COMMONWEALTH OF PUERTO RICO
OFFICE OF LEGISLATIVE SERVICES OF THE LEGISLATIVE ASSEMBLY

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

(WITH THE ADDITIONAL REPORT REQUIRED BY THE GOVERNMENT AUDITING STANDARDS)

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PART I

FINANCIAL

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

INDEPENDENT AUDITOR'S REPORT

To the Director of the
Office of the Legislative Services of the Legislative Assembly
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, and each mayor fund of the **Office of the Legislative Services of the Legislative Assembly of the Commonwealth of Puerto Rico (Office)**, as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the **Office**'s basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the **Office of the Legislative Services of the Legislative Assembly of the Commonwealth of Puerto Rico**, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matters

*The **Office of Legislative Services** – Only Basic Financial Statements*

As discussed in Note 1, the basic financial statements of the **Office** are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Office**'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 **Office**'s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 5-17, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 89-90, and employees' retirement systems information and employees' other postemployment benefits information, on pages 91-93 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to Management's Discussion and Analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2024 on our consideration of the **Office**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office**'s internal control over financial reporting and compliance.

CPA D M, CSP

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

Caguas, Puerto Rico
June 27, 2024

Stamp No. E569573 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.

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The following is a discussion and analysis of the Office of Legislative Services of the Legislative Assembly (Office)'s financial performance, including an overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2023. Readers should consider this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the Office's financial statements, including the notes to the financial statements, which are located after this analysis.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The government-wide financial statements report information about the Office as a whole using the economic resources measurement focus and accrual basis of accounting:

- The Office's net deficit amounted to ($5,714,376) as of June 30, 2023. Such net position (deficit) decreased by $4,227,477 during the fiscal year ended June 30, 2023. This decrease is mostly attributable to additional revenues and a substantial reduction in expenses during the year. This reduction was mostly related to Total Pension Liability and Total Other Postemployment Benefits (OPEB) Liability.
- The total assets of the Office increased by $5,477,350 during the fiscal year ending June 30, 2023. This increase is mainly attributable to an increase in cash available of $5,266,298 at the end of the fiscal year.
- Total Pension Liability decreased by $6,429,937 and Total OPEB Liability by $107,638. The change was mainly due to the confirmation by the U.S. District Court for the District of Puerto Rico on January 18, 2022, that eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustments, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.
- The total liabilities of the Office amounted to $17,714,457 comprised of the accrual required under GASB No. 34 for vacations and sick leave in the amounts of $1,245,531; $158,584 due to creditors and the accrual required under GASB No. 73 for the proportionate share of the "collective" Total Pension Liability in the amount of $10,792,697; GASB No. 75 Total OPEB Liability of $327,980; Unearned Revenues from Federal Award of $4,982,384; and recognized Leases Liability of $41,803, at the close of the fiscal year ended June 30, 2023.
- The Office of Legislative Services has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

Fund Highlights

The fund financial statements provide detailed information about the Office's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of $7,819,985, an increase of $526,360 or 7.22% when comparing with the prior year.
- The General Fund reported an excess of revenues over expenditures and other financing resources of $232,227 and unassigned fund balance of $4.3 million.

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2023, was $175,081 (net of accumulated depreciation and amortization of $1,931,904, and lease liability of $41,803).
- The final budget of the Office for the fiscal year ended June 30, 2023, was $8,165,215. The Office achieved an economy of $777,260 in its management of the general fund and special revenue fund 2022-2023 budget for the fiscal year ended June 30, 2023.

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OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis is a required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Office. The basic financial statements are comprised of the three components: (1) government-wide financial statement, (2) fund financial statements, and (3) notes to the basic financial statements.

Basic Financial Statements

The Office's basic financial statements consist of two kinds of statements, each with a different view of the Office's finances. The Government-Wide Financial Statements provide both long-term and short-term information about the Office's overall financial status. The Fund Financial Statements focus on major aspects of the Office's operations, reporting that operations in more detail than the government-wide statements. The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	GOVERNMENT-WIDE STATEMENTS	FUND FINANCIAL STATEMENTS
		GOVERNMENTAL
SCOPE	Entire entity	The day-to-day operating activities of the Office for basic governmental services
ACCOUNTING BASIS AND MEASUREMENT FOCUS	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
TYPE OF ASSET, LIABILITY, AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES INFORMATION	All assets and liabilities, both financial and capital, short-term and long-term All deferred outflows and deferred inflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included All deferred outflows and deferred inflows of resources
TYPE OF INFLOW AND OUTFLOW INFORMATION	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the year; expenditures when goods or services have been received and payment is during the year or soon thereafter

- ***New Significant Accounting Standards Implemented***

  The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective and have been implemented, when applicable, during the fiscal year ended June 30, 2023:

  - Statement No. 91, *Conduit Debt Obligations*
  - Statement No. 96, *Subscription-Based Information Technology Arrangements*
  - Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
  - Statement No. 99, *Omnibus 2022*

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GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures

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

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

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

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

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.

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Except for the implementation of GASB No. 96, none of the other Statements have significant implications in the financial statements of the Office.

- ***Government-Wide Financial Statements***

The government-wide statements report information about the Office as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position – Presents information on all the Office's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position.

Net Position = (Assets + Deferred Outflows of Resources) –
(Liabilities + Deferred Inflows of Resources)

Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors such as the condition of the Office's infrastructure may need to be considered to assess the overall financial position of the Office.

Statement of Activities – The *Statement of Activities* presents information showing how the Office's net position (deficit) changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected service charges and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various governmental activities. This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

The governmental activities of the Office include general government, and operational purposes. These activities are primarily financed through legislative appropriations (governmental activities).

The government-wide financial statements can be found on pages 18 through 20 of this report.

- ***Fund Financial Statements***

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the Office's most significant funds. Funds are accounting devices that the Office uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Government regulations, as well as by bond covenants.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Office's near-term financing requirements. As required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

continue

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Office's governmental funds reported combined ending fund balances of $7.8 million. Of this amount, the General Fund presents an Unassigned Fund Balance of $4.3 million, that is available balance for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Office maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for two major funds and an aggregate total for all non-major funds. The Office's major governmental funds are the General Fund and Special Fund.

The General Fund is the chief operating fund of the Office. At the end of the current fiscal year, the General Fund balance was $4.3 million.

The governmental fund financial statements can be found on pages 21 through 24 of this report.

- ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the basic financial statements can be found on pages 25 through 87 of this report.

- ***Required Supplementary Information***

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

The *Schedule of Revenues and Expenditures – Budget and Actual* can be found on the pages 89-90 of this report.

- ***Required Supplementary Information – Employees' Retirement System***

The required supplementary information reported are related to the GASB Statement No. 73 and GASB Statement No. 75 for pension liability and OPEB liability reporting, are presented immediately following the notes to the financial statements and can be found on pages 91-93 of this report.

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FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

Government-Wide Financial Statements Analysis

The following Table presents a summary of the Statements of Net Position as of June 30, 2023, and 2022:

Table 1

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Statement of Net Position
As June 30,

	Governmental Activities		Total	
			Dollar Change	Percent Change
	2023	**2022**	**2023**	**2022**
Current Assets	$ 13,126,431	$ 7,536,879	$ 5,589,552	74.16%
Capital Assets	216,884	329,086	(112,202)	-34.10%
Total Assets	13,343,315	7,865,965	5,477,350	69.63%
Deferred Outflows of Resources	2,148,361	3,135,151	(986,790)	-31.48%
Current Liabilities	6,273,757	294,151	5,979,606	2032.84%
Noncurrent Liabilities	11,440,700	18,938,311	(7,497,611)	-39.59%
Total Liabilities	17,714,457	19,232,462	(1,518,005)	-7.89%
Deferred Inflows of Resources	3,491,595	1,710,507	1,781,088	104.13%
Net Position (Deficit)				
Net Investment in Capital Assets	175,081	281,579	(106,498)	-37.82%
Restricted	3,425,605	3,211,505	214,100	6.67%
Unrestricted (Deficit)	(9,315,062)	(13,434,937)	4,119,875	-30.67%
Total Net Position (Deficit)	**$ (5,714,376)**	**$ (9,941,853)**	**$ 4,227,477**	**-42.52%**

Analysis of Net Position

As noted earlier, the net (deficit) position may serve over time as a useful indicator of a government's financial position. The Office's liabilities and deferred inflows exceeded its assets and deferred outflows by ($5.7) million at the close of the most recent fiscal year.

A portion of the Office's net (deficit) position reflects its investment in capital assets (e.g., equipment, computer equipment, improvement to facilities, furniture, vehicles, and intangibles) for $175 thousands [total capital assets less accumulated depreciation and amortization, and lease liability]. The Office uses these assets to provide services to legislative assembly and consequently, these assets are not available for future spending.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position (deficit) is the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

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As of June 30, 2023, the Office presented an unrestricted (deficit) net position of ($9.3) million. This balance was affected by long-term obligations such as compensated absences $1.2 million, $327,980 for Total OPEB and Total Pension Liability of $10.8 million, for which the Office did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay-as-you-go basis without providing funding for their future liquidation. There is a $4.2 million change in positive net position reported in connection with the Office's governmental activities.

