COMMONWEALTH OF PUERTO RICO

SOCIOECONOMIC AND COMMUNITY DEVELOPMENT OFFICE

FINANCIAL STATEMENT – CASH BASIS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE *GOVERNMENT AUDITING STANDARDS* AND THE *UNIFORM GUIDANCE*)

For the Fiscal Year Ended June 30, 2020

1208 Ave. Franklin D Roosevelt

San Juan Puerto Rico 00920

Visit our website at www.odsec.pr.gov/

Thais M. Reyes Serrano, Executive Director

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INDEPENDENT AUDITORS' REPORT

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on the Financial Statement

We have audited the accompanying cash basis financial statement of the **Socioeconomic and Community Development Office (Office),** which comprise Statement of Cash Receipts and Disbursements – Governmental Funds for the fiscal year ended June 30, 2020, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in **Note 1**, this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement are free of material misstatement.

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

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

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions

Opinion Unit	Type of Opinion
General Fund	Unmodified
Community Services Block Grant – Federal	Unmodified
Others Funds	Unmodified

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements of the **Office** for the year ended June 30, 2020, in conformity with the basis of accounting described in **Note 1**.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying financial statement of the **Office** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 8** to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 8**. The financial statement do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Basis of Accounting

As described in **Note 1**, the **Office** prepares its financial statement on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as described in **Note 1**, the financial statement of the **Office** is intended to present the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **4** through **8** and **39** be presented to supplement the financial statement. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statement, and other knowledge we obtained during our audit of the financial statement. 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.

Other Information

Our audit was performed for the purpose of forming an opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards Uniform Guidance*, on pages **41** and **42**, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement.

The information has been subjected to the auditing procedures applied in the audit of the statement receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of receipts and disbursements or to the statement of receipts and disbursements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2021, on our consideration of **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 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 **Office's** internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ–VEGA, CPA, PSC

San Juan, Puerto Rico
September 27, 2021

Stamp No. 2783540 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INTRODUCTION

As management of the **Socioeconomic and Community Development Office (Office)**, we offer to the readers of this annual financial report our discussion and analysis of the **Office's** financial performance during the fiscal year ended June 30, 2020. The following discussion and analysis has been designed to accomplish the following goals:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the **Office's** financial activity;
- Identify any material deviations from the financial plan (the approved budget), and;
- Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the **Office's** financial statement.

ORGANIZATION AND MISSION STATEMENT

Law 10-2017

Law 10-2017, creates the **"Socioeconomic and Community Development Office" (known as ODSEC by its Spanish acronym).** Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to **Office** the administration of federal funds known as "Community Development Block Grant"(CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108". On July 27, 2018 Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of "Oficina de Desarrollo Socioeconómico Comunitario"(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the "Community Development Grant" (CDBG) funds, the special funds included in the CDBG program that include the "Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program" (NSP), "Disaster Recovery" and the funds under the Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108".

In addition, the **Office** receive and administer the "Community Services Block Grant"(CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** and receive and administer the "Juvenile Justice and Delinquency Prevention Fund" to supports states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence. Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low income persons, motivation and training programs, community improvement projects, programs to organize the communities' leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The annual budgetary appropriation amounted to $22,467,000 for the fiscal year ended June 30, 2020. In addition, the **Office** receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2020 the **Office** received $9,532,760 from Legislature Resolutions.

FINANCIAL HIGHLIGHTS

- In the **Office** Statement of Cash Receipts and Cash Disbursements – Governmental Fund Types, the actual cash receipts exceeded actual cash disbursements by $9,363,688.

- The General Fund (the primary operating fund) cash receipts amounted to $22,467,000 and represents 46% of total cash receipts during the fiscal year.

- The General Fund (the primary operating fund) cash disbursements amounted to $11,019,761 and represents 28% of total cash disbursement for the fiscal year.

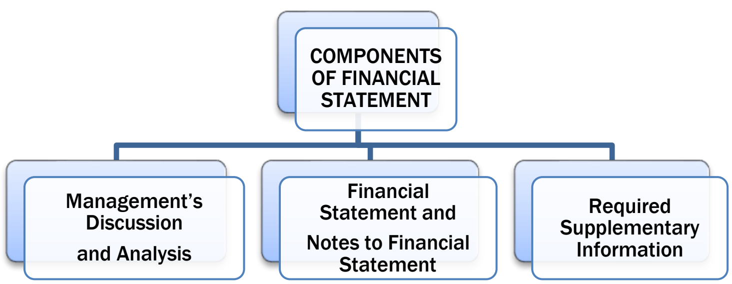
- During the fiscal year 2020, federal funds received amounted to $17,134,016 and federal funds disbursements amounted to $25,173,521.

- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by $15,410,343.

FINANCIAL STATEMENT PRESENTATION

Overview of the Financial Statement

The **Office's** financial statement comprises three components: (1) management discussion and analysis, (2) financial statement, and (3) required supplementary information.



- **Financial Statement** -The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statement is not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

  The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services and U.S. Department of Justice. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

- **Notes to the Financial Statement** – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.

