Investment securities are presented at fair value. Changes in the fair value of investments are presented as investment earnings in the Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

F. Receivables

Unemployment, disability and drivers' insurance receivables in the enterprise funds are stated net of estimated allowance for uncollectible accounts, which are determined based upon past collection experience. Due from federal governmental primarily represents amounts owed to the **Department's** Unemployment Insurance Fund for reimbursement of expenditures incurred pursuant to the federally funded programs.

G. Inventory

The Vocational Rehabilitation Administration's Inventory is stated at average cost and reported as cost when individual inventory items are sold.

H. Restricted Assets

Funds set aside for specified purposes are classified as restricted assets, since their use is limited for a specific purpose by applicable agreements or required by law. Restricted assets in the enterprise funds mainly include amounts set aside for the payment of unemployment and disability insurance benefits.

I. Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable business-type activities, and discretely presented

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

component unit columns in the proprietary fund financial statements. The **Department** defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

Capital assets donated by third parties are recorded at fair value at the time of donation. Those capital assets donated by related parties are recorded at the carrying value existing at the transferor's records. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for enterprise funds activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Depreciation expense is recorded in the proprietary funds and discretely presented component units' financial statements. Capital assets of the **Department** are depreciated on the straight-line method over the assets estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Building and building improvements	20-50
Equipment, furniture, fixtures, vehicles and software	5-15
Infrastructure	50

The capital assets of the discretely presented component units are recorded in accordance with the applicable standards of the discretely presented component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets, and on the nature of each of the discretely presented component unit's operations. The estimated useful lives of capital assets reported by the discretely presented component units are as follows:

	Years
Building and building improvements	3-50
Equipment, furniture, fixtures, vehicles and software	3-20
Intangibles, other than software	3-5
Infrastructure	10-50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (mostly attributed to PRPA and PRHTA), these are maintained on their books and stated at cost or at estimated historical cost. Construction in progress made by the third-party operators under these service concession arrangements is not recorded by the aforementioned discretely presented component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated after the closing date of their respective service concession arrangements because such agreements require the third-party

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

operators to return the related facilities to these discretely presented component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service concession arrangements. Under these service concession arrangements, the aforementioned discretely presented component units have received from the third-party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the discretely presented component units, are considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The **Department's** enterprise funds follow the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries – an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

J. Right of Use Lease Assets

Right of use assets are representative of the **Department's** right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

K. Unearned Revenue

Unearned revenue arises only when resources are received before the **Department's** enterprise funds have a legal claim against them. In subsequent periods, when the **Department's** enterprise funds have a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.

L. Benefits Payable

Benefits payable arise from participants' insurance benefit claims of the Unemployment, Disability and Drivers' insurance programs in the enterprise funds. Liabilities for incurred but unpaid benefits and for benefit adjustment expenses are based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

M. Long-term Obligations

The liabilities reported include the **Department's** enterprise funds compensated absences obligations (vacation and sick leave), other post employments liability, and total pension liability.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Lease liability

At the commencement of a lease, the **Department** initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

O. Compensated Absences

Unpaid vacation time accumulated is fully vested to the employees from the first day of work. The **Department's** employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated vacation time at the current rate, if the employee has at least 10 years of service with the **Department.** Accrued compensated benefits are accrued when incurred in the government-wide financial statements, and in the enterprise funds financial statements, when the employee meets such criteria. Such compensated benefits accrual also includes related estimated payroll taxes.

On April 29, 2017, Act No. 26 created the "Fiscal Plan Compliance Act", in order to take measures as necessary to adjust the existing legal and juridical framework so as to allow the fullest compliance with the Fiscal Plan approved by the Financial Oversight Board, created by virtue of the Federal Law PROMESA; establish a uniform fringe benefit system, which includes the Christmas bonus and the healthcare plan contribution, for all the government employees and officials of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico, except for the University of Puerto Rico. Among other measures, the Act reduces accumulation of vacation leave to a new rate of 1.25 days per month up to a maximum of 60 days and 8 hours of sick leave (12 days per year).

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position (deficit) reports a separate section for deferred outflows of resources. These separate financial statements element represents a consumption of net position (deficit) that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. On the proprietary funds' statement of net position (deficit), the **Department** has two items that qualify for reporting in this category: (i) certain pension related items, and (ii) certain other postemployment benefits related items. Of the pension related items, changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. 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. Of the other postemployment benefits related items only other postemployment benefits payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment benefits (OPEB) liability after the next measurement date.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Interfund and Intraentity Transactions

The **Department's** enterprise funds have the following types of transactions among funds:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the **Department** and its discretely presented component units, and among the discretely presented component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the **Department** and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between the **Department** and discretely presented component units which are equivalent to long-term debt financing.

The **Department's** liabilities are reported in the statement of net position, the proceeds in the **Department's** statement of revenue, expenditures and changes in fund balance governmental funds, and the asset in the discretely presented component units' statement of net position. Amounts due from discretely presented component units are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

R. Risk Management

The **Department's** carries commercial insurance to cover property and casualty theft, tort claims and other losses for the **Department**. Insurance policies are negotiated by the PR Treasury and costs are allocated among all the governmental units of the Commonwealth. The current insurance policies have not been cancelled or terminated.

For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth, provides workmen's compensation insurance to cover all **Department** employees. In the past years, the **Department** has not settled claims that exceed insurance coverage.

S. Use of Estimates

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Adoption of New Accounting Pronouncements

The following new accounting standards were adopted by the **Department,** effective July 1, 2023:

- 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 and investment derivative instrument or a hedging derivative instrument.

