OFFICE FOR THE IMPROVEMENTS OF PUBLIC SCHOOLS

(A Component Unit of the Commonwealth of
Puerto Rico's Department of Education)

Basic Financial Statements and
Required Supplementary Information

June 30, 2019

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INDEPENDENT AUDITORS' REPORT

Mr. Eliezer Ramos
Executive Director
Office for the Improvements of Public Schools
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Office for the Improvements of Public Schools** (**OMEP,** by its Spanish acronym) (an office of the Commonwealth of Puerto Rico's Department of Education), an agency of the Commonwealth of Puerto Rico (the Agency), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the **OMEP'**s basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

We did not observe the taking of the physical inventories at June 30, 2019, (stated at $1,374,328), in the General Fund; therefore, we were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

OMEP has not maintained adequate capital assets records for the year ended June 30, 2019, and we were unable to apply procedures to determine whether the opening balances in the financial statements as of July 1, 2018, were fairly presented in conformity with accounting principles generally accepted in the United States of America.

Because of the inadequacy of the accounting records in support to compensated absences and encumbrances, we were unable to obtain sufficient adequate audit evidence.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" paragraph the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Office for the Improvements of Public Schools**, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis for Matter

Going Concern

The accompanying financial statements have been prepared assuming that the **OMEP** will continue as a going concern. As discussed in Note 9 to the financial statements, the **OMEP** is highly dependent on the Commonwealth of Puerto Rico (the Commonwealth) appropriations to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt the **OMEP**'s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the GASB 73 and 75 required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **OMEP**'s financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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San Juan, Puerto Rico
November 3, 2021
2021-11-93

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Introduction

As management of the Office for the Improvements of Public Schools (**OMEP**), we offer readers of the financial statements this narrative overview and analysis of the **OMEP**'s financial performance during the fiscal year ended June 30, 2019. Please read in conjunction with **OMEP** financial statements.

Financial Highlights

- As of June 30, 2019, the total assets amounted to $28,922,575.
- Receivables as of June 30, 2019, amounted to $2,677,322.
- The net position of **OMEP** amounted to $11,393,864 at the close of fiscal year 2019.

During the school year 2018-2019, the Government of Puerto Rico had eight hundred and sixty (860) opened schools. Of this amount, five hundred and fifteen (515) public schools pertained to **OMEP**, amount which includes forty-two (42) schools shared with the Puerto Rico Public Buildings Authority (PBA). To each of these schools **OMEP** provided routine maintenance services through municipal and/or private agreements. So far, two hundred and forty-four (244) schools have been closed. **OMEP** will be providing the service to the closed ones in the maintenance of the green areas and fumigation until the assets are disposed.

Using this Annual Financial Statements

This annual report is a required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three (3) components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-Wide Financial Statements

These statements include all assets and liabilities using the "economic resources" measurement focus and the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two (2) statements report **OMEP**'s net position and activities and changes in net position. **OMEP**'s net position (the difference between assets and liabilities) may be used to measure the **OMEP**'s financial health, or financial position. Over time, increases or decreases in **OMEP**'s net position are one indicator of whether its financial health is improving or deteriorating.

The Statement of Net Position and the Statement of Activities and Change in Net Position are commonly divided into two kinds of activities: Governmental activities and Business-type activities. The **OMEP** reports all its activities as governmental activities.

Fund Financial Statements

OMEP operates under four (4) major funds: General Fund, QZAB Fund, Special Revenue Fund, and Other Fund.

Most of the basic services are reported in governmental funds, which focus on how money flows in and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide detailed short-term view of the **OMEP**'s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the **OMEP**'s activities. The relationship (or differences) between governmental activities (reported in the Statements of Net Position (Deficit) and the Statement of Activities and Change in Net Position (Deficit)) and governmental funds is described in the reconciliation at the bottom of the fund financial statements.

- ***Governmental Funds*** - The following are the governmental fund types presented in the financial statements as of and for the year ended June 30, 2019.
  - ***General Fund*** - Accounts for and reports all financial resources, except for those required in another fund. These operations consist of the general administration of **OMEP**.
  - ***QZAB Fund*** - Accounts for and reports the proceeds of bond issuance used for the improvements of schools.
  - ***Special Revenue Fund*** - Accounts for and reports the proceeds of specific revenue's sources that are restricted or committed for specified purposes such as federal grants and legislative resolutions.
  - ***Other Funds*** - Accounts for and reports other financial resources not included in the General Fund, Special Revenue Fund, or QZAB Fund.

Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Required Supplementary Information

This Management's Discussion and Analysis and the Combining Financial Statements represent financial information required to be presented by accounting principles generally accepted in the United States of America. Such information provides users of this report with additional data that supplements the statement and notes.

The basic financial statements include a section of required supplementary information immediately following its notes. This section includes a supplemental schedule of expenditures by budget and actual budget basis-general fund, the Schedule of Statutorily Required Employer Contributions Pension Plan, and the Schedule of Proportionate Share of the Collective Net Pension Liability.

