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

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

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PART I

FINANCIAL

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each mayor fund of the **Office of the Legislative Services of the Legislative Assembly of the Commonwealth of Puerto Rico (Office)**, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the **Office**'s basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **Office**'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 **Office**'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major funds, and the aggregate remaining fund information of the **Office**, as of June 30, 2021, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed in Note 1, the basic financial statements of the **Office** are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 5-15, budgetary comparison information, on pages 83-84, and employees' retirement information and employees' Other Postemployment Benefits information, on pages 85 through 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to management's discussion and analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the **Office**, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the **Office**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office**'s internal control over financial reporting and compliance.

CPA D M, CSP

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

Caguas, Puerto Rico
November 30, 2022

Stamp No. E508692 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

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The following is a discussion and analysis of the Office of Legislative Services of the Legislative Assembly (Office)'s financial performance, including an overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2021. Readers should consider this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the Office's financial statements, including the notes to the financial statements, which are located after this analysis.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

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

- The Office's net deficit amounted to $9,602,634 as of June 30, 2021. Such net position decreased by $2,174,804 during the fiscal year ended June 30, 2021. This decrease is mostly attributable consumption of cash available from previous year during the year.
- The total assets of the Office decreased by $2,372,102 during the fiscal year ended June 30, 2021. This decrease is mainly attributable to a decrease in the current assets by $2,249,522 at the end of the fiscal year.
- The total liabilities of the Office amounted to $20,899,001 comprised of the accrual required under GASB No. 34 for vacations and sick leave in the amounts of $1,242,119, $404,355 due to creditors and the accrual required under GASB No. 73 for the proportionate share of the "collective" Total Pension Liability in the amount of $18,730,402 and GASB No. 75 Total Other Postemployment Benefits Liability of $522,125 at the close of the fiscal year ended June 30, 2021.
- The Office of Legislative Services has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

Fund Highlights

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

- At the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of $7,857,628, a decrease of $1,921,419 or -19.65% when comparing with the prior year.
- The General Fund reported an excess of expenditures over revenues and other financing resources $1,673,328 and unassigned fund balance of $4.5 million.

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2021 was $307,420 (net of accumulated depreciation of $1,817,961).
- The final budget of the Office for the fiscal year ended June 30, 2021 was $7,349,246. The Office achieved an economy of $576,167 in its management of the general fund 2020-2021 budget for the fiscal year ended June 30, 2021.

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OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

  The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective and have been implemented, when applicable, during the year ended June 30, 2021:

  - Statement No. 84, *Fiduciary Activities*
  - Statement No. 90, *Majority Equity Interests*

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

continue

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

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

None of these have significant implications in the financial statements of the Office.

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 16 through 18 of this report.

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- ***Fund Financial Statements***

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Office's near-term financing requirements.

As required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Office's governmental funds reported combined ending fund balances of $7.9 million. Of this amount, the General Fund of presents an Unassigned Fund Balance of $4.5 million, that is available balance for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

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

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

The General Fund is the chief operating fund of the Office. At the end of the current fiscal year, the General Fund balance was $4.5 million.

The governmental fund financial statements can be found on pages 19 through 22 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the basic financial statements can be found on pages 23 through 81 of this report.

continue

- ***Required Supplementary Information***

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

  The *Schedule of Revenues and Expenditures – Budget and Actual* can be found on the pages 83-84 of this report.

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

  The required supplementary information reported are related to the implementation of GASB Statement No. 73 and GASB Statement No. 75 for pension liability and OPEB liability reporting, are presented immediately following the notes to the financial statements and can be found on pages 85-87 of this report.

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

Government-Wide Financial Statements Analysis

The following Table presents a summary of the Statements of Net Position as of June 30, 2021 and 2020:

Table 1

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

	Governmental Activities		Total	
			Dollar Change	Percent Change
	2021	2020	2021	2021
Current Assets	$ 8,261,983	$ 10,511,505	$ (2,249,522)	-21.40%
Capital Assets	307,420	430,000	(122,580)	-28.51%
Total Assets	8,569,403	10,941,505	(2,372,102)	-21.68%
Deferred Outflows of Resources	3,931,791	2,382,280	1,549,511	65.04%
Current Liabilities	508,751	851,469	(342,718)	-40.25%
Noncurrent Liabilities	20,390,250	18,875,699	1,514,551	8.02%
Total Liabilities	20,899,001	19,727,168	1,171,833	5.94%
Deferred Inflows of Resources	1,204,827	1,024,447	180,380	17.61%
Net Position (As restated):				
Net Investment in Capital Assets	307,420	430,000	(122,580)	-28.51%
Restricted	3,352,362	3,600,452	(248,090)	-6.89%
Unrestricted (Deficit)	(13,262,416)	(11,458,282)	(1,804,134)	15.75%
Total Net Position (Deficit)	$ (9,602,634)	$ (7,427,830)	$ (2,174,804)	29.28%

continue

Analysis of Net Position

As noted earlier, net (deficit) position may serve over time as a useful indicator of a government's financial position. The Office's liabilities and deferred inflows exceeded its assets and deferred outflows by $9.6 million at the close of the most recent fiscal year.