  The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

- GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62. 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. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

U. Future Adoption of Accounting Pronouncements

The GASB has issued the following governmental accounting standards that have effective date after June 30, 2024:

- GASB Statement No. 101 – Compensated Absences – 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. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. **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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Future Adoption of Accounting Pronouncements (Continued)

- GASB Statement No. 101 – Compensated Absences (Continued)

  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.

- GASB Statement No. 102 – Certain Risk Disclosures – The objective of this statement is to provide users of government financial statements with essential information about the risks related to a government's vulnerabilities due to certain concentrations or constraints. This statement defines a concentration as a lack of diversity related to an aspect of significant inflow of resources or outflows of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentration and constraints may limit a government's ability to acquire resources of control spending. This statement requires a government to assess whether a concentration constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose in the notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of substantial impact. The disclosure should include: (a) the concentration constraint; (b) each event associated with the concentration or constraint that could cause a substantial impact if the 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, 2024, and all reporting periods thereafter.

- GASB Statement No. 103 – Financial Reporting Model Improvements – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. **Management's Discussion and Analysis:** This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. **Unusual or Infrequent Items:** This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows. **Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position:** This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Future Adoption of Accounting Pronouncements (Continued)

- GASB Statement No. 103 – Financial Reporting Model Improvements (Continued)

  Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses. **Major Component Unit Information:** This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements were reduced, combining statements of major component units should be presented after the fund financial statements. **Budgetary Comparison Information:** This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 104 – Disclosure of Certain Capital Assets – This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

  This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

The impact of these statements on the **Department's** enterprise funds' basic financial statements has not yet been determined.

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NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, interest-bearing accounts and short-term investments. The carrying amount of deposits of the **Department's** enterprise funds on June 30, 2024 consists of the following:

	Carrying Amount			
	Unrestricted	Restricted	Total	Depository Bank Balance
Commercial bank	$ 5,659	$ 16,116,466	$ 16,122,125	$ 15,458,943
PR Secretary of Treasury	86,574,676	-	86,574,676	86,574,676
US Treasury Department-restricted	-	562,975,552	562,975,552	562,975,552
Total	$ 86,580,335	$ 579,092,018	$ 665,672,353	$ 665,009,171

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Custodial credit risk is the risk that in the event of bank failure, the **Department's** enterprise funds' deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts with commercial banks outside Puerto Rico.

The **Department's** enterprise funds' bank balance in commercial bank was covered by federal depository insurance or by collateral held by Secretary of the PR Treasury in the Commonwealth's name. The deposits with the US Treasury from unemployment insurance taxes are uninsured and uncollateralized. The deposits with the US Treasury from unemployment insurance taxes in the UTF can only be invested in obligations of the US or obligations guaranteed by the US.

NOTE 3 — RESTRICTED INVESTMENTS

As required by law, the principal purpose of the Disability and Drivers' insurance funds is to cover payments for benefit claimed as established by both programs to comply with the obligations of such enterprise funds, aside from the insurance premiums collections, an adequate investment of the required reserves is necessary to ensure the solvency of these enterprise funds.

The **Department's** investment policies for such enterprise funds establish limitations and other guidelines on amounts to be invested in the investment categories and by issuer/counterparty and on exposure by country. Such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the investment committee and the Secretary of the **Department** will determine, from time to time, other transactions that such enterprise funds may enter into.

Inherent rate risk — In accordance with its investment policy, the Disability Insurance Fund manages its exposure to declines in fair values by establishing a long-term maturity of the investment portfolio of more than five years.

Credit risk — The **Department's** investment policy for the Disability Insurance Fund is to limit its investments pool rating of obligations and equities, not guaranteed by the US or its agencies, to not less than AAA by the Standard and Poor's (S&P) or AAA by the Moody's Investors Service (Moody's) and of corporate debt securities to the top three ratings by the S&P and Moody's.

Concentration of credit risk — The **Department's** investment policies for the Disability Insurance Fund does not allow for investment in debt securities in excess of 20% of the **Department's** enterprise funds fixed income investments and in small companies' equities in excess of 50% of the total equities investments.

NOTE 3 — RESTRICTED INVESTMENTS (CONTINUED)

Custodial credit risk — The risk that, in the event of the failure of the counterparty to the transaction, the **Department's** Disability Insurance Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. On June 30, 2024, securities investments were registered in the name of the Commonwealth and were held in the possession of the Commonwealth's custodian bank.

Foreign currency risk — The **Department's** investment policy for the Disability Insurance Fund limits the investment in emerging countries to 50% of the total international equities. All of the **Department's** investments of the Disability Insurance Fund in US Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the US government and are presented as AAA to A- in the credit risk tables. The fair value by investment type, credit quality ratings and maturity of the restricted investments reported by the enterprise funds on June 30, 2024 consist of the following:

	Rating							
Investment type	AAA	AA+ to AA-	A+ to A-	BBB	BB+ to BB-	B+ to B-	Not Rated	Total
Mortgage and asset-backed securities:								
FNMA	$ 2,022,743	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,022,743
FHLMC	2,139,957	-	-	-	-	-	-	2,139,957
Commercial mortgages	-	-	-	-	-	-	329,143	329,143
Asset-backed securities	875,100	-	263,080	-	-	-	804,527	1,942,707
U.S. corporate bonds and notes	207,434	450,228	2,036,507	3,335,138	324,459	-	60,685	6,414,451
Foreign government bonds and notes	-	-	-	-	-	-	-	-
U.S. municipal notes	731,329	377,484	75,151	-	-	-	88,926	1,272,890
Total debt securities	$ 5,976,563	$ 827,712	$ 2,374,738	$ 3,335,138	$ 324,459	$ -	$ 1,283,281	$ 14,121,891