Financial Analysis as a Whole

The financial statements of **OMEP** are presented under the requirements of GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*", which affects the way to prepare and present financial information. A condensed Statement of Net Position (Deficit) is presented below:

Condensed Statement of Net Position	Years Ended June 30 2019	2018	Change In Dollars	%
Assets:				
Cash and Other Assets	$ 25,616,149	$ 12,963,881	$ 12,652,268	97.60%
Receivables	2,677,322	20,095,362	(17,418,040)	-86.68%
Capital Assets, Net of Accumulated Depreciation	92,542	64,933	27,609	42.52%
Total Assets	$ 28,386,013	$ 33,124,176	$ (4,738,163)	-14.30%
Deferred Outflows of Resources	$ 536,562	$ 5,606,061	$ (5,069,499)	-90.43%
Liabilities:				
Accounts Payable and Other Liabilities	$ 6,797,963	$ 25,378,089	$(18,580,126)	-73.21%
Long Term Liabilities	10,133,730	34,818,020	(24,684,290)	-70.90%
Total Liabilities	$ 16,931,693	$ 60,196,109	$(43,264,416)	-71.87%
Deferred Inflows of Resources	$ 597,018	$ 1,118,816	$ (521,798)	-46.64%
Net Position:				
Net Invested in Capital Assets	$ 92,542	$ 64,933	$ 27,609	42.52%
Restricted	5,836,011	2,035,269	3,800,742	186.74%
Unrestricted	5,465,311	(24,684,890)	30,150,201	-122.14%
Total Net Position	$ 11,393,864	$(22,584,688)	33,978,552	-150.45%

Unrestricted net position can be used to finance "day-to-day" operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Financial Analysis as a Whole, (Continued)

Statement of Net Position (Deficit) Comparison

	2019	2018	Change
Total Assets	$ 28,386,013	$ 33,124,176	$ (4,738,163)
Deferred Outflows of Resources	536,562	5,606,061	(5,069,499)
Total Liabilities	(16,931,693)	(60,196,109)	43,264,416
Deferred Inflow of Resources	(597,018)	(1,118,816)	521,798
Net Position (Deficit)	$ 11,393,864	$ (22,584,688)	$ 33,978,552

Statement of Activities Comparison

	2019	2018	Change
Revenues	$ 112,539,442	$ 68,899,874	$ 43,639,568
Expenses	78,560,890	77,249,399	1,311,491
Change in Net Position	$ 33,978,552	$ (8,349,525)	$ 42,328,077

Governmental Funds

OMEP uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of **OMEP**'s governmental funds is to provide information on near term inflows, outflows and balances of resources available for spending. In particular, unreserved fund balance may serve as a useful measure of the **OMEP**'s net resources available at the end of a fiscal year.

Request for Information

This financial report is designed to provide our citizen, taxpayers, and creditors with a general overview of **OMEP**'s finances and to demonstrate **OMEP**'s accountability for the money it receives. If you have questions about this report, please contact **OMEP**'s Finance Department at (787) 281-7575.

OFFICE FOR THE IMPROVEMENTS OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the Puerto Rico's Department of Education)

Statement of Net Position (Deficit)

June 30, 2019

ASSETS

	Governmental Activities
Assets:	
Cash	$ 24,241,821
Due from Federal Government	2,677,322
Inventories	1,374,328
Capital Assets, Net of Accumulated Depreciation	92,542
Total Assets	28,386,013
Deferred Outflows of Resources:	
Other Post Employment Benefits Related	21,538
Contributions to Employees Retirement System	515,024
Total Deferred Outflows of Resources	536,562
Total Assets and Deferred Outflows of Resources	$ 28,922,575

LIABILITIES AND NET POSITION

Liabilities:	
Check Issued Over Bank Balance	$ 927,330
Accounts Payable	5,870,633
Total Liabilities within One Year	6,797,963
Liabilities Payable After One Year:	
Due to Commonwealth	259,276
Pension Benefits Payable	1,593,591
Net Pension Liability	8,280,863
Total Liabilities after One Year	10,133,730
Total Liabilities	16,931,693
Deferred Inflows of Resources:	
Pension Related	597,018
Net Position (Deficit):	
Net Investment in Capital Assets	92,542
Restricted	5,836,011
Unrestricted	5,465,311
	11,393,864
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 28,922,575

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

OFFICE FOR THE IMPROVEMENTS
OF PUBLIC SCHOOLS

(An Office of the Commonwealth of the
Puerto Rico's Department of Education)

Statement of Activities and Change in Net Position (Deficit)

For the Year Ended June 30, 2019

Functions Programs:	Expenses	Program Revenues Operating Grants	Net (Expenses) Revenues and Changes in Net Position Governmental Activities
Governmental:			
Administrative Support	$ 6,984,341	$ 12,296,166	$ 5,311,825
Pension Related	(19,700,678)	-	19,700,678
OPEB Related	237,738	-	(237,738)
Construction and Maintenance of Schools	91,039,489	99,970,835	8,931,346
Total Expenditures	$ 78,560,890	$ 112,267,001	33,706,111
General Revenues:			
Interest Income			272,441
Total			272,441
Change in Net Position			33,978,552
Net Position (Deficit) at Beginning of Year			(22,584,688)
Net Position (Deficit) at End of Year			$ 11,393,864

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

OFFICE FOR THE IMPROVEMENTS OF PUBLIC SCHOOLS

(An Office of the Commonwealth of the Puerto Rico's Department of Education)

Balance Sheet - Governmental Funds

June 30, 2019

ASSETS

	General Fund	QZAB Fund	Special Revenue Fund	Other Fund	Total Governmental Funds
Assets:					
Cash	$ 17,022,701	$ -	$ -	$ 7,219,120	$ 24,241,821
Due from Federal Government	-	-	-	2,676,158	2,676,158
Due from Other	1,164	-	-	-	1,164
Inventories	1,374,328	-	-	-	1,374,328
Total Assets	$ 18,398,193	$ -	$ -	$ 9,895,278	$ 28,293,471

LIABILITIES AND FUND BALANCES

	General Fund	QZAB Fund	Special Revenue Fund	Other Fund	Total Governmental Funds
Liabilities:					
Check Issued Over Bank Balance	$ -	$ 584,771	$342,559	$ -	$ 927,330
Accounts Payable	3,068,941	-	24,233	2,777,459	5,870,633
Total Liabilities	3,068,941	584,771	366,792	2,777,459	6,797,963
Fund Balance:					
Nonspendable:					
Inventory Reserve	1,374,328	-	-	-	1,374,328
Restricted:					
School Renovation and Maintenance	3,743,896	-	-	262,972	4,006,868
Capital Project	-	-	49,393	-	49,393
Unassigned	10,211,028	(584,771)	(416,185)	6,854,847	16,064,919
Total Fund Balance (Deficit)	15,329,252	(584,771)	(366,792)	7,117,819	21,495,508
Total Liabilities and Fund Balance	$ 18,398,193	$ -	$ -	$ 9,895,278	$ 28,293,471