Changes in Net Position

The following table summarizes the changes in net position for the years ended June 30, 2023 and 2022:

Table 2

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Changes in Net Position
As June 30,

	Governmental Activities		Total Dollar Change	Total Percent Change
	2023	2022	2023	2022
Revenues:				
Operating Grants and Contributions	$ 203,881	$ -	$ 203,881	100.00%
General Revenues:				
Intergovernmental	8,165,215	6,658,417	1,506,798	22.63%
Interest Revenue	80,045	-	80,045	100.00%
Total Revenues	8,449,141	6,658,417	1,506,798	22.63%
Governmental Activities Expenses:				
General Government – Administrative and Operating	3,874,906	6,675,636	(2,800,730)	-41.95%
Internships	341,280	322,000	19,280	5.99%
Interest	5,478	322,000	(316,522)	-98.30%
Total Expenses	4,221,664	6,997,636	(2,775,972)	-39.67%
Changes in Net Position	**4,227,477**	**(339,219)**	**4,566,696**	-1346.24%
Net Positon (Deficit), Beginning of Year	(9,941,853)	(9,602,634)	(339,219)	3.53%
Net Position (Deficit) – Ending of Year	**$ (5,714,376)**	**$ (9,941,853)**	**$ 4,227,477**	**-42.52%**

Analysis of Changes in Net Position

The Office's net (deficit) position overall decreased by $4.2 million during fiscal year 2022-2023, compared to a ($339,219) increase last fiscal year. A discussion of these changes is presented in the government activities below.

Governmental Activities. The Office's net position (deficit) decreased by $4.2 million in the current fiscal year. For the most part, changes in expenses were related to payroll and related expenses and internships for the year.

continue

Approximately 96.7% of the Office's revenues came from state contributions. The Office's expenses cover a range of services. The largest expenses are general administration with 91.8% of total expenses. Expenses were reduced as compared with 2022.

The Office's major expense is related to salaries, benefits and payroll taxes, which represents 43.0% and 68.0% of total expenses for the fiscal years ended June 30, 2023, and 2022, respectively.

The following Table 3 focuses on the cost of each of the Office's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program–specific intergovernmental aid):

Table 3

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Agency Cost of Programs/Functions
Fiscal Years Ended June 30

	Total Cost of Services		Net Cost of Services	
	2023	**2022**	**2023**	**2022**
Governmental Activities:				
General Government – Administrative and Operating	$ 3,874,906	$ 6,675,636	$ 3,671,025	$ 6,675,636
Internships	341,280	322,000	341,280	322,000
Interest	5,478	-	5,478	-
Total Expenses	**$ 4,221,664**	**$ 6,997,636**	**$ 4,017,783**	**$ 6,997,636**

FINANCIAL ANALYSIS OF THE OFFICE'S FUNDS

Governmental Funds

The focus of the Office's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Office's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent (see Table 4).

Table 4

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Fund Balances
As of June 30,

	FUND BALANCES							
	Nonspendable		Restricted		Unassigned		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Funds:								
General	$ 22,725	$ 34,451	$ -	$ -	$ 4,291,622	$ 4,047,669	$ 4,314,347	$ 4,082,120
Special Funds	-	-	3,425,605	3,211,505	-	-	3,425,605	3,211,505
ARPA Fund	-	-	80,033	-	-	-	80,033	-
Total	**$ 22,725**	**$ 34,451**	**$ 3,505,638**	**$ 3,211,505**	**$ 4,291,622**	**$ 4,047,669**	**$ 7,819,985**	**$ 7,293,625**

continue

As of the end of the fiscal year 2023, the Office's governmental funds reported a combined ending balance of $7,819,985. The general fund is the chief operating fund of the Office. The combined fund balances include non-spendable fund balance amounting to $22,725 as of June 30, 2023. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent in the General Fund or there are no expectations of being converted in cash soon enough to affect the current period. There are restricted fund balances amounting to $3,505,638. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. Accordingly, since there is an excess of non-spendable, restricted fund balances over total fund balances, an unassigned fund balance of $4,291,622 was reported in the governmental funds on June 30, 2023.

The Office's General Fund balance increased by $232,227 or 154.58%, as a result of the current fiscal year's change in financial position. See additional related comment in the following section titled general fund budgetary highlights.

Table 5

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
General Fund
As of June 30,

	2023	2022	Dollar Change	Percent Change
Revenues:				
Appropriation from Commonwealth	$ 6,770,215	$ 5,537,352	$ 1,232,863	22.26%
Total Revenues	6,770,215	5,537,352	1,232,863	22.26%
Expenditures:				
General Government	6,444,531	5,832,613	611,918	10.49%
Capital Outlay	82,275	97,227	(14,952)	-15.38%
Debt Service	33,244	30,658	2,586	8.43%
Total Expenditures	6,560,050	5,960,498	599,552	10.06%
Other Financing Sources (Uses)				
Intangible Right-To-Use Issued	22,062	-	22,062	100.00%
Total Other Financing Sources (Uses)	22,062	-	22,062	
Net Change in Fund Balance	**$ 232,227**	**$ (423,146)**	**$ 655,373**	**-154.88%**

GENERAL FUND BUDGETARY HIGHLIGHTS

The General and Special Revenue Fund's Budget for the fiscal year ended June 30, 2023 was $8,165,215, and the actual expenditures charged to the current budget were $7,387,955. The total expenditure represented 90.5% of the total budget available for the fiscal year. The Office's expenditure rate of 90.5% represents an increase rate when compared to the prior year's performance of 92.0%.

continue

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Office has invested $216,884 (net of accumulated depreciation and amortization) in a broad range of capital assets, including vehicles, equipment and right-to-use equipment. This amount represents a net decrease of $(112,202) or (34.10%) less than the prior year. The Office acquired a total of $94,136 of capital assets during the fiscal year 2022-2023.

Table 6 present the components of capital assets during the fiscal years 2023 and 2022:

Table 6

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Capital Assets, Net
As of June 30,

Description	2023	2022	Dollar Change	Percent Change
Governmental Activities:				
Depreciable Capital Assets (Net):				
Equipment	$ 35,110	$ 99,456	$ (64,346)	-64.70%
Computer Equipment	57,109	81,977	(24,868)	-30.34%
Library	1,199	1,228	(29)	-2.36%
Improvement to Facilities	10,250	-	10,250	100.00%
Furnitures	16,426	68,915	(52,489)	-76.16%
Vehicles	59,829	32,452	27,377	84.36%
Right-To-Use Equipment	36,961	45,058	(8,097)	-17.97%
Total Capital Assets	**$ 216,884**	**$ 329,086**	**$ (112,202)**	**-34.10%**

Additional information on the Office's capital assets can be found in Note 5 to the basic financial statements on pages 40-41 of this report.

LONG-TERM LIABILITIES

At year-end, the Office had $12.4 million in outstanding debt including compensated absences, Total Other Postemployment Benefits Liability, Total Pension Liability for the implementation of GASB No. 73, and leases liability. This amount represents a decrease of $6,581,197, or 34.66% compared to the prior year.

Table 7 present the components of outstanding long-term debts as of June 30, 2023, and 2022:

continue

Table 7

Commonwealth of Puerto Rico
Office of Legislative Services of the Legislative Assembly
Outstanding Long-Term Debt
As of June 30,

	2023	2022	Dollar Change	Percent Change
Governmental Activities:				
Total Pension Liability	$ 9,908,185	$ 17,222,634	$ (7,314,449)	-42%
Total Other Postemployment Benefits Liability	295,880	435,618	(139,738)	-32%
Leases Liability (Intangible Right-To-Use)	41,803	47,507	(5,704)	100%
Compensated Absences	1,245,531	1,283,449	(37,918)	-2.95%
Total	**$ 11,491,399**	**$ 18,989,208**	**$ (7,497,809)**	**-39.48%**

More detailed information about the Office's long-term liabilities is presented in Note 7 of the basic financial statements on page 41 of this report.

DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Deferred Outflows of Resources

Deferred outflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the acquisitions and consumptions of net assets by the government that is applicable to future periods to the Office's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being the Office asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. 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.

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 Office 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 Office's deferred outflows of resources and deferred inflows of resources is presented in Note 6 to the financial statements on page 41 of this report.

continue

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

Also, attention was directed to Note 14 to the basic financial statements on pages 65-76 of this report, related to the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increasing revenues and reduce substantially expenses, including subsidies to the municipalities of Puerto Rico.

The most recent Fiscal Plan was approved in April 2023. More detailed information about PROMESA is presented in Note 14 to the financial statements on pages 65-76 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Development Bank's Economic Activity Index (the "EDB-EAI") reached 129.5 during November 2023, a downturn of 0.2% on a month to month basis. On a year to year basis, the Index advanced by 5.9%. The Index improved by 2.3% during fiscal year 2022 (July – June) and grew by 2.2% for fiscal year 2023. It improved by 5.1% for the July – November period of fiscal year 2024, when compared to the same months from the previous year. Calendar year 2021 closed with an increase of 3.1%. For the calendar year 2022, it increased by 2.9%. Likewise, it reached a 3.3% growth for the first eleven months of 2023 (January – November). All the percentage changes are the result of a year to year comparison.

Employment

The Governor of PR, Pedro Pierluisi Urrutia, signed on February 18, 2022, the Administrative Statement 2021-023, which increased the minimum wage to $10.95 per hour for construction workers of reconstruction projects financed with Federal funds. In addition, it created the Multisectoral Advisory Council of Project Labor Agreements to establish the guidelines and protocols to develop a Project Labor Agreement as a requirement to bid and contract with Federal funds.

Construction workers will receive a wage increase on Puerto Rico reconstruction, or recovery projects paid, in whole or in part, with Federal funds. Specialized workers will be paid $15.00 an hour, while the salary for laborers will be $11.00 an hour. The increase will apply to government construction projects for the reconstruction and recovery of the archipelago after the hurricanes of 2017 and the earthquakes of 2020. The public policy is consistent with U.S. President Joe Biden's administration, which mandated a minimum wage of $15.00 an hour for employees of Federal government contractors. The implementation will begin with a pilot program for the Incorporation of Labor Agreements that will be implemented only in the construction projects of more than $5 million fully or partially paid for with Federal funds allocated to the reconstruction from the Public Assistance program of the Federal Emergency Management Agency (FEMA) under Section 406 of the Stafford Act.