	Maturity (in years)			
	After One year	After one to five years	After five to ten years	Total
U.S. government securities	$ 1,554,129	$ 656,732	$ 222,070	$ 2,432,931
Mortgage and asset-backed securities:				
GNMA	-	145,162	122,891	268,053
FNMA	-	-	2,022,743	2,022,743
FHLMC	6,208	-	2,133,749	2,139,957
Commercial mortgages	-	-	329,143	329,143
Asset-backed securities	875,101	561,622	505,984	1,942,707
U.S. corporate bonds and notes	1,131,896	2,881,901	2,400,654	6,414,451
Foreign government bonds and notes	-	-	-	-
U.S. municipal notes	5,000	137,820	1,130,070	1,272,890
Total debt securities	$ 3,572,334	$ 4,383,237	$ 8,867,304	$ 16,822,875
Equity securities:				
VANGUARD FTSE DEVELOPED MARKETS ETF				2,576,704
MFC ISHARES TR RUSSELL 2000 ETF				3,908,776
MFC VANGUARD INDEX FUNDS S&P 500 ETF SHSNEW				7,784,523
Total				$ 31,092,878

NOTE 3 — RESTRICTED INVESTMENTS (CONTINUED)

Fair Value of Investments - The **Department** measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unoservable Inputs (Level 3)	Total
U.S. government securities	$ -	$ 2,432,931		$ 2,432,931
Mortgage and asset-backed securities:				
GNMA	-	268,053	-	268,053
FNMA	-	2,022,743	-	2,022,743
FHLMC	-	2,139,957	-	2,139,957
Commercial mortgage	-	329,143	-	329,143
Asset-backed securities	-	1,942,707	-	1,942,707
U.S. corporate bonds and notes	-	6,414,451	-	6,414,451
Foreign government bonds and notes	-	-	-	-
U.S. municipal notes	-	1,272,890	-	1,272,890
Total investments measured at fair value	$ -	$ 16,822,875	$ -	$ 16,822,875
Equity securities:				
MFC VANGUARD index				14,270,003
Total investments				$ 31,092,878

The **Department** carries its investments at fair value. The investment managers generally use the market approach to value its investment securities, which use prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities. As shown in the table above, all the **Department's** debt and equity securities were classified in Level 2 of the fair value hierarchy. They are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities' relationship to benchmark quoted prices.

NOTE 4 — RECEIVABLES

Insurance tax premiums are levied each quarter to employers registered under the State Unemployment Insurance, the Temporary Non-occupational Disability Insurance and the Drivers' Social Security Insurance Programs.

In addition, receivables in the **Department's** enterprise funds include receivables from the federal government of approximately $1,464,767 and other miscellaneous.

NOTE 5 — RELATED-PARTY TRANSACTIONS

As of June 30, 2024, inter-fund receivable and payable represent amounts due from/to other **Department's** governmental funds as follows:

Receivable by Fund	Payable by Fund	Due from
Work Opportunity Incentive	Unemployment Insurance	$ 457,764

Receivable by Fund	Payable by Fund	Due to
Vocational Rehabilitation Administration Funds	Vocational Rehabilitation Administration - Business-Type Fund	$ 151,123

Transfers from/to other **Department's** governmental funds for the year ended June 30, 2024, are as follows:

Transferor Fund	Transferee Fund	Transfer in
Vocational Rehabilitation Administration Funds - Central Government	Vocational Rehabilitation Administration - Primary Government	$ 329,469

Transferor Fund	Transferee Fund	Transfer out
Unemployment Insurance	Work Opportunity Incentive	$ 52,069,354

As of June 30, 2024, this amount represents transfers made by the unemployment insurance fund related to the distribution of surplus cash to the Work Opportunity Incentive Fund for the reimbursement of work incentives and administrative expenses amounting to $52,069,354, as required by law.

NOTE 6 – CAPITAL ASSETS

Capital assets activity of the **Department's** enterprise funds for the fiscal year ended June 30, 2024, was as follows:

	Beginning Balance	Additions Total	Retirements Total	Ending Balance Total
Capital Assets, being depreciated:				
Buildings	$ 450,153	$ -	$ -	$ 450,153
Furniture and equipment	340,903	-	-	340,903
Computer, equipment and software	108,318	-	-	108,318
Vehicles	213,224	-	-	213,224
Total capital assets, being depreciated	1,112,598	-	-	1,112,598
Less accumulated depreciation for:				
Buildings	450,153	-	-	450,153
Furniture and equipment	340,903	-	-	340,903
Computer, equipment and software	108,318	-	-	108,318
Vehicles	213,224	-	-	213,224
Total accumulated depreciation	1,112,598	-	-	1,112,598
Business-type activities capital assets, net	$ -	$ -	$ -	$ -

NOTE 7 – RIGHT OF USE LEASE ASSETS

The **Department** leases facilities, office equipment and other assets under long-term, non-cancellable lease agreements recorded in accordance with GASB Statement No. 87. The **Department's** enterprise funds right of use lease asset for the fiscal year ended June 30, 2024, was as follow:

Business-type Activities

	Beginning Balance	Additions Total	Retirements Total	Ending Balance Total
Right of use lease assets:				
Buildings	$ 1,372,558	$ -	$ -	$ 1,372,558
Computer, equipment and software	-	180,882	-	180,882
Total right of use lease assets	1,372,558	180,882	-	1,553,440
Less accumulated amortization for:				
Buildings	410,990	-	225,974	636,964
Computer, equipment and software	-	-	12,059	12,059
Total accumulated amortization	410,990	-	238,033	649,023
Right of use lease assets, net	$ 961,568	$ 180,882	$ (238,033)	$ 904,417