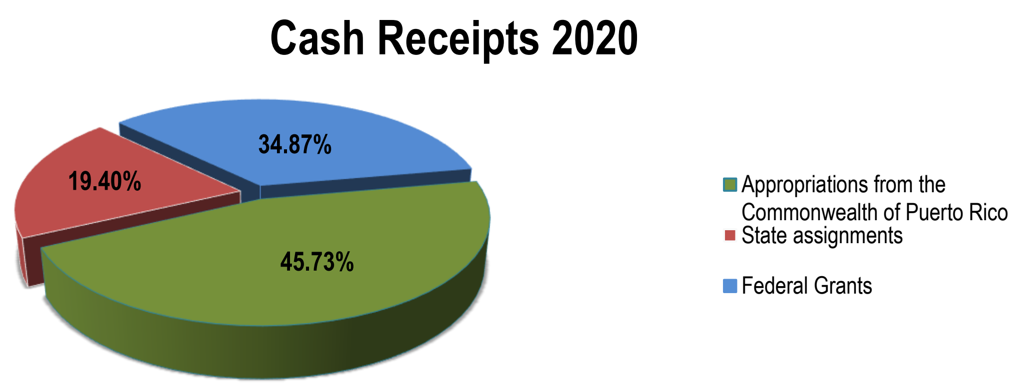
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund.

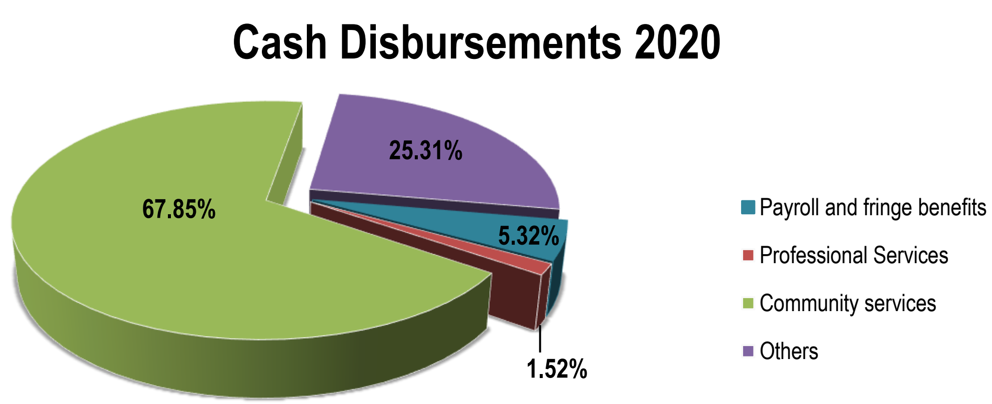
➢ FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Governmental Fund Financial Statement

The governmental fund financial statement focus on major funds. The **Office's** major funds are the general fund (which accounts for the main operating activities of the **Office**) and federal fund (which account for all grants received from the federal programs). The **Office's** Statement of Cash Receipts and Cash Disbursements for fiscal year ended June 30, 2020, presented those four major funds: 1) General Fund; 2) Community Service Block Grant and 3) Other Funds.

The following figures present how governmental activities of the **Office's** basic services were financed and distributed. These activities are primarily financed through state assignments and federal grants. The accounts of the **Office** are organized on two fund types: general fund and federal fund. The **Office** maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund, which correspond to the funds accounted for the operations of the **Office** and appropriations granted for specific purposes, respectively. The measurement focus of the **Office's** governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending and determination of the excess (deficiency) of receipts over (under) cash disbursements, rather than upon net income determination. Such financial information is useful in assessing the **Office's** financing requirements.





FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

GENERAL FUND BUDGETARY HIGHLIGHTS

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **Office**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. On a budgetary basis, actual cash receipts exceeded actual cash disbursements by $15,410,343.

ECONOMIC FACTORS

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

As more fully explained in **Notes 7** and **8** to the financial statement, the Governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- ***Effect of Commonwealth***

  The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

  On September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure $35 million on debt and other claims against the Commonwealth to $12 billion, the Public Building Authority, and the Employee Retirement System, and more than $50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statement were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

  The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

- **Impact of COVID-19 Pandemic**

  As explain in **Note 7**, on March 12, 2020, Governor Vázquez declared a state of emergency across the island due tothe COVID-19 global pandemic.

ECONOMIC FACTORS (CONTINUED)

- **Impact of COVID-19 Pandemic (continued)**

  Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID- 19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16, 2020.

  The **Office's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place.

  On July 1, 2020, the **Office's** administrative and programmatic work was resumed as usual, following the protective measures established by the COVID 19 Contingency Plan issued by the **Office**.

FINANCIAL CONTACT

The **Office**'s financial statement are designed to present the readers with a general overview of the cash receipts and cash disbursements of the **Office**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico **Socioeconomic and Community Development Office** Executive Director, 1208 Ave. Franklin D Roosevelt, San Juan Puerto Rico 00920.

	General Fund	Community Services Block Grant – Federal	Others Funds	Total Governmental Funds
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico	$ 22,467,000	$ -	$ -	$ 22,467,000
State assignments	-	-	9,532,760	9,532,760
Federal Grants	-	17,134,016	-	17,134,016
Total receipts	22,467,000	17,134,016	9,532,760	49,133,776
CASH DISBURSEMENTS				
Payroll and fringe benefits	1,831,565	79,462	207,776	2,118,803
Professional services	92,173	432,545	78,873	603,591
Equipments	1,179	-	-	1,179
Supplies and materials	-	836,550	-	836,550
Permanent improvements	16,913	-	-	16,913
Utilities	251,890	-	-	251,890
Transportation	26,591	24,620	-	51,211
Community services	8,710,961	23,693,019	3,290,157	35,694,137
Others	88,489	2,511	104,814	195,814
Total disbursements	11,019,761	25,068,707	3,681,620	39,770,088
Excess of cash receipts over (under) cash disbursements	$ 11,447,239	$ (7,934,691)	$ 5,851,140	$ 9,363,688

See accompanying notes to financial statement – cash basis

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Law 10-2017, creates the **"Socioeconomic and Community Development Office" (known as ODSEC by its Spanish acronym).** Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to **Office** the administration of federal funds known as "Community Development Block Grant"(CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108".