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

OFFICE FOR THE IMPROVEMENTS
OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the
Puerto Rico's Department of Education)

Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position (Deficit)

June 30, 2019

Governmental Funds Balance	$ 21,495,508
Amounts Reported for Governmental Activities in the Statements of Net Position are Different Because:	
Capital Assets and Unamortized Expenses Used in Governmental Activities are not Financial Resources and are Not Reported in the Government Funds	
Capital Assets	92,542
Amounts Reported for Governmental Activities in the Statement of Net Position (Deficit) are Different Because:	
Pension Benefits Payable	(1,593,591)
Toal Pension Liability	(8,280,863)
Deferred Outflows and Inflows of Resources Related to Pensions and Other Emergency Repairs that are Applicable to Future Reporting Periods and, therefore, are Not Reported in the Funds.	(319,732)
Net Position (Deficit) of Governmental Activities	$ 11,393,864

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

OFFICE FOR THE IMPROVEMENTS OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the Puerto Rico's Department of Education)

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2019

	General Fund	QZAB Fund	Special Revenue Funds	Other Fund	Total Governmental Funds
REVENUES					
Interest	$ 272,441	$ -	$ -	$ -	$ 272,441
Contributions from PBA	21,175	-	-	-	21,175
Contributions from PRDE	99,949,660	-	-	-	99,949,660
Other Income	14,160	-	439,500	11,842,506	12,296,166
Total Revenues	100,257,436	-	439,500	11,842,506	112,539,442
EXPENDITURES					
Payroll and Payroll Taxes	5,357,646	-	-	-	5,357,646
Utilities and Public Services	172,263	-	-	33,998	206,261
Maintenance, Construction and Improvement of Public Schools	29,862,719	74,378	263,739	3,500	30,204,336
Rent Expense	111,688	-	-	-	111,688
Transportation Expenses	488,022	-	-	-	488,022
Professional Services	676,888	-	-	8,980	685,868
Purchases Services	59,380,400		83,748	844,711	60,308,859
Purchase of Equipment	222,765	-	-	150,803	373,568
Materials and Supplies	454,520	-	1,210	240,786	696,516
Rental Equipment	191,525	-	-	-	191,525
Capital Outlays	38,799	-	-	-	38,799
Other	-	-	-	62,000	62,000
Total Expenditures	96,957,235	74,378	348,697	1,344,778	98,725,088
Excess (Deficit) of Revenues Over Expenditures	3,300,201	(74,378)	90,803	10,497,728	13,814,354
Other Financing Sources (Uses):					
Transfer Out	1,035,175	-	-	-	1,035,175
Transfer In	-	-	(100,995)	(934,180)	(1,035,175)
	1,035,175	-	(100,995)	(934,180)	-
Net Change in Fund Balances	4,335,376	(74,378)	(10,192)	9,563,548	13,814,354
Fund Balance at Beginning of Year	10,993,876	(510,393)	(356,600)	(2,445,729)	7,681,154
Fund Balance (Deficit) at End of Year	$ 15,329,252	$ (584,771)	$ (366,792)	$ 7,117,819	$ 21,495,508

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

OFFICE FOR THE IMPROVEMENTS
OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the
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Reconciliation of the Statement Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities and Changes in Net Position (Deficit)

For the Year Ended June 30, 2019

Net Change in Fund Balances-Total Governmental Funds	$ 13,814,354
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental Funds Report Capital Assets 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: Current Year Depreciation and Acquisition of Equipment are as Follows:	
Current Year Depreciation	(11,190)
Acquisition of Equipments	38,799
Pension Plan and Other Postemployment Benefits in Current Fiscal resources on the Statement of Net Position.	19,462,940
Governmental Funds Report the Current Amount of Enactment of Act. No. 70, Voluntary Termination Benefits. However, the Financial Impact Resulting of Benefits to Participants was the Recognition of a Liability in the Statement of Net Position.	673,649
Change in Net Position of Governmental Activities	$ 33,978,552

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The **Office for the Improvements of Public Schools (OMEP)** was created by means of the Joint Resolution No. 3 of August 28, 1990 and ascribed it to the Puerto Rico Department of Education (PRDE) of the Commonwealth of Puerto Rico's Department of Education. **OMEP** was created for the purpose of setting in function an accelerated program for the repair and the betterment of the schools' structures and for the purchase of books, furniture, materials, and didactic equipment necessary for the process of teaching.

On January 26, 1995, by means of the Administrative Bulletin No. OE-1195-11, the direction and administration of **OMEP** were transferred to the Puerto Rico Department of Education (PRDE), and the Secretary of Education (Secretary) was appointed as the Executive Director.

On April 30, 1996, the Secretary converted the regional offices of the School Buildings Maintenance Unit of the Department in regional offices of **OMEP**, transferring the personnel, the materials, the equipment and the supplies, that it had at that moment, to the regional offices.

At June 30, 2019, the services offered by **OMEP** were conducted from a central office and seven regional offices as follows: San Juan, Caguas, Bayamón, Arecibo, Ponce, Mayagüez, and Humacao.

The operations of **OMEP** are administered by a General Manager appointed by the Executive Director. The regional offices are administered by a Regional Director appointed by the General Manager.

Basic Financial Statements

The financial statements of **OMEP** have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S Generally Accepted Accounting Principles (GAAP) for governmental units.

The basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues and expenditures are recognized and reported.