A portion of the Office's net (deficit) position reflects its investment in capital assets (e.g., equipment, computer equipment, improvement to facilities, furniture, vehicles, and intangibles) for $307 thousands [total capital assets less accumulated depreciation]. The Office uses these assets to provide services to legislative assembly and consequently, these assets are not available for future spending.

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

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

As of June 30, 2021, the Office presented unrestricted net position of ($13.3) million. This balance was affected by long-term obligations such as compensated absences $1.2 million, $522,125 for Total Other Postemployment Benefits Liability and Total Pension Liability of $18.7 million, for which the Office did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "Pay-As-You-Go" basis without providing funding for their future liquidation. There is $2,174,804 in loss net position reported in connection with the Office's governmental activities.

Changes in Net Position

The following table summarizes the changes in net position for the years ended June 30, 2021 and 2020:

Table 2

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

	Governmental Activities		Total Dollar Change	Total Percent Change
	2021	2020	2021	2021
Revenues:				
General Revenues:				
Intergovernmental	$ 7,349,246	$ 5,721,280	$ 1,627,966	28.45%
Total Revenues	7,349,246	5,721,280	1,627,966	28.45%
Governmental Activities Expenses:				
General Government- Administrative and Operating	9,187,235	10,882,030	(1,694,795)	-15.57%
Internships	336,815	284,400	52,415	18.43%
Total Expenses	9,524,050	11,166,430	(1,642,380)	-14.71%
Changes in Net Position	**(2,174,804)**	**(5,445,150)**	**3,270,346**	-60.06%
Net Positon (Deficit) - Beginning of year	(7,427,830)	(1,982,680)	(5,445,150)	274.64%
Net Position (Deficit) - Ending	**$ (9,602,634)**	**$ (7,427,830)**	**$ (2,174,804)**	29.28%

continue

Analysis of Changes in Net Position

The Office's net (deficit) position overall decreased by $2,174,804 during fiscal year 2020-2021, compared to a $5,445,150 decrease last fiscal year. A discussion of these changes is presented in the government activities below.

Governmental Activities. The Office's net position decreased by $2,174,804 the current fiscal year. For the most part, changes in expenses were related to payroll and related expenses and internships for the year.

Approximately 100% of the Office's revenues came from state contributions. The Office's expenses cover a range of services. The largest expenses are general administration with 96.0% of total expenses. Expenses are maintained similar as 2020.

The Office's major expense is related to salaries, benefits and payroll taxes, which represents 68.0% and 61.1% of total expenses for the fiscal years ended June 30, 2021 and 2020, respectively.

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

Table 3

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

	Total Cost of Services		Net Cost of Services	
	2021	**2020**	**2021**	**2020**
Governmental Activities:				
General Government - Administrative and Operating	$ 9,187,235	$ 10,882,030	$ 9,187,235	$ 10,882,030
Internships	336,815	284,400	336,815	284,400
Total Expenses	$ 9,524,050	$ 11,166,430	$ 9,524,050	$ 11,166,430

FINANCIAL ANALYSIS OF THE OFFICE'S FUNDS

Governmental Funds

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

continue

Table 4

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

	FUND BALANCES							
	Nonspendable		Restricted		Unassigned		**Total**	
	2021	2020	2021	2020	2021	2020	2021	2020
Funds:								
General	$ 8,755	$ 30,545	$ -	$ -	$ 4,496,511	$ 6,148,051	$ 4,505,266	$ 6,178,596
Special Funds	8,098	11,232	3,344,264	3,589,219	-	-	3,352,362	3,600,451
Total	$ 16,853	$ 41,777	$ 3,344,264	$ 3,589,219	$ 4,496,511	$ 6,148,051	$ 7,857,628	$ 9,779,047

As of the end of the fiscal year 2021, the Office's governmental funds reported a combined ending balance of $7,857,628. The general fund is the chief operating fund of the Office. The combined fund balances include non-spendable fund balance amounting to $16,853 as of June 30, 2021. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent in the General Fund or there are no expectations to be converted in cash soon enough to affect the current period. There are restricted fund balances amounting to $3,344,264. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. Accordingly, since there is an excess of non-spendable, restricted fund balances over total fund balances, an unassigned fund balance of ($4,496,511) was reported in the governmental funds on June 30, 2021.

The Office's fund balance decreased by $1,921,419 or 19.65%, as a result of the current fiscal year's change in financial position. See additional related comment in the following section titled general fund budgetary highlights.

Table 5

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

	2021	**2020**	**Dollar Change**	**Percent Change**
Revenues:				
Appropriation from Commonwealth	$ 7,349,246	$ 5,721,280	$ 1,627,966	$ 0
Other	-	-	-	
Total Revenues	7,349,246	5,721,280	1,627,966	0
Expenditures				
General Government	8,916,389	10,544,253	(1,627,864)	(0)
Contributions and Special Programs	336,815	284,400	52,415	0
Capital Outlay	17,461	1,951	15,510	8
Total Expenditures	9,270,665	10,830,604	(1,559,939)	(0)
Net Change in Fund Balance	**$ (1,921,419)**	**$ (5,109,324)**	**$ 3,187,905**	-62.39%

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's Budget for the fiscal year ended June 30, 2021 was $7,349,246, and the actual expenditures charge to the current budget were $6,773.079. The total expenditures represented 88.8% of the total budget available for the fiscal year. The Office's expenditure rate of 92.0% represents an increase rate when compared to the prior year's performance of 93.1%.