NOTE 8 – UNEARNED REVENUES

Unearned revenue arises only when resources are received before the **Department's** enterprise funds has a legal claim to them. Total unearned revenues as of June 30, 2024, amounted to $26,153,572, and are presented in the following enterprise funds as follows:

Enterprise funds:	
Unemployment Insurance	$ 24,611,662
Disability Insurance	1,536,381
Drivers Insurance	5,529
Total Unearned Revenues	$ 26,153,572

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity of the **Department's** enterprise funds for the fiscal year ended June 30, 2024, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Long-term portion
Lease Liability	$ 971,306	$ 180,882	$ (235,175)	$ 917,013	$ 379,605	$ 537,408
Compensated absences	645,192	-	(90,879)	554,313	211,399	342,914
Other postemployment benefit liabilit	1,229,864	-	(92,043)	1,137,821	131,471	1,006,350
Total pension liability	38,667,084	-	(2,950,807)	35,716,277	2,544,851	33,171,426
Total	**$41,513,446**	**$ 180,882**	**$ (3,368,904)**	**$ 38,325,424**	**$ 3,267,326**	**$ 35,058,098**

NOTE 9 – LONG-TERM LIABILITIES (CONTINUED)

Christmas Bonus

The accrued Christmas bonus for the enterprise funds amounted to approximately $58,800, which was recorded as part of accounts payable and accrued expenses in the enterprise funds' financial statements.

NOTE 10 — OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in **Note 11** the Commonwealth provides other retirement benefits, such as the 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.

Healthcare Benefits

The **Department** 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 Statement 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 Statement No. 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 Statement 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 statement of financial position 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 Statement 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 expenditure 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, 2022. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2023. This is the date on which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year ending date. This report is for measurement year July 1, 2022 to June 30, 2023 for reporting period ending June 30, 2024.

NOTE 10 — OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Deferred Outflows of Resources

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 outflow of resources of $131,471 was presented for payments made after June 30, 2024, to the plan.

The following table presents the Company's proportionate share of the total OPEB liability of the Plan at June 30, 2023 (measurement date) calculated using the current discount rate of 3.65% as well as the Company's proportionate share of the Plan's total OPEB liability if it were calculated using a discount rate of one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current rate:

Description	At 1% decrease (2.65%)	At current discount rate (3.65%)	At 1% increase (4.65%)
Total OPEB Liability	$ 1,234,429	$ 1,137,821	$ 1,054,361

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 Statement No. 75.

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

Discount Rate

The discount rate for June 30, 2023 was 3.65%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2023 actuarial valuation were as follows:

- Pre-retirement Mortality

  For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

- Post-retirement Mortality

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

NOTE 10 — OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

- Post-retirement Disabled Mortality

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

- Post-retirement Beneficiary Mortality

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

NOTE 11 — 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 Statement 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, was implemented instead of GASB Statement 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, 2024.

1) Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for Participants of the Employees' 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, make any contributions to ERS, and ERS will be funded on a "Pay-As-You-Go" basis.

After that, new employees hired July 1, 2017 and later will not become ERS members; (current ERS members will no longer) As a result of the implementation of the "Pay-Go" system, the Plan does not meet the criteria in paragraph 4 of GASB Statement 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 Statement 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. Under the guidance of GASB Statement 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.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

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.

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

In addition, employees who 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.

   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.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

a) Service Retirement Eligibility Requirements (Continued)

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.

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.

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.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

c) Service Retirement Annuity Benefits (Continued)

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.

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.

d) Service Retirement Annuity Benefits

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, plus 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.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

e) 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.

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)

f) 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.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

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 co, 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.

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 Statement No. 73 is now implemented in substitution of GASB Statement No. 68. The **Department's** Total Pension Liability was measured as of June 30, 2024 based on the audited financial information of December 23, 2024 and actuarial valuation as December 13, 2024.

a) Total Pension Liability

Effective on July 1, 2014, the **Department** 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 **Department's** accounting for pension amounts. The information disclosed below is presented in accordance with GASB Statement No. 73, after the implementation of Act No. 106-2017. The **Department's** Total Pension Liability was measured as of June 30, 2023. The measurement Date is June 30, 2023, the date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2022 through June 30, 2023.

As of June 30, 2024, the **Department** reported $35,716,277 as Total Pension Liability of Enterprise funds for its proportionate shares of the Total Pension Liability of ERS.

The June 30, 2024, total pension liability was measured as of June 30, 2023 and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of July 1, 2022 rolled forward to the measurement date of June 30, 2023 (measurement date as of June 30, 2023). The **Department's** proportion of the total pension liability was based on the ratio of the **Department'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. As of June 30, 2024, the **Department's** proportionate share was 1.80466%, which resulted in a decrease of 0.02724% from its proportionate share as of June 30, 2023 (measurement date).

b) Pension Expense

For the year ended June 30, 2024 the **Department** recognized on the Governmental General Fund pension expense of $26,708,231 of total pensions payments of the "Pay-As-You-Go" system.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

c) Deferred Outflows/Inflow of Resources

As of June 30, 2024, the **Department** reported the following Deferred Outflows of Resources and Deferred Inflows of Resources of Enterprise funds related to pensions:

- Deferred Inflows of Resources: $264,405
- Deferred Outflows of Resources: $3,939,548

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2024, will be recognized in the pension expense (benefit) in future years as follows:

Year ending June 30:	Amount
2024	$ 12,236,330

The previous amounts do not include the Company's specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) over the average of the expected remaining service lives of all plan members, which is two (2) years for 2023.

d) Actuarial Methods and Assumptions

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, 2024 are based on projecting the System obligations determined as of the census data collection date of July 1, 2021 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, 2024 is provided below, including any assumptions that differ from those used in the June 30, 2023 actuarial valuation.