The fund financial statements are presented on the modified accrual basis of accounting. Accordingly, revenues are recorded when they are measurable and available to finance current expenditures of the fund, during the current period or after, but in time to pay for current year-end liabilities. Expenditures are recorded normally in the accrual basis as they are measurable when they are incurred, affected by the measurement focus applied.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Accounting and Measurement Focus, (Continued)

Government-wide financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recognized in the period they are earned while expenditures are recognized when incurred. The elements in the accrual basis of accounting are: (1) deferral of expenditures and the subsequent amortization of deferral costs, (2) the deferral of revenues until they are earned, (3) capitalization of certain expenditures, and (4) accrual of revenues that have been earned, and expenses that have been incurred.

The measurement focus is concerned with the inflow and outflow of resources that affect the entity. The flow of economic resources is applied on an accrual basis and the flow of total financial resources, and the flow of current financial resources are used in the modified accrual basis.

Federal financing assistance received from the federal government is recorded following the applicable legal and contractual requirements. Essentially, revenues are recognized based upon the expenditures recorded. This occurs when expenditures are incurred for the specific purpose of the project. Revenues are revocable only for failure to comply with prescribed compliance requirements.

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of **OMEP**'s financial activities. This analysis is similar to the analysis that the private sector provides in their annual reports.

Basis of Presentation - Fund Accounting

The financial report of **OMEP** consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting.

The accounts of **OMEP** are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Governmental funds include the general, special revenue, and other funds. Account groups are established to maintain accountability over capital assets or long-term general obligations.

Government-Wide Financial Statements

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Government-Wide Financial Statements, (Continued)

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

The types of transactions included as program revenues are charges for services, fees, licenses and permits; operating grants, which include operating-specific and discretionary (either operating or capital) grants; and capital grants, which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met.

For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities and Change in Net Position (Deficit) are not allocated. **OMEP** first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

OMEP's Net Position (Deficit) is classified as follows:

- Net Investment in Capital Assets - This represents the **OMEP**'s total investment in capital assets, net of the corresponding related debt.
- Restricted - This represents funds received through legislative resolution and/or appropriations. The proceeds are to be used for repair and maintenance of schools.
- Unrestricted - Since there were minimal revenues and the **OMEP** is incurring expenses in excess of the legislative appropriations, the **OMEP** has a deficit in the unrestricted balance.

Governmental Fund Financial Statements

The Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one column for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, which is a percentage of the assets, liabilities, revenues or expenditures (for Commonwealth Legislature Resolutions Fund and Debt Service Fund) or based on Management official's criteria. **OMEP** reports the following major governmental funds:

- General Fund - Accounts for and reports all financial resources, except those required in another fund. These operations consist of the general administration of **OMEP**.
- Special Revenue Fund - Accounts for and reports the proceeds of specific revenue's sources that are restricted or committed for specific purpose such as federal grants and legislative resolutions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Governmental Fund Financial Statements, (Continued)

- QZAB Fund - Accounts for and reports the proceeds of bond issuance used for the improvements of schools.

- Other Fund - Accounts for and reports other financial resources not included in the General Fund, Special Revenue Fund, or QZAB Fund.

Fund Balance - Generally, fund balance represents the difference between the assets and liabilities under the current financial resources' measurement focus of accounting. In the fund financial statements, governmental funds report net position classifications that comprise a hierarchy based primarily on the extent to which **OMEP** is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- Nonspendable - Fund balances are reported as "non-spendable" when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- Restricted - Fund balances are reported as "restricted" when there are limitations imposed on their use either through the enabling legislation adopted by **OMEP** or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

- Committed - Fund balances are reported as "committed" when they can be used only for specific purposes pursuant to constraints imposed by formal action of the governing board of **OMEP** through the adoption of a resolution. Only the governing board of **OMEP** may modify or rescind the commitment.

- Assigned - Fund balances are reported as "assigned" when amounts are constrained by **OMEP**'s intent to be used for specific purposes but are neither restricted nor committed. Through resolution, the governing board of **OMEP** has authorized **OMEP**'s Executive Director to declare funds as assigned.

- Unassigned - Fund balances are reported as "unassigned" when the balances do not meet any of the above criteria. **OMEP** reports unassigned fund balance only in the general fund. Negative unassigned fund balance may be reported in all funds. Committed, assigned and unassigned fund balances are collectively considered to be unrestricted funds.

Net Position Flow Assumptions - It is **OMEP**'s policy to use restricted resources first before using unrestricted resources.

Fund Balance Flow Assumptions - When both restricted and unrestricted amounts are available for use for specific expenditures, it is **OMEP**'s policy to use restricted amounts first and then unrestricted amounts as they are needed. It is **OMEP**'s policy to use unrestricted fund balances in the following order: a. Committed, b. Assigned, c. Unassigned.

Cash

Cash is comprised of cash on hand and demand deposits held in commercial banks. **OMEP** maintains separate cash accounts for each federal award program.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Inventories

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 repairs of the school plants.

OMEP 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 allows the purchase method to account for inventories, but when the inventory amount is significant, the amount must be reported in the government's fund balance sheet.

An estimated value for inventories is reported as both, an asset and a fund balance reserve in the General Fund.

Capital Assets

Capital assets are defined by **OMEP** as assets with an initial, individual cost of more than $500 and an estimated useful life of more than one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Maintenance and repairs that do not extend the life of the asset are charged to expense.

Depreciation expense is not reported in governmental funds. All reported capital assets are depreciated using the straight-line method over the following estimates useful lives:

Assets	Years
Office Equipment	5 years
Motor Vehicles	5-10 years

Impairment of Long-Lived Assets

OMEP follows the provision of GASB No. 42, Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. During the year ended June 30, 2019, the **OMEP** evaluated its capital assets for impairment amount, if any, would not have a material impact in the **OMEP**'s financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Interfund Balance (Due From/To Funds)

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due from/to funds. At June 30, 2019, there was no outstanding balance between funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Employee Retirement System (ERS) of the Commonwealth and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at estimated fair value.