The Office expects limited changes in revenues for the next year. Budgeted expenditure is expected to decrease accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with the PROMESA Act. The Office adopted the 2023-2024 fiscal year budgets on July 1, 2023. The legislative appropriations for the fiscal year ending June 30, 2024, amount to $6,469,000. This represents an increase of $1,696,215 when comparing to 2023.

continue

CONTACTING THE OFFICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Office's finances for those interested. Also, this report serves to demonstrate the Office's accountability for the money it receives from legislative appropriations. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of Legislative Services, Office of Finance, PO Box 9023986, San Juan, PR 00902-3986.

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	GOVERNMENTAL ACTIVITIES
ASSETS:	
Current Assets:	
Cash	$ 13,076,457
Receivables (Net):	
Other	27,249
Office Supplies	22,725
Total Current Assets	**13,126,431**
Non-Current Assets:	
Capital Assets, Net	216,884
TOTAL ASSETS	**13,343,315**
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	2,116,261
Other Postemployment Benefits Related	32,100
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**2,148,361**

continue

		GOVERNMENTAL ACTIVITIES
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$	158,584
Accrued Liabilities		165,478
Unearned Revenues		4,982,384
Leases Liability (Intangible Right-To-Use)		25,697
Compensated Absences		25,002
Other Postemployment Benefit Obligation		32,100
Total Pension Liability		884,512
Total Current Liabilities		**6,273,757**
Non-Current Liabilities:		
Leases Liability (Intangible Right-of-Use)		16,106
Compensated Absences		1,220,529
Total Other Postemployment Benefits Liability		295,880
Total Pension Liabilities		9,908,185
Total Non-Current Liabilities		**11,440,700**
TOTAL LIABILITIES		**17,714,457**
DEFERRED INFLOWS OF RESOURCES:		
Unamortized Investment in Employees' Retirement System		3,491,595
TOTAL DEFERRED INFLOWS OF RESOURCES		**3,491,595**
NET POSITION (DEFICIT):		
Net Investment in Capital Assets		175,081
Restricted for:		
Subsidies and Incentives		3,425,605
Unrestricted (Deficit)		(9,315,062)
TOTAL NET POSITION (DEFICIT)	**$**	**(5,714,376)**

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

		Program Revenues			Net (Expense)
Functions/Programs	**Expenses**	**Charges For Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Revenue and Changes in Net Position**
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Government – Administrative and Operating	$ 3,874,906	$ -	$ 203,881	$ -	$ (3,671,025)
Internships	341,280	-	-	-	(341,280)
Interest	5,478	-	-	-	(5,478)
Total Primary Government	**$ 4,221,664**	**$ -**	**$ 203,881**	**$ -**	**$ (4,017,783)**
	General Revenues:				
	Intergovermental				8,165,215
	Interest Revenue				80,045
	Total General Revenues				8,245,260
	CHANGES IN NET POSITION				**4,227,477**
	Net Position (Deficit), Beginning of Year				(9,941,853)
	NET POSITION (DEFICIT) – ENDING OF YEAR				**$ (5,714,376)**

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

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BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2022

	GENERAL FUND	LEGISLATIVE SERVICE FUND	ARPA FUND	TOTAL FUNDS
ASSETS:				
Cash	$ 4,418,406	$ 3,391,753	$ 5,266,298	$ 13,076,457
Receivables (Net):				
Other	14,832	12,417	-	27,249
Due from Other Funds	184,807	35,624	-	220,431
Inventory Supplies	22,725	-	-	22,725
Total Assets	**$ 4,640,770**	**$ 3,439,794**	**$ 5,266,298**	**$ 13,346,862**
LIABILITIES:				
Accounts Payable	$ 149,158	$ 9,425	$ -	$ 158,583
Due to Other Funds	16,550	-	203,881	220,431
Accrued Liabilities	160,715	4,764	-	165,479
Unearned Revenues	-	-	4,982,384	4,982,384
Total Liabilities	**326,423**	**14,189**	**5,186,265**	**5,526,877**
FUND BALANCES:				
Nonspendable - Inventory	22,725	-	-	22,725
Spendable:				
Restricted	-	3,425,605	80,033	3,505,638
Unassigned	4,291,622	-	-	4,291,622
Total Fund Balances	4,314,347	3,425,605	80,033	7,819,985
Total Liabilities and Fund Balances	**$ 4,640,770**	**$ 3,439,794**	**$ 5,266,298**	**$ 13,346,862**

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

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Total Fund Balances – Government Funds (Page 21)		**$ 7,819,985**
Amount reported for Governmental Activities in the Statement of Net Position (Page 19) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Capital Assets	$ 2,148,788	
Accumulated Depreciation / Amortization	(1,931,904)	
Total Capital Assets		216,884
Deferred Outflows of Resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds.		2,148,361
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(3,491,595)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Total Pension Liability	(10,792,697)	
Total Other Postemployment Benefit Liability	(327,980)	
Leases Liability (Intangible Right-To-Use)	(41,803)	
Accrued Compensated Absences	(1,245,531)	
Total Long-Term Liabilities		(12,408,011)
Total Net Position of Governmental Activities (Page 19)		**$ (5,714,376)**

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

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

	GENERAL FUND	LEGISLATIVE SERVICE FUND	ARPA FUND	TOTAL FUNDS
REVENUES:				
Intergovernmental	$ 6,770,215	$ 1,395,000	$ -	$ 8,165,215
Federal Awards	-	-	203,881	203,881
Interest Revenue	-	-	80,045	80,045
Total Revenues	**6,770,215**	**1,395,000**	**283,926**	**8,449,141**
EXPENDITURES:				
Current:				
General Government – Administrative and Operating Activities	6,444,531	827,759	203,893	7,476,183
Internships	-	341,280	-	341,280
Capital Outlays	82,275	11,861	-	94,136
Debt Service:				
Principal	27,766	-	-	27,766
Interest	5,478	-	-	5,478
Total Expenditures	**6,560,050**	**1,180,900**	**203,893**	**7,944,843**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**210,165**	**214,100**	**80,033**	**504,298**
OTHER FINANCING SOURCES (USES)				
Intangible Right-To-Use Issued	22,062	-	-	22,062
Total Other Financing Sources (Uses)	**22,062**	**-**	**-**	**22,062**
Net Change in Fund Balances	**232,227**	**214,100**	**80,033**	**526,360**
Fund Balances – Beginning	4,082,120	3,211,505	-	7,293,625
FUND BALANCES – ENDING	**$ 4,314,347**	**$ 3,425,605**	**$ 80,033**	**$ 7,819,985**

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

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

Net Change in Fund Balances – Government Funds (Page 23)		**$ 526,360**
Amount reported for Governmental Activities in the Statement of Activities (Page 20) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Depreciation / Amortization Expense	$ (205,095)	
Capital Outlays	94,136	
Excess of Depreciation Expense over Capital Outlays		(110,959)
Governmental Funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset		(1,243)
Proceed of Loan provide currrent financial resources to governmental funds, but issuing debt increase Noncurrent Liabilites in the Statement of Net Position. In the current period, proceeds corresponded to the implementation of GASB Statement No. 87, *Leases*		(22,062)
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Change in Compensated Absences	37,918	
Principal Payments on Leases Liability (Intangible Right-To-Use)	27,766	
Change in Total Other Postemployment Benefits Liability	106,139	
Change in Total Pension Liability and Related Inflows and Outflows	3,663,558	
Total Additional Expenses		3,835,381
Change in Net Position of Governmental Activities (Page 20)		**$ 4,227,477**

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Legislative Services (the "Office") is an integral part of the Commonwealth of Puerto Rico created under the Resolution No. 11 of January 27, 1954, by the Legislature of Puerto Rico. The Office serves all members of the Legislative Assembly of Puerto Rico of all political parties, which request and use their professional services, as well as commissions and legislative bodies.

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

The Office performs a variety of functions, of great importance to the mission undertaken by the Legislative Assembly of Puerto Rico. Among the main functions carried out by this Office are the following: considering and resolving legal questions submitted to it, preparing draft bills and resolutions, as well as, reviewing legislative measures prepared by the legislators, drafting opinions, of legal and constitutional nature for the Legislature and its members concerned with the proposed legislation, conducting research and preparing reports related to legislation and other legislative matters, providing advice to the different various legislative committees and the legislators who seek its services for drafts bills of special or general legislation, expediting the process for searching, obtaining and maintaining current information as to the questions and issues facing the Legislature related to the organization and operation of the Commonwealth; translates draft bills and resolutions, studies and reports of legislative interest and laws approved by the Governor into English and Spanish.

Financial Reporting Entity

The Office is for financial reporting purposes, part of the Commonwealth of Puerto Rico. Because the Office is part, for financial reporting purposes, of the Commonwealth, its financial data is included as part of the Commonwealth of Puerto Rico financial statements.

Effective July 1, 2010, the Office became fiscally autonomous pursuant to the provisions of Act No. 230 of July 23, 1974, as amended on September 11, 2004, known as the "Government of Puerto Rico Accounting Law". The funds of the Office are under the custody of the Secretary of Treasury of Puerto Rico until transferred to the Office. The accompanying financial statements are issued solely and for the information and use of the Secretary of Treasury, the Director of the Office, the Governor, and the citizens of the Commonwealth of Puerto Rico.