On July 27, 2018, Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of "Oficina de Desarrollo Socioeconómico Comunitario"(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the "Community Development Grant" (CDBG) funds, the special funds included in the CDBG program that include the "Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program" (NSP), "Disaster Recovery" and the funds under the Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108".

In addition, the **Office** receive and administer the "Community Services Block Grant"(CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** receive and administer the "Juvenile Justice and Delinquency Prevention Fund" to supports states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence.

Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low income persons, motivation and training programs, community improvement projects, programs to organize the communities' leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The annual budgetary appropriation amounted to $22,467,000, for the fiscal year ended June 30, 2018. In addition, the **Office** receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2018 the **Office** received $9,532,760 from Legislature Resolutions.

The main programs administered by the **Office** consist of:

1. **Community Services Block Grant** – The objective of this program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Funds can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization (continued)

2. **Juvenile Justice and Delinquency Prevention Fund** – This fund is used to account for the proceeds for the resources received from the United States Department of Justice. This program supports states and communities in their efforts to develop and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

Financial Reporting Entity

The **Office** is for financial reporting purposes, part of the Commonwealth of Puerto Rico. Its financial data is included as part of the Commonwealth of Puerto Rico's financial statement, and as such, the Treasury of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the **Office** by the Legislative Branch and Federal Agencies. The Treasury Department of Puerto Rico, also handles and records expenditures made with such funds and provides the **Office** with reports regarding such activities.

The financial information included in the accompanying Statement of Cash Receipts and Cash Disbursements was obtained from the Puerto Rico Treasury Department's Integrated Financial Accounting System (PRIFAS) and is issued solely to comply 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 of America and for the information to the federal awarding agencies, pass-through entities, regulators, management and those charged with the governance.

Measurement Focus and Basis of Accounting

The **Office's** accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles (GAAP) in the United States of America, as established by the Governmental Accounting Standards Board (GASB).

The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred. This cash basis of accounting differs from GAAP primarily because revenue is recognized when received in cash rather than when earned and subject to accrual, and expenditures are recognized when paid rather than when incurred to subject to accrual.

This financial statement has been prepared pursuant to the provision of Law No. 230 of July 23, 1974, as amended, known as the "Puerto Rico Government Accounting Act". This law establishes public policy with respect to the control of an accounting for public funds and property. The **Office** funds are, by law, under custody and control of the Secretary of Treasury in the PRIFAS accounting system.

Financial information of the **Office** is presented in this report as follow:

1. Management's discussion and analysis – Introduces the financial statement and provides an analytical overview of the **Office** financial activities.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

2. Financial Statement – The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statement are not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

   The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services and U.S. Department of Justice. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

3. Notes to the Financial Statement – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.

4. Required Supplementary information – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund. Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

Governmental fund types

Governmental funds are those through which most governmental functions are financed. The acquisition uses and balances of the **Office** expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. Fund financial statement focus on information about the **Office** major governmental funds. Major individual governmental funds are reported as separately columns in the Statement of Cash Receipts and Cash Disbursements on the cash basis of accounting.

The following are the **Office** major governmental fund types:

1. **General Fund** – is the general operating fund of the **Office**. It is used to account for and report all financial resources, except for those required to be accounted for in another fund. It is presumed that the **Office's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than general fund. Its revenue consist mainly of state appropriations.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund types (continued)

2. **Community Services Block Grant – Federal** – This is fund used to account for and report the proceeds of revenues derived from Commonwealth of Puerto Rico Administration for Children and Families, used to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Funds can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

3. **Others Funds** – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied, and the use of special revenue funds is not required unless they are legally mandated.

Excess (deficiency) statement line

The excess (deficiency) of receipts over (under) disbursement statement lines represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these lines are not comparable to an excess or deficiency over funds assigned and not represent a deficit of the **Office**.

Property and equipment acquisition

Property and equipment resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in **Office**'s financial statement.

Inventory purchases

The **Office** purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as a cash disbursement and, consequently, the inventory is not recorded in the financial statement.

Interfund transactions

The **Office** has the following types of transactions among funds:

1. **Interfund transfers**

   Interfund transfers represent temporary loans between the funds.

2. **Operating transfers**

   Operating transfers represent transfers between funds to specific purposes designated by the management.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated absences

The **Office** employees' are granted 15 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's vested annual leave is recorded as expenditure when utilized. No accrued compensated absences are reported in **Office's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

Insurance

The **Office** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Office**'s insurance coverage.

Claims and judgments

The amount owed by the **Office** for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, are recorded when paid.

Accounting for pension costs

Effective on July 1, 2017, the Office and other participants of the ERS converted to a new "PayGo" model. Under the "PayGo" funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. "PayGo" payments are recorded as expenditures\expenses in the financial statement.

At that date, the Office's pension costs accounting transitioned from GASB Statement No. 68 to the requirements of GASB Statement No. 73 "Accounting and Financial Reporting For Pensions and Related Assets That Are Not Within The Scope of GASB No. 68". Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

Accounting for other postemployment benefits ("OPBED")

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Agency starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2017 basic financial statement, nor has it provided to the Agency with the required information to implement the referred accounting pronouncement. The Agency's contribution for OPEB is included as part of the "PayGo" charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). "PayGo" payments are recorded as expenditures\expenses in the financial statement.

2. CASH WITH FISCAL AGENTS

Department of the Treasury of the Commonwealth of Puerto Rico

The funds of the **Office** are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the **Office** in such pooled cash accounts are available to meet its current operating requirements.