Termination Benefits

OMEP accounts for termination benefits in accordance with GASB Statement No. 47, Accounting for Termination of Benefits. Pursuant to the provision of GASB No. 47 in financial statements prepared on the accrual basis of accounting, employer should recognize a liability and expenses for voluntary termination benefits (for example, early retirement incentive) when the offer is accepted, and the amount can be estimated. A liability and expenses for voluntary benefits should be recognized in the government-wide financial statement when: (i) a plan of termination of benefits has been approved by those with the authority to commit the government to the plan (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses) until then. The **OMEP** has one (1) item that qualify for reporting in this category which is the deferred pension expense.

Risk Management

The Secretary of the Puerto Rico Treasury Department is the agent with the responsibility of obtaining and payment of insurance for the PRDE that includes **OMEP** for loss or damage to property and general liability.

Compensated Absences

OMEP accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Compensated Absences

From July 1, 2016 and until April 28, 2017, with the exceptions explained below, **OMEP** employees were granted vacations and sick leave in accordance with the "*Reglamento de Personal del Departamento de Educación de Puerto Rico* (Personnel Regulations). Law No. 66 of April 26, 2014, for Fiscal and Operational Sustainability of the Government of the Estado Libre Asociado de Puerto Rico (Law 66-2014) limited the accrual of vacation and sick leave, and the payment for excess days accrued.

Law No. 8 of February 4, 2017, for the Administration and Transformation of Human Resources in the Government of Puerto Rico (Law 8-2017) and Law 26 of April 29, 2017, for Compliance with the Fiscal Plan (Law 26-2017) established new parameters for the accrual of vacations and sick leave. Later, as per Law 32 of January 21, 2018, (Law 32-2018), **OMEP** became exempt from the application of Law 8-2017 and as a consequence, the parameters for the accrual of vacation days changed.

During year 2019, **OMEP**'s employees were granted vacations and sick leave as follows:

Vacations

For the period between July 1, 2016, and April 28, 2017, except for employees hired between February 4 and April 28, 2017, vacations were accrued as follows:

Period of Services as Corporation Employee, per Type of Employment	Monthly Accrual	Maximum Annual Balance
Regular Employment:		
One (1) Year or Less	1.25 days	15 days
More than One (1), Less than Four (4) Years	1.75 days	42 days
Four (4) Years and Over	2.00 days	48 days
Temporary Employment:		
One (1) Year or Less	1.00 days	12 days
More than One (1) Year	1.25 days	30 days

Accrued days in excess of the maximum annual balance and up to sixty (60) days will be payed yearly.

Employees hired between February 4 and April 28, 2017, accrued two (2) days monthly during that period only, and had the right to be paid during the fiscal year for the excess of sixty (60) days accrued, only if **OMEP** had sufficient funds to make such payment.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Vacations, (Continued)

For the period between April 29, 2017, to January 20, 2018, all employees accrued 1.25 vacation days monthly, equivalent to fifteen (15) days annually, and up to a maximum of sixty (60) days. Accrued days in excess of sixty (60) days cannot be paid. Any excess of sixty (60) days accrued by employees prior to April 29, 2017, had to be used by December 31, 2017.

After January 21, 2018, and while Law 26-2017 remains in effect, vacation days are accrued as per the Personnel Regulations. However, any excess of sixty (60) days cannot be paid.

Sick leave

For the period between July 1, 2016, and April 28, 2017, employees accrued sick leave as follows:

Type of Employment	Monthly Accrual	Maximum Annual Balance
Regular Employment	1.25 days	60 days
Temporary Employment	1.00 days	30 days

During this period, employees hired prior to February 3, 2017, may accrue up to sixty (60) days for regular employment and up to thirty (30) days for temporary employment, and any days accrued in excess will be paid annually only if **OMEP** has sufficient funds. Employees hired between February 4 and April 28, 2017, may accrue up to ninety (90) days, and any days in excess will be paid annually only if **OMEP** has sufficient funds.

After April 29, 2017, and while Law 26-2017 remains in effect, the following applies to all **OMEP** employees:

	Monthly Accrual	Maximum Annual Balance
Regular Employment	1.25 days	60 days
Temporary Employment	1.00 days	30 days

Days in excess of the ninety (90) day accrual limit cannot be paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Sick leave, (Continued)

OMEP accrues a liability for compensated absences which meet the following criteria:

1. **OMEP**'s obligations relating to employee's rights to receive compensation for futures absences are attributable to employee's services already rendered.
2. The obligation relates to right that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB No. 16; **OMEP** should accrued a liability for compensated absences, which has been earned but not taken by **OMEP**'s employees. However, these balances are maintained and accrued by the PRDE because all **OMEP** personnel are registered as PRDE employees, having all personnel records at that level. For the government-wide statements, the current portion is the amount estimated to be used in the following years. For the governmental fund's statements, the current portion for compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation.

Budgetary Accounting

OMEP prepares an internal annual budget for administrative purposes. The budget is not integrated with the accounting system; therefore, the financial statements are not presented in comparison budget to actual.

Deferred Outflow/Inflow of Resources

A deferred outflow/inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

New Accounting Pronouncements

GASB has issued the following statements that the Corporation has not yet adopted:

GASB Statement Number		Adoption Required in Fiscal Years (July 1st to June 30th)
87	Leases	2021
88	Certain Disclosures related to Debt, including Direct Borrowing and Direct Placements	2019
89	Accounting for Interest Cost Incurred before the End of a Construction Period	2021
90	Majority Equity Interests-an amendment of GASB Statement No. 14 and No. 61	2020
91	Conduit Debt Obligation	2022
92	GASB Statement No. 92, Omnibus 2020	2021
93	GASB Statement No. 93, Replacement of Interbank Offered Rates	2020
94	GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2022
96	GASB Statement No.96, Subscription-Based Information Technology Arrangements	2022
97	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	2021

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards

Statement No. 85, *OMNIBUS 2017*, the objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple employer defined benefit OPEB plans.