Going Concern Evaluation

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

Summary of Significant Accounting Policies

The accompanying basic financial statements of the Office have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standard Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Basis of Presentation and Fund Accounting

The accompanying basic financial statements include the organization units governed by the Office's management. In evaluating the Office as a reporting entity, management has addressed the entire potential component unit. The basic criteria for including a potential component unit within the reporting entity is if potential component unit are financially accountable and other organization for which the nature and significance of their relationship with the entity that exclusion would cause the Office's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the Office's ability to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Office.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components unit are to be included as part of the reporting entity. Our specific evaluation of the criteria applicable to the Office indicates that no organization meets the criteria to be included as component units. Accordingly, these basic financial statements present only the Office as the reporting entity.

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

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

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

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

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

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Office's financial activities.

Government-Wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information on all the activities of the Office. For the most part, the effect of interfund activity has been removed from these financial statements.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

Governmental Funds Financial Statements (GFFS)

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

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Office uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

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

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

General Fund – This fund includes the current financial resources, which relate to the general operations of the Office. These operations consist of the general administration and other activities not accounted for in the Incentive Fund and other non-major funds.

Legislative Service Fund – This major fund accounts for the financial resources related to the Special Assignment by the Commonwealth for the benefit to both Legislative branches, Senate and House of Representative, including internship programs, information systems, subscriptions and memberships on professional organizations.

ARPA Fund – This major fund accounts for the funds received for the American Rescue Plan Act, under the Coronavirus State and Local Fiscal Recovery Funds (CSLRFR).

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial statements of the governmental funds are the following:

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2023.

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

During the course of operations, the Office has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS.

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information* – Schedule of Revenues and Expenditures – Budget and Actual – General and Special Funds *(Unaudited)

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

Required Supplementary Information – Employees Retirement System (Unaudited)

In accordance with Act No. 106-2017, because the plan is unfunded, a change to a "Pay-As-You-Go" basis resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. Also, required supplementary information that include the Schedule of Proportionate Share of the Total Pension Liability has changed to Total Pension Liability for unfunded Plan. Accordingly, the RSI is now in accordance with GASB No. 73.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Required Supplementary Information – Other Postemployment Benefits (OPEB) (Unaudited)

The contribution requirement of ERS Medical Insurance Plan Contribution (MIPC) is established by Act No. 95 approved on June 29, 1963. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 3.10% based on the asset allocation on the Commonwealth's general assets that are used to pay this benefit.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made. Also, required supplementary information that includes the Schedule of Proportionate Share of the Total OPEB Liability has been presented.

Measurement Focus and Basis of Accounting

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Office gives (or receives) value without directly receiving (or giving) equal value in exchange. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

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

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

For the most part, the effect of inter-fund activity has been removed from these statements. The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each of the programs of the governmental activities of the Office.

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

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Program revenues include changes paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues.

The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws for the general revenues of the Office.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Office considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Office earns by incurring obligations are recognized in the same period as when the obligations are recognized. On June 30, 2023, all revenues sources met this availability criterion.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on notes payable are recorded when they mature (when payment is due). Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

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

Stewardship, Compliance, and Accountability

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

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

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

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Budgetary Control

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

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received. The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. The legal of budgetary control at the Office are for general and special funds expenditures.

Risk Financing

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

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

The Office is authorized to deposit only in financial institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Office.

Inter-Fund Balances

Activities between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds/ (i.e. the current portion of inter-fund loans). Eliminations are made in the government-wide financial statements of the amounts reported as inter-fund receivables and payables.

Cash and Cash Equivalents

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

Inventories

All inventories are valued at cost using the first-on/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories consist primarily of supplies held for consumption for the Office and are recorded in both government-wide and fund financial statements.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected on June 30, 2023. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly service charges corresponding to June revenues collected during July and August 2023. Intergovernmental receivables in the other governmental funds represent amounts owed to the Office for reimbursement of expenditures incurred pursuant to state appropriations.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

Capital Assets

Capital assets, which include equipment, computer and software, library, furniture, and vehicles, are reported in the applicable governmental activities' columns in the GWFS. Capital assets are defined by the Office as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of three years.

As the Office constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Office values these capital assets at the acquisition value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GWFS to the extent the Office capitalization threshold is met. Depreciation and amortization expense are recorded only in the GWFS. The capital assets are depreciated using the straight-line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Equipment	5
Computer Equipment	5
Library	3
Improvement to Facilities	6
Furniture	5
Vehicles	5
Right-To-Use Equipment	5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset.

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

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Deferred Outflows/Inflows of Resources

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

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

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

Based on this concept, the Office reports the deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 73. Note 6 presents additional information about the composition of these items.

The Office has items, which arise under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items related to the pension system are reported in the government-wide *Statement of Net Position*, and *unavailable revenue* is reported only in the governmental funds *Balance Sheet*. The governmental funds don't report *unavailable revenues*. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Long-Term Obligations

The liabilities reported in the GWFS include other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties).

In the GFFS, expenditures for principal and interest payments, if any, for governmental fund general and special fund are recognized in the corresponding fund when due.

Compensated Absences

Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, *Compensated Absences*. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2023 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Office and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

The employees of the Office do not apply by the Act. No. 26 of April 29, 2017 (Act No. 26-2017), the employees of the Office are granted thirty (30) days of vacation and eighteen (18) days of sick leave annually. The employee has the right to accumulate an excess of vacation up to sixty (60) days and sick leave up to ninety (90) days, until December 31st of each year. Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the *Statement of Net Position*.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate up to the maximum of sixty (60) days. When the reason for the separation is to qualify for the retirement for years of services or disability, a deferred pension or after having worked for at least ten (10) years of services without being a participant in a retirement system sponsored by the government you will also be entitled to pay of the lump sum of sick leave accumulated and not use up to maximum of ninety (90) days. However, if the employee worked ten years in the services within which some years, he has port of some retirement system sponsored by the government and the other were not involved, he will not be entitled to the payment of the mentioned license, except if he withdraws the contributions made to the retirement systems, which would make him a non-participant with 10 years or service.

Use of Estimates

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

Federal Awards

Contributions received from Federal grants are credited to operating revenues under the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) in the accounting period in which they are earned and become measurable.

Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, if any, which will require future available financial resources for its payment.

Fair Value

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

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

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

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

This Statement also established a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. The three levels of the fair value hierarchy are described as follows:

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

***Level 2* –** Inputs to the valuation methodology whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuation in which all significant inputs are observable.

***Level 3* –** Inputs to the valuation methodology are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

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

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

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

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

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

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

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

Leases

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

Accounting for Pension Costs

As further disclosed in Note 9, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

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

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not become ERS members.
- Effective July 1, 2017, current ERS members will no longer make any contributions to ERS. Prospectively, active members will participate in a separate defined contribution plan.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

- Act No. 32-2013 Additional Uniform Contribution.

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

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

Other Postemployment Benefits

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

In addition to the pension benefits described in Note 9, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and Municipalities funds (see Note 10).

Net Position/Fund Balance

A) Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For Governmental Activities, net investment in capital assets is comprised only of Capital Assets, Net of Accumulated Depreciation / Amortization and related Lease Liability.

continue

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Restricted Net Position* – These results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of net position which do not meet the definition of the two preceding categories. An unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

Net Position Flow Assumption

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

B) Fund Balance

Beginning with fiscal year 2011, the Office implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

- Restricted – amounts constrained to specific purposes by their providers (such as grantors), through constitutional provisions, or by enabling legislations.

- Committed – amounts constrained to specific purposes by the Office itself, using its highest level of decision-making authority (such as legislation). To be reported as committed, amounts cannot be used for any other purpose unless the Office takes the same highest-level action to remove or change the constraint.

- Assigned – amounts the Office intends to use for a specific purpose. Intent can be expressed by the Office or by an official or body to which the Office delegates authority.

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

continue

NOTE 2 – CASH AND CASH EQUIVALENTS – continuation

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

The Office follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Office on June 30, 2023:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. On June 30, 2023, the Office invested only in cash equivalents of $7.5 million consisting of interest-bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Office in commercial banks must be fully collateralized for the amounts deposited more than the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2023. Therefore, the Office's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Office's deposits is considered low on June 30, 2023.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Office will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by FAFAA, the Office may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by FAFAA. On June 30, 2023, the Office has balances deposited in commercial banks amounting to $7,465,923 are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Therefore, the Office's management has concluded that on June 30, 2023, the custodial credit risk associated with the Office's cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. the Office manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio on June 30, 2023, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks' deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, on June 30, 2023, the interest risk associated with the Office's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Office, the Office is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Office's deposits is considered low on June 30, 2023.

continue

NOTE 3 – INVENTORY

Inventories in the Governmental Fund Financial Statements have been recorded using the consumption method and are stated at the lower of cost (first-in, first out method) or market. Inventories consist primarily of supplies held for consumption for the Office.

The Office uses the purchase method of accounting where purchases of inventories are recognized as expenditures when the goods are received, and the transaction is vouched. Generally accepted accounting principles allow the purchase method to account for inventories but concludes that when the inventory amount is significant, the amount must be reported in the Commonwealth's fund balance sheet. An estimated value for inventories is reported as both an asset and a fund balance reserve in the General Fund.

Description	Location	Valuation
Office Supplies	OSL Office	$ 22,725

NOTE 4 – UNEARNED REVENUES

Government-wide Statement of Net Position and Governmental Funds Balance Sheet reports unearned revenues for resources received before it has a legal claim to them; in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period related to the CSLFRF funds.