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, as amended, adopted by the **Office** may invest in obligations of the Commonwealth, obligation of the United States, certificates of deposits, commercial paper, or banker's acceptance. Therefore, **Office's** management has concluded that on June 30, 2020, the custodial credit risk associated with the **Office's** cash and cash equivalents is considered low.

3. FUND ADVANCES

Office receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act established that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2020, funds were advanced to **Office** for this purpose.

4. COMPENSATED ABSENCES

The employees of the **Office** are classified as either civil or members of the **Office**. All employees accrue regular vacation and sick leave at 1.25 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Legislature of the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually the accrued vacations and sick leave earned in excess of the limits mentioned above.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

Also, the employees hire before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hire after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

5. PENSION PLAN

Pension System – Prior to July 1, 2017

The **Office** is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems.

Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts.

Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017.

As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

5. PENSION PLAN (CONTINUED)

Pension System – After July 1, 2017

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance, effective on July 1, 2017. Those dispositions are summarized as follows:

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the **Office**) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2019-2020 the **Office's** PayGo charges recognized by the plan amounted to $2,671,260.

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5. PENSION PLAN (CONTINUED)

Pension System – After July 1, 2017 (Continued)

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2020, employees' contributions amounted to $153,088.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

Pension liabilities, pension expense, and deferred outflows/inflows of resources related to pensions; other required disclosures under GASB Statement No. 73

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that do not meet the requirements of **GASB Statement No. 68** as of July 1, 2017. Instead, the employers may be subject to the requirements of **GASB Statement No. 73**, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

6. TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the **Office**. Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the **Office** will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service, who have at least 30 years of credited service and the age for retirement, or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

For eligible employees that choose the economic incentives and have at least 30 years of credited service and the age for retirement or have the age for retirement, the **Office** will make the employee and the employer's contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program of that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the **Office**.

7. COMMITMENTS AND CONTINGENCIES

Litigation - The **Office** is defendant in lawsuits arising in the normal course of operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. 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 against the **Office**. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the **Office**.

Federal Awards - The **Office** participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriated grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the **Office** may be required to reimburse the grantors for such expenditures.

Effect of Commonwealth fiscal conditions - The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

On September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure $35 million on debt and other claims against the Commonwealth to $12 billion, the Public Building Authority, and the Employee Retirement System, and more than $50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statement were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

7. COMMITMENTS AND CONTINGENCIES(CONTINUED)

The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

Based on the information available from the Commonwealth related to the implementation of its remediation plans as of the date hereof, we cannot conclude about the ultimate outcome of the Commonwealth's fiscal condition in future fiscal periods and the corresponding effect on future revisions of its fiscal plans or additional mitigation measures.

Impact of COVID-19 Pandemic - On March 12, 2020, Governor Vázquez declared a state of emergency across the island due to the COVID-19 global pandemic. Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID- 19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16, 2020.

The **Office's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place.

On July 1, 2020, the **Office's** administrative and programmatic work was resumed as usual, following the protective measures established by the COVID 19 Contingency Plan issued by the **Office's**.

8. GOING CONCERN – PRIMARY GOVERNMENT

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and high health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have impacted significant portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like the **Office**, which is part of the Commonwealth.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

8. GOING CONCERN – PRIMARY GOVERNMENT (CONTINUED)

Also, as described in **Note 7**, on May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United Stated history. Both the Oversight Board and the New Commonwealth Administration have expressed a strong preference for restructuring the Commonwealth' debt through the use of Title VI. However, when it comes to the debt of the Commonwealth and those instrumentalities that rely on its taxing power for debt service, as opposed to the debt of certain of its instrumentalities, Title VI is unlikely to provide a realistic path to restructure such debt for the following reasons:

- Unlike Title III, Title VI contains no automatic stay of creditor litigation upon the commencement and during the continuation of the restructuring process. As the current stay is set to expire in May 2017, with limited options available for a further extension.
- Any attempt to restructure the commonwealth debt through Title VI will likely be complicated when existing litigation resumes, and additional litigation is commenced.
- Although that is a critical dispute.
- In addition, creditors already have challenged the invocation of the claw back by the Commonwealth, asserted claims against the Commonwealth based on violations of statutory impairment provisions, alleged that various property interest have been taken in violation of constitutional protections, and claimed violations of PROMESA and other statutes, and
- Regardless of the validity of these claims, it is clear that they will not all be resolved in the likely time frame that a Title VI process will take, and the outcome of such litigation, as well as other litigation that surely will be commenced upon the expiration of the current stay, could alter or harden the positions of the affected parties and change their willingness to compromise their claims.

As part of its normal operating activities, the **Office** is completely dependent on appropriations from Commonwealth. As described before, as of June 30, 2019, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth has provided to the **Office** may be affected in the near future.

The **Office** has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its statements and operations and has concluded that, as of June 30, 2019, the **Office** will continue to operate as a going concern for a period not less than twelve months after such date.

9. NEW ACCOUNTING STANDARDS

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

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

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

A. Implementation 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 statement for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year.

GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

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

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

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

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

GASB No. 83 does not have any impact on the **Office**'s financial statement.

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 statement. 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 statement of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

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

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

GASB No. 84 does not have any impact on the **Office**'s financial statement.

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

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

GASB No. 88 does not have any impact on the **Office**'s financial statement.

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

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

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

GASB No. 89 does not have any impact on the **Office**'s financial statement.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

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

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

GASB No. 90 does not have any impact on the **Office**'s financial statement.

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.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

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

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

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

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

Issuers should not report those arrangements as leases, 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.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

GASB No. 91 does not have any impact on the OFFICE's financial statement.