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The revenue variance is mainly because on January 28, 2020, the Financial Oversight and Management Board for Puerto Rico approved the House of Representative's reapportionment of funds request in the amount of $1,500,000, for the Office's operational budget for the FY 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Office has invested $307,420 (net of accumulated depreciation) in a broad range of capital assets, including vehicles and equipment. This amount represents a net decrease of $122,580 or (28.51%) less than prior year. The Office acquired a total of $17,461 of capital assets during the fiscal year 2020-2021.

Table 6 present the components of capital assets during the fiscal years 2021 and 2020:

Table 6

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

Description	2021	2020	Dollar Change	Percent Change
Governmental Activities:				
Depreciable Capital Assets (Net):				
Equipment	$ 78,931	$ 101,347	$ (22,416)	-22.12%
Computer Equipment	73,882	135,966	(62,084)	-45.66%
Library	30,918	253	30,665	12120.55%
Improvement to Facilities	1,281	5,424	(4,143)	-76.38%
Furnitures	117,650	172,721	(55,071)	-31.88%
Vehicles	4,758	14,289	(9,531)	-66.70%
Total Capital Assets:	$ 307,420	$ 430,000	$ (122,580)	-28.51%

Additional information on the Office's capital assets can be found in Note 6 to the basic financial statements on page 38 of this report.

LONG-TERM LIABILITIES

At year-end, the Office had $20.5 million in outstanding debt including compensated absences, Total Other Postemployment Benefits Liability and the Total Pension Liability for the implementation of GASB No. 73. This amount represents an increase of $1,499,935, or 7.90% with respect to prior year.

Table 7 present the components of outstanding long-term debts as of June 30, 2021 and 2020:

continue

Table 7

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

	2021	2020	Dollar Change	Percent Change
Governmental Activities:				
Compensated Absences	$ 1,242,119	$ 1,380,534	$ (138,415)	-10.03%
Total OPEB Liability	522,125	470,228	51,897	11%
Total Pension Liability	18,730,402	17,143,949	1,586,453	9%
Total	$ 20,494,646	$ 18,994,711	$ 1,499,935	7.90%

More detailed information about the Office's long-term liabilities is presented in Note 8 to the basic financial statements on page 39 of this report.

DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Deferred Outflows of Resources

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

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

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

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Office's deferred outflows of resources and deferred inflows of resources is presented in Note 7 to the financial statements on pages 38-39 of this report.

continue

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

Also, attention was directed to Note 14 to the basic financial statements on pages 56-64 of this report, related to the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increase revenues and reduce substantially expenses, including subsidies to the municipalities of Puerto Rico. The most recent Fiscal Plan was approved in January 2022.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

According to the Puerto Rico Planning Board most recent report submitted to the Puerto Rico's Governor on March 29, 2019, Puerto Rico's real gross national product decreased by 4.7% on fiscal year 2018 and by 3.0% on fiscal year 2017. The Puerto Rico Planning Board projected a decrease on the gross national product between of 16.1% for the fiscal year 2018 and increase of 5.3% for 2019 based on pre-measures and structural reforms. The Planning Board's forecast considered the estimated effect of the projected growth of the United States gross domestic product, tourism activity, personal consumption expenditures, and federal transfers to individuals.

Employment

According to the Economic Report to the Governor issued by the Puerto Rico Planning Board (PRPB) in April 2020, the total of people employed during the fiscal year 2019 amounted to approximately 986,000 or an increase of 1.5% when compared to fiscal year 2018. During the first semester of the fiscal year 2019, total of people employed amounted to 986,000 or an increase of approximately 1.5%, when compared to the previous year. The reduction in total employment began in fiscal year 2007. When employments total was 1,263,000 and has continued consistently through fiscal year 2019.

The preliminary average unemployment rate for the fiscal year 2021 and determined by the Department of Labor and Human Resources was 8.5% at July 2020. This represented an increase of 13.3% when compared to fiscal year 2019 (7.5%).

The Office expects limited changes in revenues for the next year due to Puerto Rico economic rescission. Budgeted expenditures are expected to decrease accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with PROMESA Act. The Office adopted the 2021-2022 fiscal year budgets on July 1, 2021. The legislative appropriations for the fiscal year ending June 30, 2022 amount to $6,589,951 this represents a reduction of $759,295 when comparing to 2021.

CONTACTING THE OFFICE'S FINANCIAL MANAGEMENT

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

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		GOVERNMENTAL ACTIVITIES
ASSETS:		
Current Assets:		
Cash	$	8,132,705
Receivables (Net):		
Governmental Entities		25,109
Other		27,315
Other Assets		60,000
Office Supplies		16,854
Total Current Assets		**8,261,983**
Non-Current Assets:		
Capital Assets, Net		307,420
TOTAL ASSETS		**8,569,403**
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Related		3,895,891
OPEB Related		35,900
TOTAL DEFERRED OUTFLOWS OF RESOURCES		**3,931,791**

continue

LIABILITIES:		
Current Liabilities:		
Accounts Payable	$	361,780
Due to Governmental Units		37,853
Accrued Liabilities		4,722
Short-Term Obligations:		
Compensated Absences		104,396
Total Current Liabilities		**508,751**
Non-Current Liabilities:		
Compensated Absences		1,137,723
Total OPEB Liabilities		522,125
Total Pension Liabilities		18,730,402
Total Non-Current Liabilities		**20,390,250**
TOTAL LIABILITIES		**20,899,001**
DEFERRED INFLOWS OF RESOURCES:		
Pension Related		1,204,827
TOTAL DEFERRED INFLOWS OF RESOURCES		**1,204,827**
NET POSITION:		
Net Investment in Capital Assets		307,420
Restricted for:		
Subsidies and Incentives		3,352,362
Unrestricted (Deficit)		(13,262,416)
TOTAL NET POSITION	**$**	**(9,602,634)**