NOTE 11 — RETIREMENT PLAN (CONTINUED)

d) Actuarial Methods and Assumptions (Continued)

Liability Determination (Continued)

Total pension liability represents a 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: 3.65% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB Statement No. 73 Discount Rate: 3.65% per annum

Compensation Increases: No compensation increases are assumed effectively March 15, 2023

Defined Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution Account after June 30, 2017. Based on the liquidation of Systems assets and move to "Pay-As-You-Go" funding under Act 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.

Pre-retirement Mortality: For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

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

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

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

NOTE 11 — RETIREMENT PLAN (CONTINUED)

d) Actuarial Methods and Assumptions (Continued)

Liability Determination (Continued)

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 of 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 predeceased 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.

Discount Rate

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

The following table presents the Company's proportionate share of the total pension liability for the Plan calculated using the discount rate of 3.65% as well what the Company's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	At 1% decrease 2.65%	At current discount rate 3.65%	At 1% increase 4.65%
Proportional Share of Total Pension Liability	$ 39,822,068	$ 35,716,277	$ 32,288,010

For the year ended June 30, 2024, the **Department** recognized a pension benefit of approximately $6.7 million.

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA 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 than $1,500 of monthly benefits:

NOTE 11 — RETIREMENT PLAN (CONTINUED)

Fiscal Plan for Puerto Rico (Continued)

- 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 contribution 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.

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:

NOTE 11 — RETIREMENT PLAN (CONTINUED)

"Pay-As-You-Go" Funding (Continued)

- 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 the impacts of specific management decisions would be handled.

There are certainly many more operational details to be considered. "Pay-Go" operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly. The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico issues publicly available financial reports 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 12 – LEASE LIABILITY

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial assets, for a minimum contractual period of greater than one year, in an exchange or exchange like transaction.

The **Department** leases facilities, office equipment and other assets under long-term, non-cancellable lease agreements recorded in accordance with GASB Statement No. 87. During the year ended June 30, 2024, the amount recognized as lease rental expense and interest expense for the **Department's** enterprise funds was about $888 and $14,827, respectively.

At June 30, 2024, the **Department's** enterprise funds had minimum principal and interest payment requirements in its lessee activity as follows:

Year ending June 30,	Principal	Interest	Total
2025	$ 379,605	$ 13,215	$ 392,820
2026	384,244	7,747	391,991
2027	85,821	3,662	89,483
2028	41,035	1,935	42,970
2029	26,308	406	26,714
	$ 917,013	$ 26,965	$ 943,978

NOTE 13 — SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The applicability of Statement on Governmental Accounting Standard No. 96, Accounting and Financial Reporting of Subscription Based Information Technology Arrangements (GASB Statement No. 96), became effective starting during the fiscal year ended June 30, 2024. 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.

The **Department** evaluated the applicability of GASB Statement No. 96 on June 30, 2024, and determined that it does not have a material effect on the financial statements.

NOTE 14 — COMMITMENTS

The **Department** has several noncancelable long-term operating leases, with average terms from three (3) to five (5) years recorded in accordance with GASB Statement No. 87 (Note 12). The **Department** also has several operating leases with the Public Buildings Authority of the Commonwealth of Puerto Rico, primarily for regional **Department's** facilities that expire over minimum terms of less than one year, and can be renewed for additional terms, as provided in each contract. Annual rental payments to the PBA are determined based on the debt service requirements of the related debt to be paid with the rental proceeds, plus the facilities operating costs allocation.

For the year ended June 30, 2024, rent expenditures of the **Department's** enterprise funds amounted to $44,701 and the rent expenditures of the whole **Department** amounted to approximately $746,024 under such operating leases. The future minimum lease payments for 2024 are as follow:

Year ending June 30,	Amount
2025	$ 395,845
2026	395,845
2027	97,991
2028	42,654
2029	28,436
Total	$ 960,771

NOTE 15 — CONTINGENCIES

<u>Litigations</u>

The **Department** is a defendant or co-defendant in various pending litigations. The **Department's** management, after consultation within house legal counsel, has determined that the probable outcome of these cases will not have a material impact on the accompanying enterprise funds' financial statements. The Commonwealth of Puerto Rico Act 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth, present and former employees, directors, mayors and others may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth.

NOTE 15 — CONTINGENCIES (CONTINUED)

Federal Awards

The **Department** participates in federal programs received from the US DOL to promote the working-class welfare and to finance the administration costs of the State Unemployment Insurance Program. Expenditures financed by federal grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the **Department** may be required to reimburse the grantor agency. Accordingly, the **Department's** compliance with applicable grant requirements will be established at a future date.

Nevertheless, the **Department's** management is of the opinion that the amount of expenditures, which may be disallowed by the granting agencies from such audits, will be immaterial to the **Department's** enterprise funds' basic financial statements.

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is an economic stimulus bill passed by the 116th U.S. Congress and signed into law on March 27, 2020, in response to the economic fallout of the COVID disease. The spending primarily includes one-time cash payments to individual people who submit a tax return in America (with most single adults receiving $1,200 and families with children receiving more, increased unemployment benefits, and the creation of the Paycheck Protection Program.

Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC).