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

• The requirements related to the effective date of Statement No. 87 and Implementation Guide No. 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. As per GASB Statement No. 95 the effective date is postponed by additional 18 months.

• Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

• The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

• The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

• The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

• Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

• Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date is postponed by additional one year.

• Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020.

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

GASB No. 92 does not have any impact on the **Office**'s financial statement.

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

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

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

GASB No. 93 does not have any impact on the **Office**'s financial statement.

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

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

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

DEFINITION OF A LEASE

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

LEASE TERM

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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 statement should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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 statement 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.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

The OFFICE has not yet determined the effect this statement will have on the OFFICE's financial statement.

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

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

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

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

PPPs

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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, and all reporting periods thereafter. Earlier application is encouraged. As per GASB Statement No. 95 the effective date is postponed by additional one year.

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

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

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

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, --which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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 shortterm SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting period thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstance that existed at the beginning of the fiscal year in which this Statement is implemented.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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 statement; 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.

9. NEW ACCOUNTING STANDARDS (CONTINUED)

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

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

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

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

10. SUBSEQUENT EVENTS

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2020, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. On March 19, 2021, the OMB issued the M-21-20, stated that: "Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR §200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a). (2 CFR § 200.501)".

Subsequent events were evaluated through September 27, 2021, the date the financial statement were available to be issued. No significant events that should have been recorded or disclosed in the financial statement, except as noted in the following paragraph.

Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts			
	Original Budget	Final Budget	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico:	$ 17,968,000	$ 22,467,000	$ 22,467,000	$ -
Total cash receipts	17,968,000	22,467,000	22,467,000	-
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,705,000	1,737,000	1,828,579	(91,579)
Professional services	169,000	176,000	60,247	115,753
Equipments	3,000	3,000	1,179	1,821
Supplies and materials	25,000	-	14,909	(14,909)
Permanent improvements	12,500,000	25,000	16,913	8,087
Utilities	65,000	281,000	241,741	39,259
Transportation	20,000	50,000	18,349	31,651
Community services	-	-	4,821,065	(4,821,065)
Others	3,481,000	20,195,000	53,675	20,141,325
Total cash disbursements and encumbrances	17,968,000	22,467,000	7,056,657	15,410,343
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	$ -	$ -	$ 15,410,343	$ 15,410,343

See notes to Budgetary Comparison Schedule.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The revenues recognized in the General fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of Office. The procedures followed in approving the annual budget is as follows:

1. Between November and December **Office** submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.

2. At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.

3. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Commonwealth has the authority to make the necessary adjustments to the budget.

4. Beginning with fiscal year 2019-2020 the budget procedure to be used for the confection of the budget must be the methodology of Zero-Base budgeting.

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

The budget is adopted in accordance with a budgetary basis of accounting which differs from USGAAP. The Commonwealth of Puerto Rico Department of Treasury and the Office of Management and Budget have the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the PRIFAS Accounting System.

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant ID/Pass-Through Identification Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF JUSTICE				
Juvenile Justice and Delinquency Prevention-allocation to State (States Formula Grant)	16.540	2017JFFX029	72,790	72,790
		2016JFFX029	32,024	32,024
Total Juvenile Justice and Delinquency Prevention-allocation to State (States Formula Grant)			104,814	104,814
Total U.S. Department of Justice			**104,814**	**104,814**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Community Services Block Grant	93.569			
FY 2020CSBG Program		G20-B1PRCOSR	4,662,763	4,682,990
FY 2019CSBG Program		G19-B1PRCOSR	18,710,822	19,324,754
FY 2018CSBG Program		G18-B1PRCOSR	638,744	1,060,963
Total U.S. Department of Health And Human Services			**24,012,329**	**25,068,707**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 24,117,143**	**$ 25,173,521**

See notes to Schedule of Expenditures of Federal Awards.

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **Socioeconomic and Community Development Office (Office)** from all federal programs for the year ended June 30, 2020. The **Office's** reporting entity is defined in **Note 1** to the financial statement.

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some of the amounts presented in the Schedule may differ from the amounts presented in, or used in the presentation of, the financial statement. Because the Schedule presents only a selected portion of the operations of the **Office**, it is not intended to and does not present the financial position and changes in net position of the **Office**.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the cash basis of accounting. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence. State or local government redistributions of federal awards to the Agency, known as "pass–through awards", should be treated by the Agency as though they were received directly from the federal government. The Uniform Guidance requires the schedule to include the name of the pass–through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

RECONCILIATION TO FINANCIAL STATEMENT

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has being reconciled to the information reported in the **Office's** financial statement as follows:

Community Service Block Grant Fund	$ 25,068,707
Juvenile Justice and Delinquency Prevention – Allocation to State	104,814
Total	**$ 25,173,521**

INDIRECT COST RATE

The **Office** has elected not use the 10% de minimis cost rate, and did not charge indirect cost to federal grants during the year ended June 30, 2020.

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

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

We have audited, 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 of America, the financial statement of the **Socioeconomic and Community Development Office (the Office)**, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprise the **Office's** financial statement as listed in the table of contents, and have issued our report thereon dated September 27, 2021.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying financial statement of the **Office** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 8** to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 8**. The financial statement do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered **Office's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of **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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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 weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as items **2020-001** and **2020-003** that we consider to be material weaknesses.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Office's** financial statement are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned costs as items **2020-001** to **2020-005.**

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 performed in accordance with *Government Auditing Standards* in considering the **Office's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
September 27, 2021

Stamp No. 2783541 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERALPROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **Socioeconomic and Community Development Office (Office)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Office's** major federal programs for the year ended June 30, 2020. The **Office's** major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

Going Concern

Our report on the financial statement includes an emphasis-of-matter paragraph describing conditions discussed in the **Note 8** to cash basis financial statement. The financial statement of the **Office** do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Management's Responsibility

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

Auditors' Responsibility

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

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Basis for Qualified Opinion on Community Services Block Grant

As described in the accompanying Schedule of Findings and Questioned Costs, the **Office** did not comply with requirements regarding (**CFDA No. 93.569**) **Community Services Block Grant** as described in finding number **2020-004 for Capital Assets and Expenditures – Subsidiary Ledger and Additions** and **2020-005 for Subrecipient Monitoring.**

Qualified Opinion on Community Services Block Grant

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion paragraph", the **Office** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the (**CFDA No. 93.569) Community Services Block Grant** for the year ended June 30, 2020.