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

		Program Revenues			Net (Expense)
Functions/Programs	**Expenses**	**Charges For Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Revenue and Changes in Net Position**
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Government - Administrative and Operating	$ 9,187,235	$ -	$ -	$ -	$ (9,187,235)
Internships	336,815	-	-	-	(336,815)
Total Primary Government	**$ 9,524,050**	**$ -**	**$ -**	**$ -**	**$ (9,524,050)**
	General Revenues:				
	Intergovermental				7,349,246
	Total General Revenues				7,349,246
	CHANGES IN NET POSITION				**(2,174,804)**
	Net Position (Deficit), As Restated – Beginning of Year				(7,427,830)
	NET POSITION (DEFICIT) – ENDING OF YEAR				**$ (9,602,634)**

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

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2021

	GENERAL FUND	SPECIAL FUND	TOTAL FUNDS
ASSETS:			
Cash	$ 4,674,905	$ 3,457,800	$ 8,132,705
Receivables (Net):			
Governmental Entities	25,109	-	25,109
Other	14,880	12,435	27,315
Due from Other Funds	-	16,550	16,550
Other Assets	-	60,000	60,000
Inventory Supplies	8,755	8,099	16,854
Total Assets	**$ 4,723,649**	**$ 3,554,884**	**$ 8,278,533**
LIABILITIES:			
Accounts Payable	$ 163,980	$ 197,800	$ 361,780
Due to Other Funds	16,550		16,550
Due to Governmental Units	37,853	-	37,853
Accrued Liabilities	-	4,722	4,722
Total Liabilities	**218,383**	**202,522**	**420,905**
FUND BALANCES:			
Nonspendable - Inventory	8,755	8,098	16,853
Spendable:			
Restricted		3,344,264	3,344,264
Unassigned	4,496,511	-	4,496,511
Total Fund Balances	4,505,266	3,352,362	7,857,628
Total Liabilities and Fund Balances	**$ 4,723,649**	**$ 3,554,884**	**$ 8,278,533**

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

Total Fund Balances – Government Funds (Page 19)		**$ 7,857,628**
Amount reported for Governmental Activities in the Statement of Net Position (Page 17) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Capital Assets	$ 2,125,381	
Accumulated Depreciation	(1,817,961)	
Total Capital Assets		307,420
Deferred Outflows of Resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds.		3,931,791
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(1,204,827)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Total OPEB Liabilities	(522,125)	
Total Pension Liabilities	(18,730,402)	
Accrued Compensated Absences	(1,242,119)	
Total Long-Term Liabilities		(20,494,646)
Total Net Position (Deficit) of Governmental Activities (Page 17)		**$ (9,602,634)**

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	GENERAL FUND	SPECIAL FUND	TOTAL FUNDS
REVENUES:			
Intergovernmental	$ 6,685,046	$ 664,200	$ 7,349,246
Total Revenues	**6,685,046**	**664,200**	**7,349,246**
EXPENDITURES:			
Current:			
General Government - Administrative and Operating Activities	8,346,053	570,336	8,916,389
Internships	-	336,815	336,815
Capital Outlays	12,323	5,138	17,461
Total Expenditures	**8,358,376**	**912,289**	**9,270,665**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(1,673,330)**	**(248,089)**	**(1,921,419)**
Net Change in Fund Balances	**(1,673,330)**	**(248,089)**	**(1,921,419)**
Fund Balances – Beginning	6,178,596	3,600,451	9,779,047
FUND BALANCES – ENDING	**$ 4,505,266**	**$ 3,352,362**	**$ 7,857,628**

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Net Change in Fund Balances – Government Funds (Page 21)		**$ (1,921,419)**
Amount reported for Governmental Activities in the Statement of Activities (Page 18) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Depreciation Expense	$ (140,041)	
Capital Outlays	17,461	
Excess of Depreciation Expense over Capital Outlays		(122,580)
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Change in Compensated Absences	138,415	
Change in Net Other Post-Employment Benefits Liability	51,897	
Change in Net Pension Liability	(321,117)	
Total Additional Expenses		(130,805)
Change in Net Position (Deficit) of Governmental Activities (Page 18)		**$ (2,174,804)**

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Financial Reporting Entity

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

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

Summary of Significant Accounting Policies

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

continue

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

Basis of Presentation and Fund Accounting

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

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

The accompanying basic financial statements present the financial position of the governmental activities, business-type activities, each major governmental fund, and the aggregate remaining fund information of the Office at June 30, 2021, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2021 in conformity with GAAP.