NOTE 5 – CAPITAL ASSETS

As of June 30, 2023, the net capital assets are compound of the following:

Description	Balance at June 30, 2022 Reported	Additions	Retirements	June 30, 2023
Capital Assets:				
Equipment	$ 425,621	$ 9,516	$ (30,161)	$ 404,976
Computer Equipment	1,045,354	9,984	(182,111)	873,227
Library	25,179	-	-	25,179
Improvement to Facilities	92,475	12,300	-	104,775
Furniture	490,163	-	(16,398)	473,765
Vehicles	133,725	40,274	-	173,999
Right-To-Use Equipment	70,805	22,062	-	92,867
Total Depreciable Capital Assets	**2,283,322**	**94,136**	**(228,670)**	**2,148,788**
Less: Accumulated Depreciation				
Equipment	(326,165)	(73,862)	30,161	(369,866)
Computer Equipment	(963,377)	(33,697)	180,956	(816,118)
Library	(23,951)	(29)	-	(23,980)
Improvement to Facilities	(92,475)	(2,050)	-	(94,525)
Furniture	(421,248)	(52,401)	16,310	(457,339)
Vehicles	(101,273)	(12,897)	-	(114,170)
Less: Accumulated Amortization for Leased				
Right-To-Use Equipment	(25,747)	(30,159)	-	(55,906)
Total Accumulated Depreciation/Amortization	**(1,954,236)**	**(205,095)**	**227,427**	**(1,931,904)**
CAPITAL ASSETS, NET	**$ 329,086**	**$ (110,959)**	**$ (1,243)**	**$ 216,884**

continue

NOTE 5 – CAPITAL ASSETS – continuation

Depreciation/amortization expenses of Governmental Activities were charged to general governmental function for the fiscal year ended June 30, 2023.

NOTE 6 – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Office recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Office that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Office has items that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows/inflows from changes in the Total Pension Liability (Note 9).

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

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

Government-Wide:	**Governmental Activities**
Deferred Outflows of Resources	
Pension Related	$ 2,116,261
OPEB Related	32,100
Total Deferred Outflows of Resources	$ 2,148,361
Deferred Inflows of Resources	
Pension Related	$ 3,491,595

NOTE 7 – LONG-TERM OBLIGATIONS

The liabilities reported as June 30, 2023 in the government-wide financial statements was as follows:

	Balance at June 30, 2022	**Increase**	**Decrease**	**Balance at June 30, 2023**	**Due within One (1) Year**	**Due after One (1) Year**
Compensated Absences	$ 1,283,449	$ 648,265	$ (686,183)	$ 1,245,531	$ 25,002	$ 1,220,529
Leases Liability (Intangible Right-To-Use)	47,507	22,062	(27,766)	41,803	25,697	16,106
Total Other Postemployment Benefits Liability	435,618	-	(107,638)	327,980	32,100	295,880
Total Pension Liability	17,222,634	-	(6,429,937)	10,792,697	884,512	9,908,185
TOTAL	$ 18,989,208	$ 670,327	$ (7,251,524)	$ 12,408,011	$ 967,311	$11,440,700

continue

NOTE 8 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico. Intergovernmental revenues are accounted for through the General Fund because they are not restricted to specific purposes. For the Legislative Service Fund intergovernmental revenues are for specific purposes as established by the Legislative Assembly.

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN

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

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

SIGNIFICANT CHANGES

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

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

Participant Data

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

Change in Assumptions since Prior Valuation

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

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

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

(1) Summary of Plan Provisions

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

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

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

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

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

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

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

1. Type of Plan

   The System is a contributory, hybrid defined benefit plan.

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

2. Effective Date

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

3. Eligibility for Membership

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

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

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

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

4. Definitions

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

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

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

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

6. Retirement Benefits

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013, would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, and (4), for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013, would be eligible to retire at any time.

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

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

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

5) *Eligibility for Public Officers in High Risk Positions*: Public Officers in High Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-ear extensions (delaying retirement until age 62) may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable. Public Officers in High Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.

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

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

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

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of Average Compensation if the member was under age 55 as of June 30, 2013, or 60% of Average Compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of Average Compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of Credited Service.

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of Average Compensation multiplied by years of Credited Service up to 20 years, plus 2% of Average Compensation multiplied by years of Credited Service in excess of 20 years. The maximum benefit is 75% of the Average Compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of Average Compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years, plus 2.0% of average Compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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

8) *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 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

   If the Act No. 1-1990 Commonwealth Police or Firefighter had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of Average Compensation if the member was under age 55 as of June 30, 2013, or 75% of Average Compensation if the member was at least age 55 as of June 30, 2013.

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

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

7. Termination Benefits

   a. *Lump Sum Withdrawal*

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

b. *Deferred Retirement*

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

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

8. Death Benefits

a. *Pre-retirement Death Benefit*

Eligibility: Any current non-retired member is eligible.

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

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

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

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

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

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

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

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

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

9. Disability Benefits

a. *Disability*

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

10. Minimum Benefits

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

b. *Minimum Benefit for Members who Retired before July 1, 2013*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013)

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

11. Cost-of-Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007, and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004, less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007).Future COLAs were eliminated effective March 15, 2022. (Various Acts)

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

13. Special "Bonus" Benefits:

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

    b. *Medication Bonus:* An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. (Act No. 155-2003, as Amended by Act No. 3-2013)

(2) Allocation Methodology

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

(3) Total Pension Liabilities and Actuarial Information

The Total Pension Liability of the System was approximately $24.9 billion as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

(a) Actuarial Methods and Assumptions

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

Discount Rate

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

Mortality

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

– *Pre-retirement Mortality*

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

– *Post-retirement Retiree Mortality*

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

– *Post-retirement Disabled Mortality*

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

– *Post-retirement Beneficiary Mortality*

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

(b) Total Pension Liability

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

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

Proportion - June 30, 2022	0.06336%
Proportion - June 30, 2023	0.04872%
Change - Increase (Decrease)	-0.01464%

As of June 30, 2023, the Office reported $10,792,697 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

Total Pension Liability	June 30, 2023	
	Total	Proportionate Share (0.04872%)
Total Pension Liability - Central Government	$ 22,152,465,178	$ 10,792,697

(c) *Pension Expense*

For the fiscal year ended June 30, 2023, in accordance with the approved budget from the FOMB, a Pay-Go charge for all components of the Legislative Assembly of the Commonwealth of $8,801,000 was assigned. The Office does not make payments to the ERS.

(d) *Deferred Outflows/Inflow of Resources*

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 135,395	$ 228,843
Changes in assumptions	871,092	849,052
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	225,263	2,413,700
Employer pension payments made subsequent to the measurement date	884,511	-
Total	$ 2,116,261	$ 3,491,595

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

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

Year Ended June 30,	Amount
2024	$ (1,374,378)
2025	(957)
Total	$ (1,375,334)

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation, (see Note 1). The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

The discount rate on June 30, 2022 and 2023, was as follow:

	June 30, 2022	June 30, 2023
Discount Rate	2.16%	3.54%
20 Year Tax-Exempt Municipal Bond Yield	2.16%	3.54%

Changes in Total Pension Liability

Changes in Total Pension Liability	June 30, 2023	
	Total	Proportionate Share (0.04872%)
Balance as of June 30, 2022	**$ 27,362,986,245**	**$ 13,331,267**
Changes for the year:		
Service Cost	84,848,901	41,338
Interest on Total Pension Liability	578,474,825	281,833
Effect of Plan Changes	(1,796,694,626)	(875,351)
Effect of Economic/demographic Gains or Losses	416,990,398	203,158
Effect of Assumptions Changes or Inputs	(3,153,793,293)	(1,536,530)
Benefits Payments	(1,340,347,272)	(653,018)
Balance as of June 30, 2023	**$ 22,152,465,178**	**$ 10,792,697**

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

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

	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Total Pension Liability	$ 12,077,364	$ 10,792,697	$ 9,724,768

"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.

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

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

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

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

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

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

continue

NOTE 9 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 10 the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

(1) Plan Description

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

Healthcare Benefits

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as Amended by Act NO. 3-2013).

Christmas Bonus Benefits

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

Medication Bonus

The Plan covers an annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act No. 155, as Amended by Act NO. 3-2013).

(2) Allocation Methodology

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

continue

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

(3) Total OPEB Liabilities and Actuarial Information

The Total OPEB Liability was approximately $802.7 million as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

(a) Actuarial Methods and Assumptions

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

Discount Rate

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

Mortality

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

– *Post-retirement Mortality*

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

– *Post-retirement Disabled Mortality*

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

– *Post-retirement Beneficiary Mortality*

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

continue

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2021. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2022. This is the date on which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year date. This report is for measurement year July 1, 2021, to June 30, 2022, for reporting period ending June 30, 2023.

Significant Changes

There have been no significant changes between the valuation date and measurement year end.

Total OPEB Liability

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

Total OPEB Liability	June 30, 2023	
	Total	Proportionate Share (0.04715%)
Total OPEB Liability - Central Government	$ 695,603,332	$ 327,980

The Office's proportionate share of the Total Pension Liability used was as follows:

Proportion - June 30, 2022	0.05458%
Proportion - June 30, 2023	0.04715%
Change - Increase (Decrease)	-0.00743%

Discount Rate

The discount rate on June 30, 2022 and 2023, was as follow:

	June 30, 2022	June 30, 2023
Discount Rate	2.16%	3.54%
20-Year Tax-Exempt Municipal Bond Yield	2.16%	3.54%

As of June 30, 2023, the PRGERS have provided the Office with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 (Office's measurement date), necessary to comply with the requirements of GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as of June 30, 2022. As a result, amounts reported as Total OPEB Liability, applicable disclosures and required supplementary information were presented with unaudited data.

continue

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Changes in OPEB Pension Liability	June 30, 2023	
	Total	Proportionate Share (0.04715%)
Balance as of June 30, 2022 - Central Government	**$ 802,832,928**	**$ 378,539**
Changes for the year:		
Service Cost	-	-
Interest on Total Pension Liability	16,632,991	7,843
Effect of Plan Changes	-	-
Effect of Economic/demographic Gains or Losses	28,759,604	13,560
Effect of Assumptions Changes or Inputs	(86,695,889)	(40,877)
Benefits Payments	(65,926,303)	(31,084)
Balance as of June 30, 2023 - Central Government	**$ 695,603,332**	**$ 327,980**

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows as any changes due to changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year and only $32,100 of outflows for subsequent payment to the measurement date.