Pandemic Unemployment Assistance (PUA)

The PUA provided unemployment benefits for workers not otherwise eligible for regular unemployment benefits, self-employed individuals, contract workers, and business owners. Individuals who qualify for PUA must self-certify weekly that they are unemployed, partially employed, or unable or unavailable to work because of a COVID-19 related reason. Benefits were calculated based on previous earnings with a formula from the Disaster Unemployment Assistance program under the Stafford Act.

PUA Eligibility

The individuals were required to provide self-certification that they were able to work and available for work. Other eligibility criteria included being unemployed, partially employed, unable to work, or unavailable for work due to one of the following COVID-19-related situations:

- The individual was diagnosed with or showed symptoms and were trying to get diagnosed with COVID-19.
- A member of the individual's household was diagnosed with COVID-19.
- The individual provided care for someone diagnosed with COVID-19.
- The individual provided care for a child or other household member who couldn't attend school or go to a care facility because of a COVID-19 closure.
- The individual was quarantined or advised by a healthcare provider to self-quarantine.
- The individual was scheduled to start a job and no longer had or couldn't reach it due to COVID-19.
- The individual became the primary earner for a household because the head of the household died as a direct result of COVID-19.

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CONTINUED)

PUA Eligibility (Continued)

- The individual quit a job as a direct result of COVID-19.
- The individual's place of employment closed as a direct result of COVID-19.
- The individual met other criteria set forth by the U.S. labor secretary.

Benefit amounts were calculated based on previous earnings, using a formula from the Disaster Unemployment Assistance program under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Benefits under the PUA program expired on December 31, 2020 under the Coronavirus Aid, Relief, and Economic Security Act, but were extended by the Consolidated Appropriations Act to March 14, 2021. The American Rescue Plan Act also extended the PUA benefits to weeks of unemployment ending on or before September 6, 2021.

Pandemic Emergency Unemployment Compensation (PEUC)

The Pandemic Emergency Unemployment Compensation (PEUC) was an emergency program designed to allow people who had exhausted their unemployment compensation benefits to receive up to 13 additional weeks of benefits, provided they were "able to work, available to work, and actively seeking work."

Benefits under the PEUC program were due to expire on December 31, 2020 but were extended to March 14, 2021, and the number of weeks that an individual could claim PEUC benefits was increased from 13 to 24 by the Consolidated Appropriations Act (CAA), 2021. The American Rescue Plan Act of 2021 further extended the PEUC 29 weeks for up to 53 weeks through September 6, 2021.

States were required to offer flexibility to applicants in meeting PEUC eligibility requirements related to "actively seeking work" if an applicant's ability to find work was affected by COVID-19.

Federal Pandemic Unemployment Compensation (FPUC)

The FPUC is an emergency program established by the CARES Act to increase unemployment benefits for Americans who are out of work because of the COVID-19 pandemic. The FPUC provided an additional $600 per week to all unemployed workers receiving traditional unemployment compensation, PUA, or PEUC. To qualify to receive the FPUC payment, a claimant had to be eligible to receive at least $1 of compensation through the traditional unemployment insurance, PEUC, or PUA program for that week. Under the Consolidated Appropriations Act and the American Rescue Plan Act (ARPA), the FPUC was extended at a reduced rate, allowing unemployed individuals to receive an additional $300 per week.

All pandemic-related federal unemployment benefits expired on September 6, 2021.

On May 15, 2020, the Governor of Puerto Rico issued the Executive Order No. 2020-040 to approve and adopt the Strategic Disbursement Plan for the Coronavirus Relief Fund (the "CRF Disbursement Plan"), developing a plan for the use of the funds allocated to the Government of Puerto Rico through the Coronavirus Relief Fund ("CRF") established under the Coronavirus Aid, Relief, and Economic Security Act, Public Law 116-136 ("CARES Act").

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CONTINUED)

Federal Pandemic Unemployment Compensation (FPUC) (Continued)

As part of the measures within the CRF Disbursement Plan, an Allocation to the Trust Fund of the Unemployment Fund of the Department of Labor and Human Resources was established in order to support and provide liquidity to the Unemployment Insurance Fund Trust of the Department of Labor and Human Resources to cover disbursements to people who have applied for state unemployment benefits due to the emergency of COVID-19. The funds can only be used to finance the state portion of unemployment benefits related to COVID-19. These funds should not be used to increase the current level of benefits. These funds may not be used for expenses that have been or will be reimbursed by other federal programs, including through other provisions of the CARES Act. This Transfer Program represents an initial investment of $150 million from the CRF.

Temporary Full Federal Funding of the First Week of Compensable Regular Unemployment for States with No Waiting Week

The Temporary Full Federal Funding of the First Week of Compensable Regular Unemployment for States with No Waiting Week applied for States that provided compensations to individuals for their first week of unemployment and entered in an agreement with the Department of the United States to provide full reimbursement of regular UC paid to individuals by the state for their first week of unemployment, as well as any additional administrative expenses incurred by the state because of the agreement. Originally this provision expired on December 31, 2020, and by the Consolidated Appropriations Act and The American Rescue Plan Act was amended to provide funding to States through weeks of unemployment ending on or before September 6, 2021.