This statement had no impact on the basic financial statement of the Corporation.

Statement No.86, *Certain Debt Extinguished Issue*, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt.

This Statement also improves accounting and financial reporting for repaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Effects of New Accounting Standards (Continued)

That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.
- The effective dates of the following pronouncements are postponed by 18 months:
- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

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

2. FUND BALANCE REPORTING

Substantially, all the restricted fund balances as of June 30, 2019, are related to capital projects funded by general fund, special revenue activity, and proceeds from Qualified Zone Academy Bonds (QZAB) 2004 issuance. Such restricted balances may only be utilized in accordance with the purposes established by regulations, placed on the use of resources, by the contributors. Restricted funds are in contrast to unassigned funds over which the governing board retained full control to use in achieving of its purposes.

OMEP maintains an encumbrance system for all disbursements made during the course of its operations, except for payroll and related expenses. As part of the encumbrances made during the year, **OMEP** encumbered $3,743,896; $49,393 and $262,972 for the General Fund, the Special Revenue Fund, and the Other Governmental funds, respectively. **OMEP** maintains separate cash accounts for each federal awards program. This cash is restricted to be used only for federal awards purposes. Also, **OMEP** maintains separate cash accounts for other non-federal programs.

3. DEPOSITS

OMEP maintains its cash in bank deposit accounts at high credit qualified financial institutions.

	Book Balance			
	Unrestricted	Restricted	Total	Bank Balance
Deposits Commercial Banks	$ 23,836,199	$ 405,422	$ 24,241,621	$ 23,346,639
Petty Cash	200	-	200	-
Total	$ 23,836,399	$ 405,422	$ 24,241,821	$ 23,346,639

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

- *Credit Risk* - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, **OMEP** has cash in a commercial bank, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000. No investments in debt or equity securities were made during the fiscal year ended June 30, 2019; however, the amounts in excess of the FDIC coverage amounted to $23.1 million, approximately. Therefore, **OMEP**'s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the **OMEP**'s deposits is considered moderate at June 30, 2019.

- *Interest Rate Risk* - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **OMEP** manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2019, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2019, the interest rate risk associated with the **OMEP**'s cash and cash with fiscal agents are considered low since they have no investment portfolio.

- *Custodial Credit Risk* - In the case of deposits, this is the risk that in the event of a bank failure, **OMEP**'s deposits may not be recovered. At June 30, 2019, **OMEP** has balances deposited in commercial banks amounting to $23.1 million approximately, which are insured by the FDIC up to a maximum of $250,000. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk. Therefore, **OMEP**'s management has concluded that at June 30, 2019, the custodial credit risk associated with **OMEP**'s cash and cash with fiscal agents is considered moderate.

3. DEPOSITS, (Continued)

- *Foreign Exchange Risk* - This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. **OMEP** 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 **OMEP**'s deposits is considered low at June 30, 2019.

4. CAPITAL ASSETS

OMEP's capital assets activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Ending Balance
Capital Assets Being Depreciated:			
Equipment	$ 1,824,680	$ 38,799	$ 1,863,479
Motor Vehicles	2,066,925	-	2,066,925
Total Capital Assets	3,891,605	38,799	3,930,404
Less Accumulated Depreciation:			
Equipment	(1,759,747)	(11,190)	(1,770,937)
Motor Vehicles	(2,066,925)	-	(2,066,925)
Total Accumulated Depreciation	(3,826,672)	(11,190)	(3,837,862)
Net Investment in Capital Assets	$ 64,933	$ 27,609	$ 92,542

5. COMMITMENTS AND CONTINGENCIES

OMEP participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the amount of expenditures which may be disallowed by the granting agencies, if any, will be established at some future date. However, **OMEP**'s Management expects such amounts, if any, to be immaterial.

OMEP's main office is located on a facility under an operating lease agreement which provides for monthly rental payments of $10,950. The agreement was renewed on January 15, 2014, for a period of five years ending on October 31,2024. Total expenditures for the year ended June 30, 2019, related to this agreement amounted to approximately $111,000.

5. COMMITMENTS AND CONTINGENCIES, (Continued)

Minimum future rental payments for the next (5) year under this agreement is as follows:

Year Ending June 30,	Amount
2020	$ 87,600
2021	131,398
2022	131,398
2023	131,398
2024	43,800
	$ 525,594

6. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of **OMEP**. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System) and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, **OMEP** will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of **OMEP**.

The Voluntary Termination Benefits (VTB) are the responsibility of the Department of Education of Puerto Rico. The financial impact resulting for the benefits granted to participants of **OMEP** on this program was the recognition of a liability of $1,593,591 as of June 30, 2019. At June 30, 2019, the unpaid long-term benefits granted on this program were discounted at 1.80%.

7. RETIREMENT PLAN

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities.