Other Matters

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

Report on Internal Control over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items **2020-004** and **2020-005** to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Office** in a separate dated September 27, 2021.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
September 27, 2021

Stamp No. 2783542 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statement

Opinion Unit	Type of Opinions
General Fund	Unmodified
Community Services Block Grant – Federal	Unmodified
Others Funds	Unmodified

Internal control over financial reporting:		
Material weakness(es) identified?	Yes ☒	No ☐
Significant deficiency(ies)?	Yes ☐	No ☒
Noncompliance material to financial statement noted?	Yes ☐	No ☒

Federal awards

Internal Control over major programs:		
Material weakness(es) identified?	Yes ☒	No ☐
Significant deficiency(ies)?	Yes ☐	No ☒
Type of auditors' report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516 (a) of the Uniform Guidance?	Yes ☐	No ☒

Identification of Major Federal Programs:

CFDA Number	Name of Federal Program or Cluster
93.569	Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	$ 755,206	
Auditee qualified as low-risk auditee?	Yes ☐	No ☒

Section II – Financial Statement Findings

Finding Reference	**2020-001**
Requirement	**Financial Reporting- Accounting Records**
Type of finding	**Material weakness (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding 2019-001 and 2018-001.

Statement of Condition

The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury, entity that controls the Office's budget and accounting in the PRIFAS accounting system.

Also, the **Office** did not maintain an accounting that summarizes the transactions of all of its Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).

Criteria

Law 230 of July 23, 1974, as amended, states that the accounting system will be designed in a manner which provides clear and complete information of the results of the financial operations. Also, the accounting system should provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.

Cause of Condition

The **Office** did not establish effective internal controls to maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury.

Effect of Condition

The **Office's** accounting system did not provide updated and complete financial information that present the result of operations. Such information is necessary to take management decisions.

Recommendation

We recommend that the **Office's** management should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to all transactions.

Questioned Costs

None

Section II – Financial Statement Findings

Finding Reference	**2020-002**
Requirement	**Capital Assets and Expenditures - Subsidiary Ledger and Additions**
Type of finding	**Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding 2019-002.

Statement of Condition

During our audit, we noted the following exceptions:

a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.

b) We did not obtain evidence that the physical has been completed. The property must be reconciled with accounting records at least once every two years.

c) The model SC-1211 for the fiscal year 2019-2020 was not updated.

d) We noted that the **Office** acquire seven (7) Microsoft Surface Pro 6 through general fund and federal fund with a cost of $12,355.00. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties.

e) We noted that the **Office** acquire twenty-eight (28) HP Elite Computers with a cost of $39,060.00. This units was not included in the Property Subsidiary Ledger.

Criteria

Law 230 of July 23, 1974, as amended, states that the custody, care and physical control of the public property it's a responsibility of the Department Head or its Authorized Representative. The **Office** will provide to the Treasury Department the reports and documentation require by it.

The General Services Administration Regulation manual approved on March 12, 1999, states the internal procedures to be maintained by the Agency related to the property management.

The Treasury Department Regulation 11, regarding the Control and Accounting of the Property states controls and procedures for the property management.

Federal Regulations under the Uniform Administrative Requirements Section 200.313 Equipment (b) through (e) establishes that A State must use, manage, and dispose of equipment acquired under a Federal Award by the State in accordance with State laws and procedures.

Section II – Financial Statement Findings

Finding Reference	**2020-002 (Continued)**
Cause of Condition	The **Office** did not establish adequately, the internal control procedures required by laws and regulations for property management. In addition, no monitoring procedures exist to assure the efficiency of the employees in charge to manage and control the property and equipment.
Effect of Condition	The **Office** did not comply with Law 230 of July 23,1974, as amended, The General Services Administration Regulation Manual approved in March 12, 1999, The Treasury Department Regulation regarding the Control and Accounting of the Property states controls and procedures and Federal Regulations under the Uniform Administrative Requirements Section 200.313 Equipment (b) through (e).
Recommendation	The Office's management must instruct and supervise the Finance Official to assure that adequate control procedures exist for the Property and Equipment management as follows:

- There must be a responsible employee in the Finance Division which must be assigned only and exclusively to establish and maintain adequate controls for the management of the property and equipment.
- The management must establish written procedures for taking the physical inventory.
- We recommend the Office to improve its internal control and procedures as follows:

  a) A physical inventory of the property has to be taken each year documenting all procedures performed at the moment in which the inventory was taken. The process must be adequately documented in a memorandum detailing the date, the employees involved in the process, who supervised the process (Supervision must be performed by an employee not involve in the day to day operations of the area). Differences found must be duly explained and documented. The results must be reconciled with the property records.

  b) The employee in charge of the property subsidiary ledger must assure that all property items detail a description of the property, a serial number, or other identification number, the source of property, who hold the title, the acquisition date, and cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Section II – Financial Statement Findings

Finding Reference 2020-002 (Continued)

Recommendation *(continued)*

c) The employee in charge of the property subsidiary ledger must assure that for all property items exist and update form of the Model SC-1211. Procedures must be established to assure that when a property and equipment is received in the Office, adequate communications channels exist with the employee in charge of the property ledger, in order to identify the property with a property tag, fulfilled the Model SC-1211 and includes the property in the ledger.

d) The employee in charge of the property subsidiary ledger must assure that all property items are identified with a property tag.

e) The employee in charge of the property subsidiary ledger must assure that the agency is duly reconciliated with the Fixed Assets Reconciliation required by the Treasury Department (Model SC-795).