Extended Benefits

The enactments of the Emergency Unemployment Insurance Stabilization and Access Act (EUISAA), and the Coronavirus Aid, Relief, and Economic Security Act (CARES) implement certain temporary changes of the Extended Benefit (EB) program.
EB program is payable only after the exhaustion of PEUC and other unemployment compensation (UC) as explained below. During the period that PEUC is available, an individual must have exhausted PEUC entitlement before commencing receipt of EB. To qualify for EB the individual must have:

- exhausted all rights to regular UC under state law;
- no rights to regular UC with respect to any UC law of another state or Canada;
- exhausted PEUC;
- wages in the base period (with respect to the regular UC claim that was exhausted) that includes one of the following: (a) 20 weeks of full-time covered employment; (b) wages higher than 40 times the individual's most recent weekly benefit amount; or (c) total wages in the base period equal to or greater than 1.5 times the highest quarter (refer to Section 202(a)(5), EUCA);
- no disqualifications that would prevent the individual from being eligible for EB (refer to Section 202(a)(4), EUCA); and
- at least one week in the benefit year that begins in an EB eligibility period (refer to Section 203(c), EUCA).

EUISAA provides that, for states receiving both allotments of the emergency administrative grants and also meeting the thresholds to trigger on to EB, the Federal Government will pay 100 percent of sharable regular compensation and sharable extended compensation for weeks of unemployment ending before December 31, 2020. Later on, the program was extended by the Consolidated Appropriations Act and the American Rescue Plan Act to continue providing funding to States through weeks of unemployment ending on or before September 6, 2021.

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CONTINUED)

The Consolidated Appropriations Act

The provisions of the Consolidated Appropriations Act (CAA), enacted on December 27, 2020 are titled on the Continued Assistance for Unemployed Workers Act of 2020 (Continued Assistance Act). The Continued Assistance Act reauthorizes and expands the enhanced UI benefits created under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) enacted on March 27, 2020; extends the authorization for additional temporary UI provisions first authorized under the CARES Act and the Families First Coronavirus Response Act (FFCRA) enacted on March 18, 2020; creates additional program integrity requirements for the temporary, enhanced UI benefits and creates the Mixed Earners Unemployment Compensation (MEUC) program.

Mixed Earners Unemployment Compensation

On Section 2104 of the CARES Act, which authorizes the FPUC program, the Continued Assistance Act adds authorization for the MEUC program, which provides certain individuals with an additional $100 supplemental payment each week, in addition to the FPUC payment. Eligible individuals must:

- have received at least $5,000 of self-employment income in the most recent taxable year prior to the individual's application for regular UC,
- be receiving a UI benefit (other than PUA) for which FPUC is payable, and
- submit documentation substantiating their self-employment income. This additional payment does not apply to individuals collecting PUA.

MEUC is payable beginning with weeks of unemployment no earlier than the week ending on January 2, 2021 and through weeks of unemployment ending on or before September 6, 2021 with the program provision extension by the American Rescue Plan Act.

NOTE 17 - OTHER FEDERAL PROGRAMS

Presidential Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 (COVID-19)

The Presidential Memo was issued on August 8, 2020 instructing the Secretary of Homeland Security, acting through the Federal Emergency Management Agency (FEMA), to make available other needs assistance (ONA) for lost wages in accordance with Section408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2). The Lost Wages Assistance program (LWA) will be administered by States and territories through a grant agreement with FEMA. The states and territories will distribute the funds through their UI system, as a supplemental payment.

Lost Wages Assistance (LWA)

The LWA program is a supplementary benefit in addition to the unemployment compensation that is available to eligible claimants. Eligibility requirements to receive the LWA supplementary benefit include:

- the individual provides a self-certification that he or she is unemployed or partially unemployed due to disruptions caused by COVID-19,
- the claimant is eligible for at least $100 of regular UC or any of the following UC programs for the week of unemployment with respect to which LWA is requested,

NOTE 17 - OTHER FEDERAL PROGRAMS

Lost Wages Assistance (LWA) (Continued)

- the claimant is eligible to one of the following UC programs: Unemployment Compensation for Federal Employees (UCFE); Unemployment Compensation for Ex-Servicemembers (UCX); Pandemic Emergency Unemployment Compensation (PEUC); Pandemic Unemployment Assistance (PUA); Extended Benefits (EB); Short-Time Compensation (STC); Trade Readjustment Allowances (TRA); and Payments under the Self-Employment Assistance (SEA) program.

LWA is not payable to individuals receiving Disaster Unemployment Assistance (DUA) or Additional Benefits (AB). LWA was available for weeks of unemployment ending on or after August 1, 2020, through weeks of unemployment ending before December 27, 2020 contingent upon sufficient balances remaining in the Disaster Relief Fund (DRF).

Alternative Trade Adjustment Assistance (ATAA)

The Trade Act of 1974 established the Trade Adjustment Assistance (TAA) program for workers who lose their jobs or have their hours and wages reduced as the result of import competition, or a shift in production to another country. The TAA program provides federal training/retraining benefits and services to trade impacted workers.

The Trade Reform Act of 2002 revised the Trade Act program to include an alternative TAA program for older workers. The Alternative Trade Adjustment Assistance (ATAA) program is intended to serve individuals who are at least 50 years old, and for whom training/retraining may not be appropriate.

Trade impacted workers, age 50 or older, who become re-employed full time in a different occupation, within 26 weeks of their qualifying layoff, may be eligible for the ATAA program. Workers earning less in their new job than they were earning in adversely-affected employment are eligible to receive one-half the difference between the ATAA qualifying wage and the new wage, as long as the new wage is less than $50,000 a year. The ATAA wage subsidy payments are payable for up to two years from the first qualifying re-employment or $10,000, whichever comes first.

Participants in the ATAA program are eligible for Relocation Allowances, but are not eligible for other Trade Act benefits available under the TAA program (i.e., retraining, Job Search Allowances, and Trade Readjustment Allowances [TRA]).