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

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

	1% Decrease	Current Discount Rate	1% Increase
	2.54%	3.54%	4.54%
Total OPEB Liability	$ 356,991	$ 327,980	$ 303,039

NOTE 11 – CONTINGENCIES

Litigation

According to the laws of the Commonwealth of Puerto Rico, the Office is fully represented by the Puerto Rico Department of Justice in defense of all legal cases. Any claims with negative financial impact would be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the Office.

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continue

NOTE 12 – LEASES

Leases Accounting Policies

The Office determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of an intangible right-to-use assets and lease liabilities on the Statement of Net Position. Right-to-use assets represent the use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Office determines lease classification as operating or finance at the lease commencement date. Finance leases, if applicable, are included in capital assets, other current liabilities and other long-term liabilities in our Statement of Net Position.

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

The lease term is the noncancelable period per the contract. Additionally, the lease term may include options to extend or to terminate the lease that the Office is reasonably certain to exercise.

Lease Assets – Lessee

The Office has recorded intangible right-to-use lease assets as a result of implementing GASB No. 87. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability [plus any lease payments made prior to the lease term and ancillary charges necessary to place the lease into service, less lease incentives], if any. Lease assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term.

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

Right-To-Use Equipment	$ 92,867
Amortization - Right-To-Use Equipment	(55,906)
Total Right-To-Use Equipment Less Accumulated Amortization	$ 36,961

Lease Liability – Lessee

The Office has entered into agreements to lease equipment. The lease agreements haves been recorded at the present value of the future lease payments as of the date of their inception or, for leases existing prior to the implementation fiscal year at the remaining terms of the agreement, using the facts and circumstances available on July 1, 2022.

An agreement was in effect on July 1, 2021, to lease equipment through March 2024, requiring 21 monthly payments of $2,555. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of 13.60%. On January 1, 2023, another contract to lease equipment through January 2028, requiring 60 monthly payments of $431. The lease liability is measured at the applicable Incremental Borrowing Rate (IBR) of 6.67%. The IBR is the contract borrowing rates. As a result of the lease, the Office has a lease asset with a net book value of $36,961, and a lease liability of $41,803 on June 30, 2023.

continue

NOTE 12 – LEASES – continuation

Long-Term Liability Roll-Forward Schedule:

	Balance at June 30, 2021	Increase	Decrease	Balance at June 30, 2022	Due within One (1) Year	Due after One (1) Year
Leases Liability (Intangible Right-To-Use)	$ 47,507	$ 22,062	$ (27,766)	$ 41,803	$ 25,697	$ 16,106

The future minimum payments on this lease as of June 30, 2023, were as follows:

Fiscal Year Ending June 30,	Principal Payments	Interest Payments	Total
2024	$ 25,697	$ 2,470	$ 28,167
2025	4,226	947	5,173
2026	4,516	656	5,172
2027	4,827	345	5,172
2028	2,537	50	2,587
Total	$ 41,803	$ 4,468	$ 46,271

NOTE 13 – COMPONENTS OF FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1 for a description of these categories). A detailed schedule of fund balances on June 30, 2023 is as follows:

	GENERAL FUND	LEGISLATIVE SERVICE FUND	ARPA FUND	TOTAL FUNDS
Nonspendable:	**$ 22,725**	**$ -**	**$ -**	**$ 22,725**
Restricted For:				
General Goverment and Interships	-	3,425,605	-	3,425,605
ARPA projects	-	-	80,033	80,033
Total Restricted	**-**	**3,425,605**	**-**	**3,425,605**
Committed To:				
Total Committed	**-**	**-**	**-**	-
Assigned To:				
Total Assigned	**-**	**-**	**-**	-
Unassigned	**4,291,622**	**-**	**-**	**4,291,622**
Total Fund Balances	**$ 4,314,347**	**$ 3,425,605**	**$ -**	**$ 7,739,952**

The Office establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Office through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

continue

NOTE 13 – COMPONENTS OF FUND BALANCES – continuation

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

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

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

Background

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

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

Most of Puerto Rico's unaffordable debt has been dramatically reduced. The restructuring of the central government debt saved Puerto Rico more than $50 billion in debt payments to creditors. The restructurings of the Puerto Rico Sales Tax Financing Corporation (COFINA) saved about $17.5 billion, the Highways and Transportation Authority (HTA) about $3 billion, and the Puerto Rico Aqueducts and Sewers Authority (PRASA) about $400 million. The savings of more than $70 billion reduced the debt burden on the people of the Island by approximately $24,000 per person in Puerto Rico. This provided critical relief and will allow the government to manage its future finances with more certainty.

Restructuring the debt, however, was only half of PROMESA's mandate. The debt restructuring of the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Industrial Company (PRIDCO) is pending. In order to fulfill the mandate of PROMESA, fiscal responsibility still needs to be secured over the long term. Necessary improvements to systems and procedures are underway. However, appropriate spending discipline to preserve and institutionalize the recent success and prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in bankruptcy has not been achieved. Strong financial management is critical to long-term fiscal stability and will be required to restore access to the capital markets at reasonable rates.

PROMESA

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

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

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

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

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

Conditions for Termination of the Oversight Board

The Oversight Board and the Government can more frequently communicate with the public and the markets about the financial performance of the Commonwealth. Since its establishment, the Oversight Board typically updates the fiscal plan annually, with a handful of exceptions. This annual update includes an updated revenue and expenditure forecast, with in-year public updates provided of actual performance relative to budget for TSA revenues and agencies. Moving forward, the Oversight Board will work with the Government to move toward periodic updates to forecasts, in addition to updates on actuals vs budget (e.g., quarterly).

This will allow the Oversight Board and Government to communicate transparently about changes to the outlook and get ahead of potential changes needed as conditions evolve. Note that in evaluating potential changes on a more frequent basis, the Oversight Board and Government may decide that no update is warranted (e.g., if the outlook is uncertain, or if the changes are not material).

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

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA were designed to ensure that Puerto Rico’s financial outlook is stabilized, and better financial management processes are institutionalized before the Board’s oversight can be terminated. Now that the Commonwealth debt restructuring is completed and restructured debt service is included in Annual Budgets, in the coming months, the Oversight Board intends to provide more guidance on the performance standards and metrics by which the Section 209 requirements will be measured. In any case, while the Oversight Board must certify that these requirements have been satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet Section 209 termination requirements.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

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

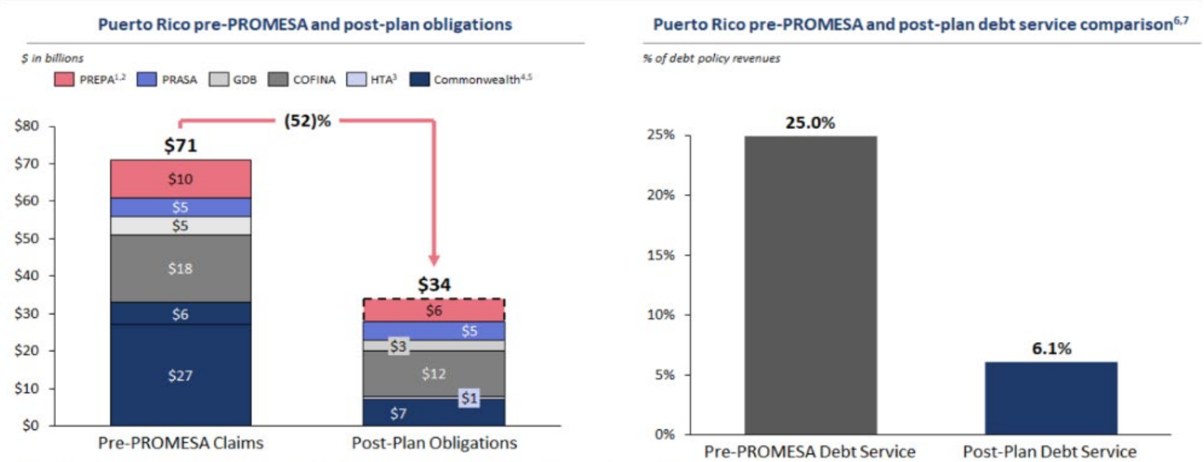
1) *the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
2) *for at least 4 consecutive fiscal years--*
   A. *the territorial government has developed its Budgets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

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

Sustainable Debt Restructuring

The Commonwealth's debt has been drastically reduced and made more affordable. Prior to the enactment of PROMESA, the Government accumulated a debt burden of $71 billion, roughly $24,000 per resident of Puerto Rico. Through the concerted efforts of the Oversight Board and the Government described below, the debt is on course to be reduced to $34 billion, as shown in Exhibit 1.