Questioned Costs None

Section II – Financial Statement Findings

Finding Reference	**2020-003**
Requirement	**Expenditures for Goods and Services and Purchasing and Receiving**
Type of finding	**Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding 2019-003.

Statement of Condition

We performed a cash disbursements test and examined twenty-three (23) payments which belonged to General Fund; four (4) which belonged to Special Revenue Fund and twenty-three (23) which belonged to Federal Fund. The following will summarize the internal control deviations noted:

a) During our examination of the **Office's** of documentation on purchasing and receiving, we detected that the **Office** does not have adequate and effective internal controls to ensure that all the required information was supported the transactions by appropriate documentation.

b) In seven (7) payments which belonged to Special Revenue Fund and Federal Fund, the purchase order or contract were not available for our examination.

c) In six (6) payments which belonged to General Fund, Special Revenue Fund and Federal Fund, the original disbursement voucher and purchase order were not available for our examination.

d) In one (1) payment which belonged to General Fund, the purchase order was issued after the receiving of good or services.

Criteria

Law 230 of July 23, 1974, as amended, states it's an obligation of the heads of the Departments the responsibility for legality, exactitude, property, necessity and correction of all the expenses.

The General Services Administration Regulation manual approved on March 12, 1999, states that the **Office** must maintain adequate records and files which include all transactions realized in order to maintain an effective internal control.

Cause of Condition

The **Office** internal control failed to assure that transactions realized by the **Office** are supported by all required documentation.

Effect of Condition

The **Office** did not comply with Law 230 of July 23,1974, as amended, The General Services Administration Regulation Manual approved in March 12, 1999 and The Treasury Department Regulation regarding the Control.

Section II – Financial Statement Findings

Finding Reference	**2020-003 (Continued)**
Recommendation	The **Office**'s management must instruct and supervise to assure that adequate control procedures are implemented and ensure that all the required information was supported the transactions by appropriate documentation.
Questioned Costs	None

Section III-Major Federal Award Program Finding and Questioned Costs

<u>Finding Reference</u>	**<u>2020-004</u>**
Federal Agency	**U.S. Department of Health of Health and Human Services**
Federal Program Title	**Community Services Block Grant (CFDA No. 93.569)**
Compliance Requirement	**Capital Assets and Expenditures - Subsidiary Ledger and Additions**
Type of finding	**Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding 2019-004.

Statement of Condition	Section II – Financial Statement findings **Finding Reference 2020-002**

Section III-Major Federal Award Program Finding and Questioned Costs

Finding Reference	**2020-005**
Federal Agency	**U.S. Department of Health of Health and Human Services**
Federal Program Title	**Community Services Block Grant (CFDA No. 93.569)**
Compliance Requirement	**Subrecipient Monitoring (M)**
Type of finding	**Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding 2019-005 and 2018-003.

Statement of Condition

We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for four (4) sub-recipient of the **Office's** did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.

Criteria

42 USC 9914 (a)(1)(2), establishes that (a) In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of a State, the State shall conduct the following reviews of eligible entities:(1) a full onsite review of each such entity at least once during each 3-year period, (2) an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives funds through the Community Services Block Grant program (CSBG).

Cause of Condition

Internal Control Monitoring Program for Federal Funds CSBG establishes the guidelines over monitoring reports. The **Office** does not have sufficient staff to perform monitoring reviews to sub-recipients.

Effect of Condition

The **Office** cannot ensure that the delegated funds to the sub-recipients are being used to meet the goals and standards required by the State. Also, the **Office** is not in compliance with the 42 USC 9914 (a)(1)(2).

Recommendation

Office should strengthen internal control procedures in supervision process of the monitoring are to comply with state and federal regulations.

Questioned Cost

None

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-001	We concur with the finding.	The **Office**'s agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets. Implementation Date: During the fiscal year 2021-2022 Responsible Persons: Mr. Armando López Financial Official

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-002	We concur with the finding.	The **Office**'s agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. Implementation Date: During the fiscal year 2021-2022 Responsible Persons: Mr. Armando López Financial Official

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-003	We concur with the finding.	The **Office**'s agrees with the audit recommendation. The **Office**'s disbursement vouchers includes all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived. Implementation Date: During the fiscal year 2021-2022 Responsible Persons: Mr. Armando López Financial Official

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-004	We concur with the finding.	The **Office**'s agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. Implementation Date: During the fiscal year 2021-2022 Responsible Persons: Mr. Armando López Financial Official

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2020-005	We concur with the finding.	The **Office**'s agrees with the audit recommendation. The **Office**'s established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC. Implementation Date: During the fiscal year 2021-2022 Responsible Persons: Mrs. Guarina Delgado Federal Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Thais M. Reyes Serrano, Director

Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-001	Financial Reporting-Accounting Records	The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system. Also, the **Office** did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).	The **Office**'s agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.	None	Not resolved yet. See current Finding **2020-001**.

