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, 2021

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, 2021, 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 is 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 opinions.

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
Community Services Block Grant – Federal CARES Act	Unmodified
Other Non-Major 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, 2021, 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 9** 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 9**. The financial statement does 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 **33** 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.

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 opinion 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 **35** and **36**, 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 Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 March 31, 2022, 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
March 31, 2022

Stamp No. E486833 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, 2021. 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** receives and administers 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** receives and administers the "Juvenile Justice and Delinquency Prevention Fund" to support 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 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.

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 $5,379,000 for the fiscal year ended June 30, 2021. In addition, the **Office** receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2021 the **Office** received $417,108 from Legislature Resolutions.

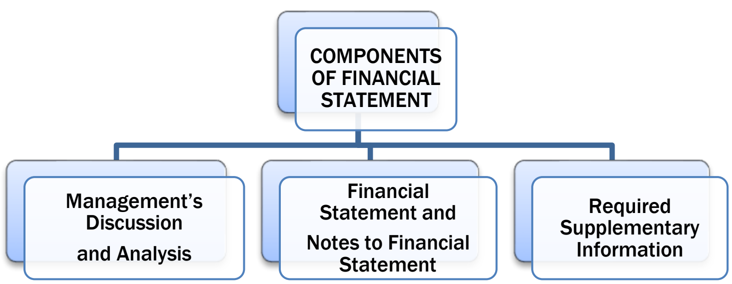
FINANCIAL HIGHLIGHTS

- In the **Office** Statement of Cash Receipts and Cash Disbursements – Governmental Fund Types, the actual cash disbursements exceeded actual cash receipts by $(42,535,879).
- The General Fund (the primary operating fund) cash receipts amounted to $5,379,000 and represents 10% of total cash receipts during the fiscal year.
- The General Fund (the primary operating fund) cash disbursements amounted to $17,196,921 and represents 18% of total cash disbursement for the fiscal year.
- During the fiscal year 2020-2021, federal funds received amounted to $45,672,629 and federal funds disbursements amounted to $71,278,202.
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by $3,377,104.

FINANCIAL STATEMENT PRESENTATION

<u>Overview of the Financial Statement</u>

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.

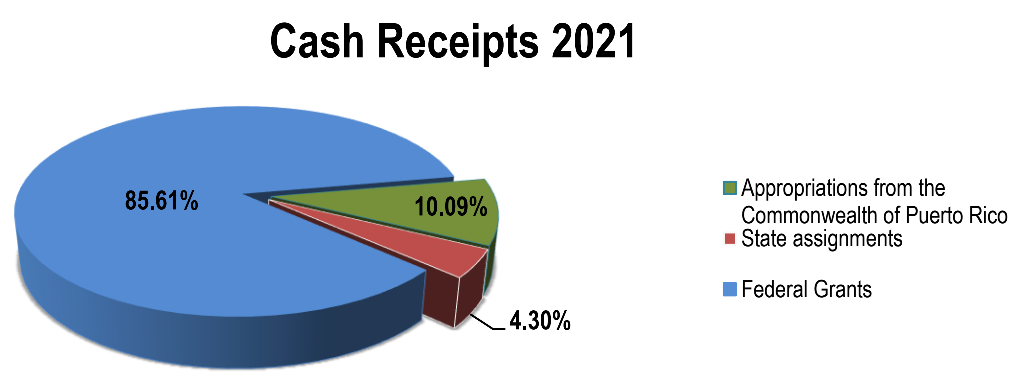
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund.

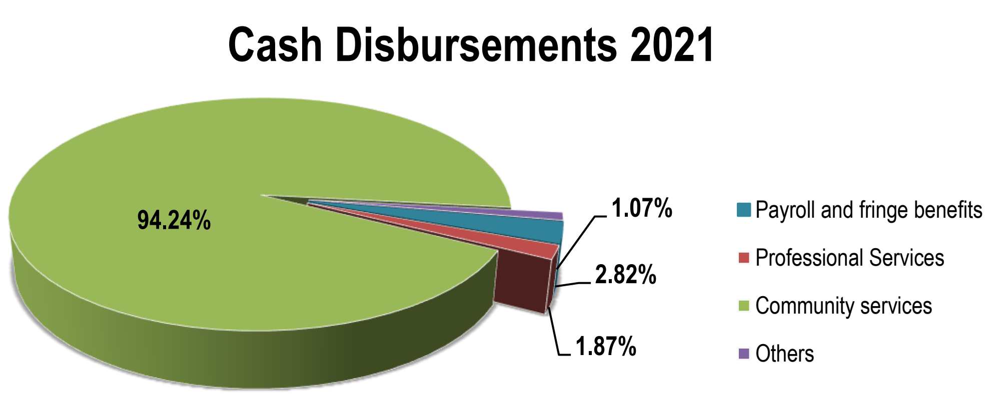
- **FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE**