EXHIBIT 1: EVOLUTION OF PUERTO RICO'S OBLIGATIONS PRE- AND POST-PROMESA[1]



1) Pre-PROMESA Claims include ~$9 billion of bonded debt and ~$1 million est. GUCs pool per PREPA Title III Amended Disclosure Statement filed on March 3, 2023
2) Post-Plan Obligations of ~$6 billion represents total Series A and Series B Bonds per proposed terms in the pending PREPA Title III Plan of Adjustment filed on December 16, 2022.
3) Post-Plan Obligations of ~$1 billion settles ~$6 billion of CW related claims under the HTA Plan of Adjustment and supported by HTA toll revenues
4) Pre-PROMESA Claims include GO/PBA of ~$19 billion, est. GUCs of ~$3 billion, and ERS of ~$3 billion, as well as ~$2 billion PRIFA and ~$450 million CCDA and MBA (other-clawback entities)
5) Post-Plan Obligations Includes General Obligation claims,; but excludes CVI Claims
6) Pre-PROMESA Debt Service from 2022 Certified Fiscal Plan and Moody's Investor Service "State Government – U.S. Medians," 2020. (Moody's 2015 number was adjusted to exclude HTA debt service).
7) Post-Plan Debt Service represents FY23 Commonwealth debt service, including COFINA, as a percent of own-source revenues.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Debt Management Policy: The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. This Policy is adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires AAFAF adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below. The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the Commonwealth may issue in the future that is supported by its taxes. The 2023 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

Debt Management Policy Concepts:

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues (at the time of the Commonwealth's Title III exit the ratio was about 6.5%)
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings

Restoration of market access at reasonable rates: The Oversight Board will use specific performance standards and consult with independent third-party specialists to determine whether Puerto Rico has achieved market access at reasonable rates. The Commonwealth and its Instrumentalities will have to demonstrate they have achieved and sustained specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards.

For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines. Furthermore, the Commonwealth and Instrumentalities will have to adopt and institutionalize the financial practices and fiscal management reforms outlined elsewhere in this Fiscal Plan that are consistent with market standards and investor requirements. The government will also need to demonstrate its ability to comply with the regulatory requirements and securities laws for the issuance of municipal securities. This includes the ability to enter into a standard Continuing Disclosure Agreement (CDA) with dealers and obtain standard market legal and audit opinions.

To lay the groundwork to achieve market access, the Government recently met with credit agencies. It is likely credit rating agencies will look beyond the Section 209 provisions in assessing Puerto Rico's credit worthiness. The rating agencies maintain detailed models to assess the riskiness of public sector debts. In addition to its standard metrics, the rating agencies have also historically required sustained periods of fiscal reform and recovery before assigning new credit ratings for previously bankrupt issuers. The government will need to demonstrate its ability to meet the criteria necessary to achieve credit ratings. The Oversight Board continues to work with the Government so it can eventually meet the requirements to gain access to, and the trust of, the credit markets.

In evaluating whether Puerto Rico has achieved reasonable rates, the Oversight Board will look to see whether new or restructured outstanding debt is actively trading in the municipal market at reasonable levels relative to market indices and will look for evidence investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The Oversight Board will rely on the expert opinion of independent third-party entities with municipal market experience for compliance with this requirement.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Financial Management Agenda

The 12 required initiatives to support the Financial Management Agenda, described in Exhibit 1, are grouped into three categories: Foundational, Central, and Supporting:

EXHIBIT 1: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

Financial Management Agenda initiatives

Foundational initiatives – lay the foundation for sound, sustained financial management	**Office of the Chief Financial Officer**	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	A Civil Service Reform (CSR)	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
Central initiatives – essential for meeting the conditions for terminating the Oversight Board	**Timely Audited Financial Statements**	Fulfill a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	Debt Management Policy	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	Budgeting Best Practices	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	Federal Funds Management	
Supporting initiatives – support other aspects of financial management improvement	**Automated time and attendance**	Will ensure that only active employees who are working get paid
	Cash & bank account monitoring	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	Procurement best practices	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	Non-partisan legislative scoring	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	Real estate best practices	Will ensure that all Gov.-owned property is accounted for, properly maintained, and delivers the maximum value to the people of PR
	Real property registry	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

Implementation of the Agenda

While the Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers promised results, implementation must be strengthened. Key steps the Government must take to achieve a successful implementation include:

- A Governor's Management Council (GMC) consists of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda's implementation. Importantly, the GMC will provide a way for leadership across agencies to support Government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together. This initiative has been kicked off by the OCFO but is still a work in progress.
- Alternatively, expanding the role of the existing Enterprise Resource Management (ERP) Steering Committee, which may include monitoring implementation of the Agenda. The Steering Committee, led by Hacienda, includes representatives from all agencies who are responsible for Agenda initiatives.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- To provide Puerto Rico with the best chance for success and make the most of limited resources, the Governor must direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities. These agencies can serve as centers of excellence to implement and maintain modern financial management standards across more than 100 units of government.

Key steps the Government has already undertaken to further the implementation of the Agenda are:

- Executing the ERP Solution contract and a service agreement with an ERP implementor. The ERP Implementation began in November 2022. The Oversight Board anticipates continued collaboration as implementation begins.
- Creating detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Enacting Act 1-2023 for the creation of the Budget Office of the Legislative Assembly (OPAL for its Spanish acronym).
- Issuing the FY2019 and FY2020 audited financial statements.
- Establishing a comprehensive debt management policy approved by the Oversight Board.

The 2023 Fiscal Plan requires that the OCFO complete the required implementation items in Exhibit 3.

EXHIBIT 3: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	**Create an Executive Project Steering Committee,** chaired by the CFO and composed by other executive level officials to oversee the implementation.	OCFO	May 2021 *Completed*
	Designate project management team (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	OCFO	June 2021 *Completed*[1]
To be completed in FY 23	**Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	OCFO	November 2022 *Completed*
	Select ERP solution and implementer.	OCFO	December 2022 *Completed*
	Review and change accounting system cycles, perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	OCFO	June 2023 *Revised deadline*
To be completed in FY 24	**Complete Annual Financial (ACFR) track**	OCFO	October 2023 *New milestone*
	Reassess the full project timeline and fees based on the results achieved in Wave 1. Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	OCFO	December 2023 *Revised deadline*
To be completed in FY 25	**Complete finance, budget, and sourcing track for all central Government agencies**	OCFO	July 2024 *New milestone*
	Complete human capital management track for all central Government agencies	OCFO	July 2024 *New milestone*
	Complete ERP Wave 1 implementation for the internal ERP system at Hacienda.	OCFO	September 2024 *Revised deadline*

1. Milestone budget incentive was released on November 4, 2021, upon completion

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Timely Audited Financial Statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must return to the timely publication of audited financial statements and related information—key steps to regain access to credit markets, as required by PROMESA for the termination of the Oversight Board. Best practice calls for audited statements to be published no later than 180 days (six months) after the end of each fiscal year.

The 2023 Fiscal Plan requires the following implementation activities:

- Audited financial statements will be issued no later than 180 days (six months) after the end of the fiscal year, consistent with financial reporting preferred best practices according to the Government Finance Officers Association (GFOA). To ensure this schedule is met, the Government will direct that:

    - Component units audited financial statements are issued three months after the close of the fiscal year.
    - Reporting formats and distribution are standardized.
    - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.

- Financial information will be consistently monitored and updated. Agencies and component units will:

    - Follow the policies and procedures that define a 'record to report' cycle, such as:

        - Preparing monthly, quarterly, and annual accounting closings and financial statements
        - Performing recurring monthly cash reconciliations to close accounting period

    - Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
    - Personnel will be provided with job-specific training.
    - The financial reporting module of the ERP system under development will be utilized to support the Government in performing these tasks. Specifically, the financial reporting module of the ERP system will (i) allow for more timely reporting of actuarial reports, (ii) create an ability to close financial records in a timely manner, and (iii) complete the necessary steps for the timely submission of the annual comprehensive financial report.

Progress to date

The most recent ACFRs, for fiscal years 2019 and for 2020, were published in April 2022 and September 2022, 34 and 27 months after the close of the respective fiscal years. Although these were not finalized within the six-month period, the Government is making progress in reducing the backlog of past ACFRs.

Multi-year contracts have been established to audit the Basic Financial Statements and component units, which should allow a more coordinated and efficient audit process. As noted, the ERP system cloud provider and implementation partner firm have been selected.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 5: TIMELY AUDITED FINANCIAL STATEMENTS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	▪ **Issue FY19 audited financial statement.**	▪ OCFO	▪ April 2022 *Completed*
	▪ **Issue FY20 audited financial statement.**	▪ OCFO	▪ September 2022 *Completed*
To be completed in FY 23	▪ **Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	▪ OCFO	▪ Completed
	▪ **Establish a multi-year contract with prequalified contractors** for ACFR and Component Units.	▪ OCFO	▪ Completed
	▪ **Issue FY21 audited financial statement.**	▪ OCFO	▪ March 2023 *Revised deadline*
	▪ **Perform closing financial records** on a monthly, interim, and annual basis for agencies and Component Units.	▪ OCFO	▪ December 2023 *On-Track*
	▪ **Publish a management letter for each audit** that includes management's comments and corrective actions for auditor-identified control deficiencies.	▪ OCFO	▪ Ongoing
	▪ **Issue FY22 audited financial statement.**	▪ OCFO	▪ September 2023 *Revised deadline*
To be completed in FY 24	▪ **Develop policies and procedures** that define and support a "record-to-report" cycle.	▪ OCFO	▪ December 2023 *Revised deadline*

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

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

PROMESA's conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that expenditures do not exceed revenues for four consecutive fiscal years. Meeting these conditions will require adopting and implementing best practices for budget development and monitoring, revenue forecasting, and accounting. The 2023 Fiscal Plan requires the following implementation activities:

- The OCFO will establish a revenue committee that reviews budget-to-actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented with economic forecasts provided by the Government and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for budget development and appropriations processes.
- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments, as necessary. The proposed legislation will include language to ensure that a revenue source is identified before any spending bill is enacted.
- With the implementation of the ERP system, the OCFO will present the results of the revenue and expense budget-to-actuals variance report each quarter, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecast revenues.
- The OCFO will propose legislation to amend Act No. 230-1974 to ensure the Office of Management and Budget (OMB) has authority to assign budgets for the entire Commonwealth

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- The OCFO will provide a summary of SRFs that can be consolidated into the General Fund (GF) and a list of SRFs that will maintain zero-balance sweep accounts.
- OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionment requests for the Commonwealth entities that have a total Budget GF appropriation under $5 million.