7. RETIREMENT PLAN (Continued)

Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. Under the Paygo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

Pension benefits

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

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

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

7. RETIREMENT PLAN (Continued)

(a) Service Retirement Eligibility Requirements

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

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

Date of Birthday	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or Later	55 or Less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and Up	59

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

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

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

7. RETIREMENT PLAN (Continued)

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

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

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

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

(b) Compulsory Retirement

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

(c) Service Retirement Annuity Benefits

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

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

7. RETIREMENT PLAN (Continued)

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

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

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

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

7. RETIREMENT PLAN (Continued)

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

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

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

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

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

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

- Coordination Plan Minimum Benefit

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

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

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

7. RETIREMENT PLAN (Continued)

(3) Special "Bonus" Benefits

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

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

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

The OMEP's proportion of the total pension liability of the Retirement Plan and Actuarial Information is as follows:

The **OMEP**'s proportionate share of the total pension liability of the Retirement Plan and the proportion percentage of the aggregate total pension liability of the Retirement Plan allocated to the **OMEP** as of June 30, 2019, amounted to $8,280,864 and 0.04685%, respectively. The Commonwealth's total pension liability, from which an allocation was made to the **OMEP**'s financial statements as of June 30, 2019, as of June 30, 2018, was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018).

(a) Actuarial Methods and Assumptions

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

Discount Rate

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

7. RETIREMENT PLAN (Continued)

Mortality

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

- *Pre-retirement Mortality*

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

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

- *Post-retirement Healthy Mortality*

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

- *Post-retirement Disabled Mortality*

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

- *Other Assumptions as of June 30, 2018*

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

7. RETIREMENT PLAN (Continued)

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

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

	At 1 Percent Decrease (1.85%)	At Current Discount Rate (2.85%)	At 1 Percent Increase (3.85%)
Net Pension Liability	$ (10,086,977)	$ (8,864,291)	$ (7,872,155)

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources, are as follows:

Pension expense recognized by the OMEP for the year ended June 30, 2019, related to the ERS amounts to a $19,700,678.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ -	$ -
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Investments Earnings on Pension Plan Investments	-	597,018
Benefits Paid Subsequent to the Measurement Date	515,204	-
	$ 515,204	$ 597,018

7. RETIREMENT PLAN (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2019, will be recognized in pension expense (benefit) in future years as follows:

Year Ending June 30,	Amount
2020	$ 515,204
2021	515,204
2022	515,204
2023	515,204
2024	515,204
	$ 2,576,020

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5 years for 2019.

8. OTHER POST-EMPLOYMENT BENEFITS

OMEP participates in the OPEB plan of the Commonwealth of Puerto Rico for retired participants of the ERS, also known as MIPC. The Plan is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded cost sharing, multiple employers defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth, such as the **OMEP**, not having their own post-employment benefit plans. For ERS MIPC, Commonwealth and **OMEP** employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

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

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2019, was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

Inflation	Not applicable
Municipal bond index	3.87%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	**Pre-retirement Mortality:** For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.
	Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 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 based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Most other demographic assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

The discount rate for June 30, 2018, and 2017 was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including, for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated, future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

OMEP's Proportion of Total OPEB Liability of ERS MIPC:

The **OMEP**'s proportionate share of the total OPEB liability of the ERS MIPC and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the **OMEP** as of June 30, 2019, was $259,276, presented as "*Due to Commonwealth*" in the accompanying Statement of Net Position, and 0.04026%, respectively.

As the ERS MIPC is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the **OMEP**, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of total OPEB liability to changes in the discount rate:

The following table presents the Company's proportionate share of the OPEB liability at June 30, 2019, (measurement date June 30, 2018), for ERS calculated using the discount rate of 3.87%, as well as what the Company's proportionate share of the OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
OMEP's Proportionate Share of OPEB Liablity	$ 284,372	$ 259,276	$ 237,967

Deferred outflows of resources and deferred inflows of resources:

Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by **OMEP** subsequent to the measurement date, which amounted to $21,538 as of June 30, 2019, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

Additional information on the OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of ERS is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2018, and 2017, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

9. GOING CONCERN

The discussion in the following paragraphs regarding the **OMEP** financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the **OMEP** ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.

9. GOING CONCERN, (Continued)

Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default or debt and/or restructurings or noncompliance with capital or reserve requirement, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that area considered in this evaluation. The **OMEP** faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet future obligations when they come due. These circumstances together with other factors further described below, have led management to conclude that doubts could exist as to the ability of the **OMEP** to continue operations as usual if they do not make significant operational and programmatic adjustments, which would be necessary to avoid a financial distress that would impair the ability of the **OMEP** to continue as a going concern. This statement is required to comply with GASB Statement No. 56.

OMEP has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 99.9% of the **OMEP**'s total revenues are derived from the Commonwealth appropriations which amounted to approximately $99.9 million for the year ended June 30, 2019. Moreover, the **OMEP** has limited ability to raise operating revenues due to the economic and political challenges of Puerto Rico. **OMEP** ability to continue receiving similar operational support and financing from the Commonwealth is uncertain.

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth is likely to have a significant adverse impact on the **OMEP**, given its reliance on Commonwealth appropriations. However, **OMEP** has taken definite steps to reduce operating cost such as closing schools; reduced headcount, related fringe benefits, and rent cost, among others.

10. SUBSEQUENT EVENTS

Employees Benefit

The Act 176 of December 16, 2019, amends subsections (1) and (2) of Section 9.1 of Article 9 of Law8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico" to amend the subsections 1 (a) and 2 (b) of Article2.04 of Chapter 2 of Law 26 2017, as amended, known as the "Law of Compliance with the Fiscal Plan", for the purpose of restoring vacation and sick leave days to Public employees as follows:

1. Vacation license

The employee shall have the right to accumulate vacation leave, at a rate of two and a half days (2.5) for each month of service, up to a maximum of sixty (60) business days at the end of each calendar year.

10. SUBSEQUENT EVENTS

1. Vacation license, (Continue)

The vacation leave will begin to accrue once the three (3) months in employment are completed and will be retroactive to the date of commencement of employment. Reduced regular or part-time employees will accumulate vacation leave proportional to the number of hours they provide services regularly.

2. Sick leave

Every employee will have the right to accumulate due to illness, at the rate of one and a half days (1.5) for each month of service. Employees to reduced regular or part-time will accumulate sick leave in proportion to the number of hours they provide services regularly. This leave will be used when the employee is ill, incapacitated or exposed to a contagious disease that requires his absence from work for the protection of his health or that of other persons.