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

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

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

Required Supplementary Information – Management's Discussion and Analysis

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

Government-Wide Financial Statements (GWFS)

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

continue

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

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

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

Governmental Funds Financial Statements (GFFS)

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

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

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

The following are the governmental funds presented in the financial statements as of, and for the year ended June 30, 2021:

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

<u>*Special Fund*</u> – This major fund accounts for the financial resources related to the Special Assignment by the Commonwealth administered by the Office.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information on June 30, 2021 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

continue

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2021.

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

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

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

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

Notes to the Basic Financial Statements

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

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

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

Required Supplementary Information – Employees Retirement System (Unaudited)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Office's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Office to its employees. After approval of Act No. 106-2017, because the plan is unfunded, a change to a "Pay-As-You-Go" basis resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. Also, required supplementary information that include the Schedule of Proportionate Share of the Total Pension Liability has changed to Total Pension Liability for unfunded Plan. Accordingly, the RSI is now in accordance with GASB No. 73.

continue

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

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

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

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made. As of June 30, 2021, the PRGERS has not issued, or made available information in order to properly adjust or disclose any deferred outflow/inflow of resources, change in Total OPEB Liability after implementation, applicable to the Office.

<u>Measurement Focus and Basis of Accounting</u>

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

Government-Wide Financial Statements

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

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

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

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

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

continue

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

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

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

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Office considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Office earns by incurring obligations are recognized in the same period as when the obligations are recognized. On June 30, 2021, all revenues sources met this availability criterion.

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

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

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

Stewardship, Compliance, and Accountability

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

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

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

continue

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

Budgetary Control

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

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

Risk Financing

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

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

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

Inter-Fund Balances

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

Cash and Cash Equivalents

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

Inventories

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

continue

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

Receivables and Payables

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

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

Receivables consist of all revenues earned but not collected on June 30, 2021. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly service charges corresponding to June revenues collected during July and August 2021. Intergovernmental receivables in the other governmental funds represent amounts owed to the Office for reimbursement of expenditures incurred pursuant to state appropriations.

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

Capital Assets

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

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

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

CAPITAL ASSETS	YEARS
Equipment	5
Computer Equipment and Software	5
Library	3
Furniture	5
Vehicles	5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

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

continue

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

Deferred Outflows/Inflows of Resources

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

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

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

Based on this concept, the Office reports the deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 73. Note 7 presents additional information about the composition of these items.

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

Long-Term Obligations

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

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

Compensated Absences

Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, *Compensated Absences*. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2021 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Office and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

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

continue

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

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

Use of Estimates

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

Claims and Judgments

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

Fair Value

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

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

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

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

continue

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

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

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

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

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

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

Based on the criteria set forth above, the Office has classified its financial instruments as Level 2 instruments as of June 30, 2021.

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

The observability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2021, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments on June 30, 2021. There have been no changes in valuation methods.

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

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

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument is significant and can materially impact the changes in net position and fund balances of the Office. The valuations are based on information available on June 30, 2021 and are based on expectations and assumptions that have been deemed reasonable by management.

continue

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

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

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

However, the difference between the estimated fair values and carrying values of the Office's financial instruments were not considered significant by the Office on June 30, 2021.

Accounting for Pension Costs

As further disclosed in Note 10, effective July 1, 2017, a new “Pay-As-You-Go” (“Pay-Go”) system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the “Pay-Go” system, employers’ contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth’s General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth’s General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

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

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

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

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

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

- Act No. 32-2013 Additional Uniform Contribution.

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

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

continue

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

Other Postemployment Benefits

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

In addition to the pension benefits described in Note 10, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and Municipalities funds (see Note 11).

Net Position/Fund Balance

A) Net Position

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

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

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For Governmental Activities, net investment in capital assets is comprised only on Capital Assets, Net of Accumulated Depreciation. No Outstanding Balance on Related Debt or Unspent Capital Debt Proceeds exists.

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

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

Net Position Flow Assumption

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

continue

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

B) Fund Balance

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

During the year, the Office invests its funds in interest bearing bank accounts. The Office is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Office. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation. During the year ended June 30, 2021, the Office invested its funds in bank accounts bearing interest.

The Office follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Office on June 30, 2021:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. On June 30, 2021, the Office has invested only in cash equivalents of $8.1 million consisting of interest-bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Office in commercial banks must be fully collateralized for the amounts deposited more than the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2021. Therefore, the Office's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Office's deposits is considered low on June 30, 2021.

continue

NOTE 2 – CASH AND CASH EQUIVALENTS – continuation

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Office will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by FAFAA, the Office may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by FAFAA. On June 30, 2021, the Office has balances deposited in commercial banks amounting to $8,132,705 are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Therefore, the Office's management has concluded that on June 30, 2021, the custodial credit risk associated with the Office's cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. the Office manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio on June 30, 2021, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks' deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, on June 30, 2021, the interest risk associated with the Office's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Office, the Office is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Office's deposits is considered low on June 30, 2021.

NOTE 3 – INTERGOVERNMENTAL ACCOUNTS RECEIVABLE

Intergovernmental account receivables from governmental entities totaled $25,109 from the Senate of Puerto Rico.