Progress to date

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of its analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented in this division, in compliance with all the emerging requirements. As a result of these efforts, OMB developed a work plan to improve on three main areas:

- Budget Operations – focused on the daily budget operations regarding government agencies
- Strategic Planning – focused on the planning of the budget process both long and short-term
- Quality and Compliance – focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan

OMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections.

These modules have the main objective of providing clear visibility to standardize and make the budget process more agile and efficient.

There has been additional progress made:

- Bi-weekly meetings with Puerto Rico Department of the Treasury are in place to review budgets.

- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development.

- Three circular letters have been published, including:

  - No. 1300-03-22: To establish the monthly workplan requirement for all agencies and public corporations.

  - No. 1300-05-22: To require a corrective action plan for all control deficiencies identified by external auditors, regulators, the comptroller's office, etc.

  - No. 1300-13-22: To establish a collaboration with the General Inspector Office of Puerto Rico for them to visit each agency and component unit to ensure their compliance with the monthly closings.

Limited progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

There have been delays in the completion of the items due to cost overruns.

EXHIBIT 8: BUDGET BEST PRACTICES

	Action items	Responsible party	Deadline & status
To be completed in FY 24	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ OMB	▪ July 2023 *Revised deadline*
	▪ **Prepare reporting template or financial system** to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ October 2023 *Revised deadline*
	▪ **Enact legislation** to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	▪ Legislature and AAFAF	▪ October 2023 *Revised deadline*
	▪ **Establish a reporting process** that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ December 2023 *Revised deadline*
	▪ **Issue circular letters** detailing reporting requirements.	▪ OCFO and AAFAF	▪ December 2023 ▪ *Revised deadline*
	▪ **Prepare and present consolidated reporting**. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ May 2024 *Revised deadline*
	▪ **Amend Act 230-1974** to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ May 2024 *Revised deadline*

Fiscal Plan – 2023

The 2023 Fiscal Plan approved on April 2, 2023 requires the following implementation activities:

- The OMB has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget.
- Grants Management Office (GMO) will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
  - OMB will publish bi-weekly reports of disbursements of federal funds.
  - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
  - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
  - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Federal Funds Management will benefit greatly from using the Grants Management Module of the ERP system. This module will allow the Government to monitor fund performance by viewing funds available at both detail and summary levels.

- To facilitate the management and oversight of federal funds, the OMB, together with the OCFO, must, establish a GMO using existing governmental personnel and financial resources. This office would have several responsibilities, including:

  - Risk Management:

    - Compliance – Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
    - Unspent funds – Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
    - Lost opportunities – In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.

  - Capacity Building:

    - The GMO will provide capacity building activities to maximize the return of federal investment in Puerto Rico.
    - Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
    - Supporting the development of local capacity ensures long-term compliance with federal regulations and requirements.
    - Implement change management within each agency to ensure continuation of federal funds.

- Policy Making:

  - Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when drafting their own.
  - Development of educational material, guides, and communications in accordance with applicable laws and regulations.
  - These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
  - The policy-making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.

- Fiscal Guidance:

  - Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
  - Develop corrective action plans to provide the technical assistance necessary to rectify any critical findings.
  - Provide technical assistance to ensure compliance with matching funds and negotiate indirect cost rate agreement, when applicable.

continue

NOTE 14 – PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

- Facilitator with State and Federal Government:
  - The GMO, in close collaboration with the OCFO, will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
  - With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.
- Data Analysis:
  - Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
  - Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
  - If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Progress update

- The OMB has appointed a Director of the Grants Management Office (GMO). The GMO is to propose a suitable structure for the office.
- The creation of the Grants Management Office is currently being reviewed by the Oversight Board.
- The Grants Management Office is to be overseen by the Director of OMB.

NOTE 15 – NEW ACCOUNTING STANDARDS

A. Implementation of Governmental Accounting Standards Board (GASB) Statements

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective and have been implemented, when applicable, during the year ended June 30, 2023:

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 96, *Omnibus 2020*
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
- Statement No. 99, *Omnibus 2022 (Partial)*

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

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

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

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

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

GASB No. 91 does not have any impact on the Office's financial statements.

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

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

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

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

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB No. 96 has been implemented with impact on the Office's financial statements.

GASB Statement No. 97, _Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32_, clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan.

In Puerto Rico, with the issuance of Act No. 106-2017 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Accordingly, this Statement had no impact on the Office's current accounting practices nor its financial reporting.

GASB No. 97 does not have any impact on the Office's financial statements.

GASB Statement No. 99, _Omnibus 2022_, addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including the extension of the use of LIBOR, accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments as well as clarification of provisions in Statement No. 34 and terminology updates related to Statements No. 53 and 63. These requirements are effective upon issuance and had no material impact on the Office's financial statements. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022 (FY 2023), and all reporting periods thereafter, and was implemented, as applicable. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Office has not completed the process of evaluating the remaining requirements of this Statement that is effective for subsequent fiscal years, but does not expect it to have an impact on its financials.

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

The requirements of this Implementation Guide were implemented as follows:

Questions 4.6–4.17
Questions 4.19–4.21

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

The requirements of this Implementation Guide were implemented as follows:

Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in Implementation Guide 2015-1
Questions 4.4–4.21

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

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

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

PPPS

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement).

The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

APAS

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

As per GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after June 15, 2023 (FY 2023-2024). Early application is encouraged.

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 pending of implementation are as follows:

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

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

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

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

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

RECOGNITION AND MEASUREMENT

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that 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 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.

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

a. Limitations on raising revenue
b. Limitations on spending
c. Limitations on the incurrence of debt
d. Mandated spending.

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

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. 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. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

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. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. 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.

continue

NOTE 15 – NEW ACCOUNTING STANDARDS – continuation

In addition to the subtotals currently required in a proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

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, Municipality Fiscal Year 2025-2026), and all reporting periods thereafter. Earlier application is encouraged.

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

The requirements of this Implementation Guide are effective as follows:

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

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

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

The requirements of this Implementation Guide are effective as follows:

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

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

The Office has not yet determined the effect these statements will have on the basic financial statements.

continue

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 27, 2024, which is the same date the financial statements were available to be issued.

END OF NOTES

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Required Supplementary Information

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	Budget Amounts		Actual Amounts	
	Original	Final	(Budgetary Basis)	Variance
REVENUES:				
Intergovernmental	$ 6,770,215	$ 6,770,215	$ 6,770,215	$ -
Special Appropriations	1,395,000	1,395,000	1,395,000	-
Total Revenues	8,165,215	8,165,215	8,165,215	-
EXPENDITURES:				
Current:				
General Government – Administrative and Operating Activities	7,696,555	7,696,555	6,919,295	777,260
Intership Programs	341,280	341,280	341,280	-
Debt Service – Principal & Interests	33,244	33,244	33,244	-
Capital Outlays	94,136	94,136	94,136	-
Total Expenditures	8,165,215	8,165,215	7,387,955	777,260
Excess (Deficiency) of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 777,260**	**$ 777,260**

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

Unaudited

1. RECONCILIATION OF BUDGET/ GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2023, is presented below for the general and special funds.

2. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

		General Fund
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 89)	$	8,165,215
Difference – Budget to GAAP:		
Non budgetary items –		-
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 23)	$	8,165,215
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 89)	$	7,387,955
Difference – Budget to GAAP:		
Non budgetary items – Expenditures of Savings from prior years (which are included on the General Fund)		352,995
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 23)	$	7,740,950

END OF NOTES

	2023	2022	2021	2020	2019	2018
Proportion of the Total Pension Liability *	0.04872%	0.06336%	0.06673%	0.06899%	0.06690%	0.06442%
Proportionate Share of the Collective Total Pension Liability	$ 10,792,697	$ 17,222,634	$ 18,730,402	$ 17,143,949	$ 16,384,476	$ 18,169,629
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

* There are no assets accumulated in a trust that meets the criteria in GASBS No. 73, paragraph 4, to pay related benefits.

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

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

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

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

	2023	2022	2021	2020	2019	2018	2017
Proportion of Total Other Postemployment Benefit Liability *	$ 327,980	$ 435,618	$ 522,125	$ 470,228	$ 445,942	$ 460,695	$ 550,976
Proportionate Share of Total Other Postemployment Benefit	0.04715%	0.05458%	0.05970%	0.05650%	0.05295%	0.05005%	0.04649%
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Postemployment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

* There are no assets accumulated in a trust that meet the criteria in GASBS No. 75 paragraph 4, to pay related benefits.

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

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

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

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

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

END OF NOTES

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

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

To the Director of the
Office of Legislative Services
of the Legislative Assembly of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Office of Legislative Services of the Legislative Assembly of the Commonwealth of Puerto Rico** (**Office**), as of and for the fiscal year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the **Office**'s basic financial statements, and have issued our report thereon dated June 27, 2024.

Entity Part of the Commonwealth of Puerto Rico

Our report on the basic financial statements includes an emphasis-of-matter paragraph drawing attention to Note 1 to the basic financial statements, which states that the basic financial statements include only the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the **Office**'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Office**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **Office**'s internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office**'s internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CPA D M, CSP

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

Caguas, Puerto Rico
June 27, 2024

Stamp No. E569574 of the Puerto Rico Society of Certified
Public Accountants were affixed to the original report.