You may participate in either the ATAA program, or the TAA program, but you cannot participate in both. While workers are seeking employment (to qualify for the ATAA program), actions should be taken to ensure regular TAA deadlines are met and program options preserved. If you select the TAA program, you must be enrolled in and attending an approved training/retraining program to be eligible for extended federal weekly income support (TRA benefits). To qualify for TRA benefits, under the TAA program, you must be enrolled in and attending an approved training/retraining program within:

- 8 weeks following the week the Trade Act petition was certified by the Secretary of Labor, or
- 16 weeks following the week the worker was laid off from trade affected employment, or
- Have applied for and received a training waiver during the same 8/16 week timeframe. To receive the last 52 weeks of the extended weekly UI benefits the worker must have made a bona fide application for training within 210 days of the certification date of the petition, or layoff date from trade affected employment.

NOTE 17 - OTHER FEDERAL PROGRAMS (CONTINUED)

Disaster Unemployment Assistance (DUA Fiona)

The DUA Fiona benefits provide funds to those individuals who are unemployed due to the passage of Hurricane Fiona and:

- Have been working for someone else or were self-employed in the disaster area when the disaster occurred;
- Lost the job and the place of work was affected or were unable to get to the place of work as a result of the damage caused, and
- Lived in the area of the disaster when the disaster occurred and were unable to get to the workplace as a result of Hurricane Fiona.

Eligible individuals must:

- Have applied for regular unemployment benefits and have obtained a determination of ineligibility to receive them;
- Be fully or partially unemployed as a direct result of the disaster;
- Be available to work, unless you have suffered an injury as a direct result of the disaster;
- Apply for DUA benefits on or before November 30, 2023, and
- Not having declined a suitable job offer.

Disaster Unemployment Assistance (DUA TERRE)

Individuals who lost their jobs because of the earthquakes in southwest Puerto Rico and live or work in any of the 25 municipalities FEMA approved for assistance may be eligible to receive unemployment benefits.

The earthquakes that began December 28, 2019, affected the municipalities of Adjuntas, Arecibo, Cabo Rojo, Ciales, Corozal, Guánica, Guayanilla, Hormigueros, Jayuya, Juana Díaz, Lajas, Lares, Las Marías, Maricao, Mayagüez, Morovis, Orocovis, Peñuelas, Ponce, Sabana Grande, San Germán, San Sebastián, Utuado, Villalba and Yauco.

The Disaster Unemployment Assistance (DUA) program is funded by FEMA, overseen by the U.S. Department of Labor, and managed by the **Puerto Rico Department of Labor and Human Resources (PRDOL)**. DUA is intended for employees or self-employed individuals who lost their jobs as a direct result of a major disaster.

To be eligible for Disaster Unemployment Assistance, individuals must:

- File a regular unemployment insurance claim and be determined ineligible for benefits.
- Be unemployed or partially unemployed as a direct result of the major disaster.
- Be able and available for work, unless injured as a direct result of the disaster.
- File an application for DUA within 30 days of the date of the announcement of the availability of DUA benefits.
- Have not refused an offer of employment in a suitable position.

NOTE 17 - OTHER FEDERAL PROGRAMS (CONTINUED)

DUA TERRE (Continued)

In addition, unemployed individuals, including self-employed, who were living or working in the affected areas at the time of the major disaster, and who are unemployed as a result of this major disaster may be eligible for these funds, if they:

- Have applied for and exhausted all regular unemployment benefits from any state, or do not qualify for unemployment benefits; or
- Can no longer work or perform services because of physical damage or destruction to the place of employment as a direct result of the disaster; or
- Are unable to reach their jobs or self-employed locations because they must travel through the affected area and are prevented from doing so by the disaster; or
- Were to commence employment or self-employment but were impeded to do so by the disaster; or
- Became the breadwinner or major support for their household because of the death of the head of household due to the disaster; or
- Cannot work or perform services in self-employment because of injuries caused as direct results of the disaster.

NOTE 18— SUBSEQUENT EVENT

The **Department** has evaluated events and transactions for potential recognition or disclosures through April 29,2025, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except for those described in the following paragraphs.

On January 20, 2025, USA Government issued executive orders and memoranda changing federal labor policies, including those administered by the U.S. Department of Labor (DOL). Key actions include:

- Federal Hiring Freeze: A memorandum was issued instituting a hiring freeze across federal agencies, including the DOL, with exceptions for certain positions. This freeze limits the DOL's ability to fill vacancies and may impact its operations and service delivery.
- Reinstatement of Schedule F: The President signed an executive order reinstating Schedule F, which reclassifies certain federal positions, including those within the DOL, as excepted service. This change affects employee protection and may influence staffing and organizational structure.
- Termination of DEI Programs: An executive order directed the termination of diversity, equity, and inclusion (DEI) programs within federal agencies, including the DOL. This action may affect ongoing initiatives and programs aimed at promoting workplace diversity and inclusion.
- Rescission of certain Labor Policies: The President issued an executive order rescinding previous executive actions that applied to federal contractors, including those related to minimum wage increases and labor-friendly provisions. This rescission may impact labor policies and practices within federal contracting.

Impact on Unemployment Insurance: The potential dismissal of thousands of federal employees due to the reinstatement of Schedule F and other workforce restructuring initiatives is expected to result in an increase in unemployment insurance claims. This could place additional short-term financial pressure on state-administered unemployment insurance trust funds, particularly if former federal employees become eligible for benefits.

These actions are subject to ongoing legal challenges and may result in further changes to federal labor policies. The DOL continues to monitor developments and assess their potential impact on its operations, staffing, and federally supported labor programs.