NOTE 4 – INVENTORY

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

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

Description	Location	Valuation
Office Materials	OSL Office	$ 7,921
Medical Supplies	Capitol Building	8,933
		$ 16,854

continue

NOTE 5 – DUE TO GOVERNMENTAL UNITS

Due to governmental units on June 30, 2021 are summarized as follows:

Puerto Rico Treasury Department	$	7,130
Asociation of Employees of the Commonwealth of PR		26,647
Office of the Superintendent of the Capitol Building		4,076
TOTAL	$	37,853

NOTE 6 – CAPITAL ASSETS

As of June 30, 2021, the net capital assets are compound of the following:

Description	Balance at June 30, 2020	Adjustments	Additions	Retirements & Adjustments	Balance at June 30, 2021
Governmental Activities:					
Capital Assets:					
Equipment	$ 392,917	$ (13,229)	$ 5,453	$ -	$ 385,141
Computer Equipment	1,014,113	(8,757)	12,008	(2,360)	1,015,004
Library	25,179	-	-	-	25,179
Improvement to Facilities	92,475	-	-	-	92,475
Furniture	490,705	15,146	-	-	505,851
Vehicles	101,731	-	-	-	101,731
Total Depreciable Capital Assets	**2,117,120**	**(6,840)**	**17,461**	**(2,360)**	**2,125,381**
Less: accumulated depreciation					
Equipment	(291,570)	16,595	(31,235)	-	(306,210)
Computer Equipment	(878,147)	(24,163)	(41,172)	2,360	(941,122)
Library	(24,926)	30,752	(87)	-	5,739
Improvement to Facilities	(87,051)	-	(4,143)	-	(91,194)
Furniture	(317,984)	(16,344)	(53,873)	-	(388,201)
Vehicles	(87,442)	-	(9,531)	-	(96,973)
Total Accumulated Depreciation	**(1,687,120)**	**6,840**	**(140,041)**	**2,360**	**(1,817,961)**
CAPITAL ASSETS, NET	**$ 430,000**	**$ -**	**$ (122,580)**	**$ -**	**$ 307,420**

Depreciation expenses of Governmental Activities were charged to general governmental function for the fiscal year ended June 30, 2021.

NOTE 7 – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Office recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Office that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Office has items that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows/inflows from changes in the Total Pension Liability (Note 10).

continue

NOTE 7 – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES – continuation

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

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

Government-wide:	Governmental Activities
Deferred Outflows of Resources	
Pension Related	$ 3,895,891
OPEB Related	35,900
Total Deferred Outflows of Resourses	$ 3,931,791
Deferred Inflows of Resources	
Pension Related	$ 1,204,827

NOTE 8 – LONG-TERM OBLIGATIONS

The liabilities reported as June 30, 2021 in the government-wide financial statements was as follows:

	Balance at June 30, 2020	Increase	Decrease	Balance at June 30, 2021	Due within One (1) Year	Due after One (1) Year
Compensated Absences	$ 1,380,534	$ 41,150	$ (179,565)	$ 1,242,119	$ 104,396	$ 1,137,723
Total OPEB Liability	470,228	51,897	-	522,125	-	522,125
Total Pension Liability	17,143,949	1,586,453	-	18,730,402	-	18,730,402
TOTAL	$ 18,994,711	$ 1,679,500	$ (179,565)	$ 20,494,646	$ 104,396	$ 20,390,250

NOTE 9 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico. Intergovernmental revenues are accounted for through the General Fund and Special Assignments Fund because they are not restricted for specific purpose.

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2020.

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

(1) Description of the Plan and Basis of Presentation

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

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

(2) Pension Benefits

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

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

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

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

(a) Service Retirement Eligibility Requirements

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are eligible to retire at any time.

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

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

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

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

   Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

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

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

(b) *Compulsory Retirement*

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

(c) *Service Retirement Annuity Benefits*

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

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

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

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

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

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

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

   If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

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

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

(d) Special Benefits

1) *Minimum Benefits*

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

3) *Special "Bonus" Benefits*

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

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

(e) Changes in Plan Provisions since Prior Valuation

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

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

(3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences. The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

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

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

(1) Total Pension Liability

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

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

Proportion - June 30, 2020	0.06673%
Proportion - June 30, 2021	0.06899%
Change - Increase (Decrease)	-0.00226%

As June 30, 2021, the Office reported $18,730,402 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2021	
	Total	Proportionate Share (0.06673%)
Total Pension Liability - Central Government	$ 28,069,797,731	$ 18,730,402

(2) Pension Expense

For the fiscal year ended June 30, 2021, the Office recognized pension expense of $9,300 of total pension payments of the "Pay-As-You-Go" system.

(3) Deferred Outflows/Inflow of Resources

As of June 30, 2021, the Office reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 38,634	$ 421,638
Changes in assumptions	2,351,418	321,520
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	675,789	461,669
Employer pension payments made subsequent to the measurement date	830,050	-
Total	$ 3,895,891	$ 1,204,827

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

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

Year Ended June. 30,	Amount
2022	$ 672,766
2023	672,766
2024	672,766
2025	672,766
Total	$ 2,691,064

(4) Actuarial Methods and Assumptions

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate has decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020. The projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020 to reflect the projected mortality improvement scale issued in the valuation year.