COVID-19

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state, and local governments and private entities mandating various restrictions, where businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

After close monitoring and responses and guidance from federal, state, and local governments, in an effort to mitigate the spread of COVID- 19, effective March 15, 2020, the Corporation closed all of its operations for at least ten (10) weeks. The Corporation continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate possible extensions to all or part of such closures. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

OMEP has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended June 30, 2019, have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and financial institutions responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of its operation for future periods.

OMEP evaluated its subsequent events until November 3, 2021, date on which the financial statements were ready for issuance. **OMEP**'s management understands that no material events occurred subsequent to June 30, 2019, that requires being recorded or required additional disclosures in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report)

OFFICE FOR THE IMPROVEMENTS
OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the
Puerto Rico's Department of Education)

Combining Balance Sheet

For the Year Ended June 30, 2019

ASSETS

	Other Special Revenue	Other Funds: $29 M Project	Other Funds: Total Capital Projects	Total Other Funds
Assets:				
Current Assets	$ -	$ 9,895,278	$ 9,895,278	$ 9,895,278
	$ -	$ 9,895,278	$ 9,895,278	$ 9,895,278

LIABILITIES AND FUND BALANCES

	Other Special Revenue	Other Funds: $29 M Project	Other Funds: Total Capital Projects	Total Other Funds
Liabilities:				
Checks Issued over Bank Balance	$ 342,559	$ -	$ -	$ 342,559
Accounts Payable	24,233	2,777,459	2,777,459	2,801,692
Total Liabilities	366,792	2,777,459	2,777,459	3,144,251
Fund Balance:				
Committed	49,393	262,972	262,972	312,365
Unassigned	(416,185)	6,854,847	6,854,847	6,438,662
Total Fund Balance	(366,792)	7,117,819	7,117,819	6,751,027
Total Liabilities and Fund Balance	$ -	$ 9,895,278	$ 9,895,278	$ 9,895,278

OFFICE FOR THE IMPROVEMENTS OF PUBLIC SCHOOLS
(An Office of the Commonwealth of the Puerto Rico's Department of Education)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2019

	Other Special Revenue	Other Funds: $29 M Project	Other Funds: Total Capital Projects	Other Funds: Total Other Funds
REVENUES				
Other Income	$ 439,500	$ 11,842,506	$ 11,842,506	$ 12,282,006
Total Revenues	439,500	11,842,506	11,842,506	12,282,006
EXPENDITURES				
Current:				
Utilities and Payments for Public Services	-	33,998	33,998	33,998
Maintenance, Construction and Improvement of Public Schools	263,739	3,500	3,500	267,239
Professional Services	-	8,980	8,980	8,980
Purchased of Services	83,748	844,711	844,711	928,459
Purchased of Equipment	-	150,803	150,803	150,803
Material and Supplies	1,210	240,786	240,786	241,996
Others	-	62,000	62,000	62,000
Total Expenditures	348,697	1,344,778	1,344,778	1,693,475
Excess of Revenues Over Expenditures	90,803	10,497,728	10,497,728	10,588,531
Other Financing (Uses):				
Transfer Out	-	-	-	-
Transfer In	(100,995)	(934,180)	(934,180)	(1,035,175)
	(100,995)	(934,180)	(934,180)	(1,035,175)
Net Change in Fund Balances	(10,192)	9,563,548	9,563,548	9,553,356
Fund Balance at Beginning of Year	(356,600)	(2,445,729)	(2,445,729)	(2,802,329)
Fund Balance at End of Year	$ (366,792)	$ 7,117,819	$ 7,117,819	$ 6,751,027

De Angel & Compañía
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November 3, 2021

Mr. Eliezer Ramos
Executive Director
Office for the Improvements of Public Schools
San Juan, Puerto Rico

The stockholders and staff of De Angel & Compañía, CPA, LLC, are pleased to announce the successful completion of an independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPAs in public practice, industry, government and education.

In 1988, the members of the AICPA overwhelmingly approved a proposal to require members in public practice to participate in a practice-monitoring program. With the adoption of this proposal, the AICPA implemented a peer review program of unprecedented scope in the CPA profession or any other. Our participation in peer review demonstrates our firm's desire to measure up to the profession's high standards of professionalism and our commitment to maintaining and improving the quality of our practice.

In August 2000, the Puerto Rico Society of CPAs (PRSCPA) adopted a voluntary peer review program, which follows the lead established by the AICPA.

Our peer review was conducted by ***Román Toro & Co., CPA, PSC***, an independent firm (the Reviewer). The Reviewer first determined that we have an adequate quality control system, and then checked to see that professional's standards were followed in a representative sample of our accounting and auditing engagements.

After thorough study of our policies and procedures, the Reviewer concluded our firm complies with the stringent quality control standards established by the AICPA and the PRSCPA. Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Carlos De Ángel Ramírez
President

ROMAN TORO & CO., PSC
Certified Public Accountants
Honesty - Integrity - Experience

Members of:
American Institute of Certified Public Accountants
and PR Society of Certified Public Accountants
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Report on the Firm's System of Quality Control

January 28, 2019

To the Partners of De Angel & Compañía, CPA, LLC
and the Peer Review Committee of the Puerto Rico Society of CPAs.

We have reviewed the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC (the firm) in effect for the year ended April 30, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Review established by Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit, and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of De Angel & Compañía, CPA, LLC, in effect for the year ended April 30, 2018 has been suitable designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firm can receive a rating of *pass, pass with deficiency(ies), or fail.* De Angel & Compañía, CPA, LLC, has received a peer review rating of pass.

ROMAN TORO & CO., CPA, P.S.C.
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Expires December 1, 2020

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