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Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-002	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence of the physical inventory documentation duly supervised. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2018-2019 was not updated. d) We noted that the **Office** acquire four (4) sport utility vehicles through federal fund with a cost of $117,659.06. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the **Office** acquire a van ford transit with a cost of $45,495.00. This units was not included in the Property Subsidiary Ledger.	The **Office**'s agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Not resolved yet. See current Finding **2020-002**.

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Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-003	Expenditures for Goods and Services and Purchasing and Receiving	We performed a cash disbursements test and examined seventeen (17) payments which belonged to General Fund; eleven (11) which belonged to Special Revenue Fund and thirty-two (32) which belonged to Federal Fund. The following will summarize the internal control exceptions noted: a) During our examination of the **Office's** of documentation on purchasing and receiving, we detected that the **Office** does not have adequate and effective internal controls to ensure that all the required information was supported the transactions by appropriate documentation. b) In four (4) payments which belonged to Special Revenue Fund and Federal Fund, the original disbursement voucher and purchase order were not available for our examination. b) In three (3) payments which belonged to Federal Fund, the original documents where the payments are approved by the director or authorized representative were not available for our examination. c) In eight (8) payments which belonged to Special Revenue Fund and Federal Fund, the purchase order or contract were not available for our examination.	The **Office**'s agrees with the audit recommendation. The **Office**'s disbursement vouchers includes all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Not resolved yet. See current finding **2020-003**.

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Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-004	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence of the physical inventory documentation duly supervised. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2018-2019 was not updated. d) We noted that the **Office** acquire four (4) sport utility vehicles through federal fund with a cost of $117,659.06. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the **Office** acquire a van ford transit with a cost of $45,495.00. This units was not included in the Property Subsidiary Ledger.	The **Office**'s agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Not resolved yet. See current Finding **2020-004**.

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Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-005	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we founded that for three (3) sub-recipient of the **Office's** did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The **Office**'s agrees with the audit recommendation. The **Office**'s established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Not resolved yet. See current Finding **2020-005**.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-006	Subrecipient Monitoring Test	The Single Audit Report for the fiscal year ended June 30, 2019 was not issued within nine (9) months after the end of the audit period.	The **Office**'s agrees with the audit recommendation. The **Office** administration will improve the internal controls and procedures in order to assure complies with the established Federal Regulation, as prescribed by OMB Super Circular Uniform Guidance.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2019-2020.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2018-001	Financial Reporting-Accounting Records	The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system. Also, the **Office** did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).	ODSEC agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in demonstrating sound internal controls. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. This include comprehensives instruction in accounting procedures under the current Accounting System, as well as updates to all non-routine transactions. This task is expected to be completed by March 31, 2020.	None	Not resolved yet. See current Finding **2020-001**.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2018-002	Payroll and Related Liabilities – Personnel, Employment, Rate authorizations and Timekeeping	During our test, we examined twenty (20) employee files as of June 30, 2018, the assistance time cards and the accrue vacation cards; after procedures performed, we noted the following: a) In thirteen (13) cases, the supervisors of the different divisions did not perform the annual employee's evaluations. b) In seven (7) cases, the "Drug Free Workplace Act" agreement including the signature of the Office employees certifying their knowledge of the compliance with this requirement were not available for our examination. c) In five (5) cases we did not find the Employment Eligibility Verification (I-9) in the employee file. d) In two (2) cases the Employment Eligibility Verification (I-9) does not contain the employee identification information and was not signed by the employer or authorized representative. (e) In six (6) cases we did not find the direct deposit authorization in the employee's files. f) In one (1) case we did not find the Employee's Withholding Allowance Certificate (W-4) in the employee file. g) In one (1) case, the employee's time assistance cards do not agree with the balance presented in the Accumulated Sick Leave Vacation Report submitted to the Department of Treasury as 6/30/2018. h) In one (1) case we did not find the evidence of the cancelled checks.	ODSEC Management agrees with the recommendations from the auditors. Further, a review is being made of the types of errors found as the underlying processes and procedures. Based on this information, additional communication and training is being provided to the appropriate staff in the Human Resources Division to facilitate the timely and accurate posting of payroll and payroll benefits, and so that errors can be found and corrected on a monthly basis at a minimum. Completion Date: December 31, 2019.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2019-2020.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2018-003	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and noted that for one (1) sub-recipient of the Office's did not realize monitoring procedures.	The Office for the Socioeconomic and Community Development of Puerto Rico (ODSEC) established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC. Accordingly, three (3) of the four (40 CSBD Subrecipients Monitoring Reviews are been finalized and one (1) is in process and is expected to be completed by December 31, 2019.	None	Not resolved yet. See current finding **2020-005**.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2018-004	Single Audit Act	The Single Audit Report for the fiscal year ended June 30, 2018, was not issued within nine (9) moths after the end of the audit period.	The Office for the Socioeconomic and Community Development of Puerto Rico (ODSEC) agrees with the finding. The ODSEC has since improved the internal tracking process to ensure Federal Financial Status Reports are submitted on a timely basis in accordance with grant(s) reporting schedule. Due to budgetary limitations, the state does not anticipate investing in software, for the time being, to allow for the in-house preparation of the full financial statement and notes; however, certain entries to convert individual fund activity to government wide statements were started during 2017. Fiscal Year and will be completely done in-house for the 2020 Fiscal Year.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2019-2020.

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Contact Person: Mr. Armando López Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2017-001	Financial Reporting- Accounting Records	The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system. Also, the **Office** did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).	We acknowledge the importance of documented policies and procedures in demonstrating sound internal controls. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. This include comprehensives instruction in accounting procedures under the current Accounting System, as updates to all non-routine transactions.	None	Not resolved yet. See current Finding **2020-001**.