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

Actuarial Cost Method

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

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

Liability Determination

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

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

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

Municipal Bond Rate: 2.21% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 2.21% per annum

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

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

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

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

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

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

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

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

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

Discount Rate

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

The discount rate on June 30, 2020 and 2021, was as follow:

	June 30, 2020	June 30, 2021
Discount Rate	3.50%	2.21%
20 Year Tax-Exempt Municipal Bond Yield	3.50%	2.21%

Changes in Total Pension Liability

Changes in Total Pension Liability	Increase (Decrease)	
	Total Pension Liability	Proportional Share
Balance as of June 30,2019 - Central Government	$ 24,850,437,978	$ 16,582,189
Changes for the Year:		
Service Cost	73,851,521	49,280
Interest on Total Pension Liability	849,370,460	566,768
Effect of Plan Changes	(100,057,157)	(66,766)
Effect of Economic/Demographic Gains and Losses	72,372,559	48,293
Effect of Assumptions Changes or Inputs	3,648,337,705	2,434,461
Benefit Payments	(1,324,515,335)	(883,822)
Balance as of June 30,2020 - Central Government	$ 28,069,797,731	$18,730,402

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

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

	1% Decrease	Current Discount Rate	1% Increase
	1.21%	2.21%	3.21%
Total Pension Liability	$ 21,485,325	$ 18,730,402	$16,508,818

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 14) on April 23, 2021. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% in the aggregate to beneficiaries of more to $1,500 of monthly benefits:

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

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

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

"Pay-As-You-Go" Funding

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

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

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

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

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

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

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

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

continue

NOTE 10 – EMPLOYEE'S RETIREMENT PLAN – continuation

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a "Pay-Go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.
- And how would the impacts of specific management decisions be handled.

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

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Healthcare Benefits

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

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

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

continue

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Christmas Bonus Benefits

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

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

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2019. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2020. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer’s fiscal year date. This report is for measurement year July 1, 2019 to June 30, 2020 for reporting period ending June 30, 2021.

Significant Changes

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

Total OPEB Liability

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

Total OPEB Liability	June 30, 2021	
	Total	Proportionate Share (0.05970%)
Total OPEB Liability - Central Government	$ 874,627,778	$ 522,125

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

Proportion - June 30, 2020	0.05650%
Proportion - June 30, 2021	0.05970%
Change - Increase (Decrease)	-0.00320%

continue

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Discount Rate

The discount rate on June 30, 2020 and 2021, was as follow:

	June 30, 2020	June 30, 2021
Discount Rate	3.50%	2.21%
20-Year Tax-Exempt Municipal Bond Yield	3.50%	2.21%

As of June 30, 2020, the ERS have issued its audited financial statements as of and for the fiscal year ended June 30, 2020 for the reporting period ending on June 30, 2021 and also, provided the Office with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2020 (Office's measurement date), necessary to comply with the requirements of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as of June 30, 2021. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the total OPEB liability, applicable disclosures and required supplementary information have been included.

Changes in Total OPEB Liability	Increase (Decrease)	
	Total OPEB Liability	Proportional Share
Balance as of June 30,2019 - Central Government	$ 832,231,462	$ 496,816
Changes for the Year:		
Service Cost	-	-
Interest on Total OPEB Liability	27,945,247	16,682
Effect of Plan Changes	-	-
Effect of Economic/Demographic Gains and Losses	(5,838,032)	(3,485)
Effect of Assumptions Changes or Inputs	88,466,873	52,812
Benefit Payments	(68,177,772)	(40,700)
Balance as of June 30,2020 - Central Government	$ 874,627,778	$ 522,125

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continue

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Actuarial Methods and Assumptions

Actuarial Assumptions:

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

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows as any changes due to changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year and only $35,900 of outflows for subsequent payment to the measurement date.

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

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

	1% Decrease 1.21%	Current Discount Rate 2.21%	1% Increase 3.21%
Total OPEB Liability	$ 577,429	$ 522,125	$ 476,909

continue

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases

Rent expense under such lease agreements for the fiscal year ended June 30, 2021 amounted to approximately to $245,175.

Litigation – the Office

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

NOTE 13 – COMPONENTS OF FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1 for a description of these categories). A detailed schedule of fund balances on June 30, 2021 is as follows:

	GENERAL FUND	SPECIAL REVENUE FUND	TOTAL FUNDS
Nonspendable:	$ 8,755	$ 8,098	$ 16,853
Restricted For:			
General Goverment and Interships	-	3,344,264	3,344,264
Total Restricted	-	3,344,264	3,344,264
Committed To:			
Total Committed	-	-	-
Assigned To:			
Total Assigned	-	-	-
Unassigned	4,496,511	-	4,496,511
Total Fund Balances	**$ 4,505,266**	**$ 3,352,362**	**$ 7,857,628**

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

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

continue

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

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

PROMESA Overview

Background

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

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

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

PROMESA

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

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

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

continue

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

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

Conditions for Termination of the Oversight Board

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

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

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

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

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

Sustainable Debt Restructuring

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

continue

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

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

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

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

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing $2,600 to the Act 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

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

continue

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

Timely Financial Reporting

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

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

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

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

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

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

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

Four Years of Balanced Budgets According to Accrual Based Accounting Method

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

continue

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

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

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

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

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continue

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

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

Legend: ● Not started ● Some Progress ● Completed

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

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

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

continue

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

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

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

Fiscal Plan – 2022

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

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

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

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

continue

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

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

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

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

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

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

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

continue

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

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

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

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

NOTE 15 – NET POSITION RESTATEMENT

The following schedule reconciles the June 30, 2020 Net Position, as previously reported to Beginning Net Position, as Restated, July 1, 2020, for Governmental Activities.

	Governmental Activities
Beginning Net Position (Deficit), As Previously Reported, June 30, 2020	$ (1,881,466)
OPEB Related Adjustment	(9,534)
Pension Related Adjustment	(5,536,830)
Beginning Net Position (Deficit), As Restated July 1, 2020	$ (7,427,830)

continue

NOTE 16 – NEW ACCOUNTING STANDARDS

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

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective and have been implemented, when applicable, during the year ended June 30, 2021:

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

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

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2020-2021).

GASB No. 84 does not have any impact on the Office's basic financial statements.

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2020-2021).

GASB No. 90 does not have any impact on the Office's basic financial statements.

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

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The Office is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year (FY 2021-2022 or after).

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

DEFINITION OF A LEASE

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

LEASE TERM

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

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

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

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

SHORT-TERM LEASES

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

LESSEE ACCOUNTING

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

LESSSOR ACCOUNTING

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

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

CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS

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

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

LEASE MODIFICATIONS AND TERMINATIONS

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

SUBLEASES AND LEASEBACK TRANSACTIONS

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 *(FY 2020-2021)*. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional eighteen months (FY 2021-2022).

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2020-2021)*. Earlier application is encouraged. The requirement of this Statement should be applied prospectively. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

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

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

- There are at least three parties involved: (1) an issuer. (2) a third-party obligor, and (3) a debt holder or a debt trustee.

- The issuer and the third-party obligor are not within the same financial reporting entity.

- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

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

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

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

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

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020-2021). Early application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

- The requirements related to the effective date of Statement No. 87 and Implementation Guide No. 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. As per GASB Statement No. 95 the effective date is postponed by additional 18 months (FY 2021-2022).
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement No. 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (December 31, 2021). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

PPPS

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

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

APAS

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

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

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

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

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (FY 2021-2022). Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

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

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

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

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

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

RECOGNITION AND MEASUREMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

continue

NOTE 16 – NEW ACCOUNTING STANDARDS – continuation

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

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.5, 4.18, and 5.3 for reporting periods beginning after June 15, 2021 (FY 2021-2022)
Questions 4.6–4.17 for fiscal years beginning after December 15, 2021 (FY 2022-2023), and all reporting periods thereafter
Questions 4.19–4.21 for reporting periods beginning after December 15, 2021 (FY 2022-2023)
Questions 5.1, 5.2, 5.4, and 5.5 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
The provisions of paragraph 6 are effective immediately.

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

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

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022 (FY 2022-2023)
Questions 4.4–4.21 for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter
Question 4.22 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
Question 5.1 for reporting periods beginning after June 15, 2023 (FY 2023-2024).

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

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

NOTE 17 – SUBSEQUENT EVENT

Management believes that the following events should be disclosed:

PROMESA

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

continue

NOTE 17 – SUBSEQUENT EVENT – continuation

The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

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

2022 Fiscal Plan for Puerto Rico

In accordance with the provisions described on Note 14 of the basic financial statements, the Oversight Board approved on January 27, 2022 the Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. The scope of the Fiscal Plan is described in that Note.

Management has evaluated subsequent events through November 30, 2022 which is the same date the financial statements were available to be issued.

END OF NOTES

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Required Supplementary Information

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SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – GENERAL AND SPECIAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Budget Amounts		Actual Amounts	
	Original	Final	(Budgetary Basis)	Variance
REVENUES:				
Intergovernmental	$ 6,685,046	$ 6,685,046	$ 6,685,046	$ -
Special Appropriations	664,200	664,200	664,200	-
Total Revenues	7,349,246	7,349,246	7,349,246	-
EXPENDITURES:				
Current:				
General Government - Administrative and Operating Activities	6,994,970	6,994,970	6,418,803	576,167
Intership Programs	336,815	336,815	336,815	-
Capital Outlays	17,461	17,461	17,461	-
Total Expenditures	7,349,246	7,349,246	6,773,079	576,167
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ -	$ -	$ 576,167	$ 576,167

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

1. RECONCILIATION OF BUDGET/ GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2021 is presented below for the general and special funds.

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

		General Fund
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 83)	$	7,349,246
Difference – Budget to GAAP:		
Non budgetary items –		-
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	$	7,349,246
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 83)	$	6,773,079
Difference – Budget to GAAP:		
Non budgetary items – Expenditures of Savings from prior years (which are included on the General Fund)		2,497,586
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	$	9,270,665

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE
OF THE TOTAL PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT BENEFITS LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018	2017
Proportion of Total Other Post-Employment Benefit Liability *	$ 522,125	$ 470,228	$ 445,942	$ 460,695	$ 550,976
Proportionate Share of Total Other Post-Employment Benefit	0.05970%	0.05650%	0.05295%	0.05005%	0.04649%
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A
Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

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

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

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

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

END OF NOTES

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Office of Legislative Services of the Legislative Assembly of the Commonwealth of Puerto Rico** (**Office**), as of and for the fiscal year ended June 30, 2021, and the related notes to basic financial statements, which collectively comprise the **Office**'s basic financial statements, and have issued our report thereon dated November 30, 2022.

Entity Part of the Commonwealth of Puerto Rico

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CPA D M, CSP

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

Caguas, Puerto Rico
November 30, 2022

Stamp No. E508693 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.