Governmental Fund Financial Statement

The governmental fund financial statement focuses 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, 2021, presented those four major funds: 1) General Fund; 2) Community Service Block Grant – Federal 3) Community Services Block Grant - Federal Cares Act and 4) Other Non-Major 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 $3,377,104.

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 9** and **10** 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, 2020, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure $35 million of 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 statements 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 submitted for approval in November 2021 an amended Plan of Adjustment, which was approved on January 2022.

- **New Commonwealth Title III Note**

  Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

ECONOMIC FACTORS (CONTINUED)

As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

The Cares Act 2020

This award reflects supplemental Community Services Block Grant (CSBG) funding available to the state under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136 (2020). The state must use CSBG Cares Act funds to help prevent, prepare for, or respond to the coronavirus.

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	Community Services Block Grant – Federal CARES Act	Other Non-Major Funds	Total Governmental Funds
CASH RECEIPTS					
Appropriations from the Commonwealth of Puerto Rico	$ 5,379,000	$ -	$ -	$ -	$ 5,379,000
State assignments	-	-	-	2,295,849	2,295,849
Federal Grants	-	5,835,956	39,327,958	508,715	45,672,629
Total receipts	5,379,000	5,835,956	39,327,958	2,804,564	53,347,478
CASH DISBURSEMENTS					
Payroll and fringe benefits	1,886,274	634,061	27,284	156,000	2,703,619
Professional services	300,290	907,634	588,413	-	1,796,337
Equipments	598	5,800	-	-	6,398
Supplies and materials	28,935	100,833	26,362	21,950	178,080
Utilities	216,027	-	-	-	216,027
Transportation	17,629	5,550	-	-	23,179
Community services	14,504,694	29,785,753	38,835,157	7,230,284	90,355,888
Others	242,474	85,240	13,804	262,311	603,829
Total disbursements	17,196,921	31,524,871	39,491,020	7,670,545	95,883,357
Excess of cash receipts over (under) cash disbursements	$ (11,817,921)	$ (25,688,915)	$ (163,062)	$ (4,865,981)	$ (42,535,879)

The accompanying notes to financial statement – cash basis is an integral part of this Statement.

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** receives and administers 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** receives and administers 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 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.

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.

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.

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

Basis of Presentation

The accounts of the **Office** are organized on the basis of the three fund types: general fund, federal fund, and others governmental funds. The **Office** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **Office** and appropriations granted for specific purposes, respectively. As more fully explained in the section “Basis of Accounting” below, each fund is accounted for with a set of accounts which include only receipts and disbursements.

No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **Office** from programs funded by the Federal Government. The individual funds included in this fund type are classified accordance with their cost category.

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 **Office** follows a receipts and disbursements method of accounting to account for all funds administered under this method, cash, or funds transfer-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Receipts and Disbursements is not intended to present the **Office’s** results of operations in accordance with generally accepted accounting principles in the United States of America.

Budgetary Accounting

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.

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 $5,379,000, for the fiscal year ended June 30, 2021. In addition, the **Office** receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2021, the **Office** received $417,108 from Legislature Resolutions.

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

Measurement Focus

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's** financial activities.

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 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.

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.

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

Measurement Focus (continued)

Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Major funds are determined based on a minimum criterion, that is, a percentage of the cash receipts or cash disbursements or based on the **Office** official's criteria if the fund is particularly important to financial statement users.

The **Office** reports the following major governmental funds:

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 consists mainly of state appropriations.

2. **Community Services Block Grant – Federal** – 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.

3. **Community Services Block Grant – Federal CARES Act** – This award reflects supplemental Community Services Block Grant (CSBG) funding available to the state under the Coronavirus Aid, Relief, and Economic Security Act (CAREST Act), Public Law 116-136 (2020). The state must use CSBG CARES Act funds to help prevent, prepare for, or respond to the coronavirus.

The **Office** also reports nonmajor governmental fund in a single column, which includes the following:

1. **Special Account Fund** – This fund is used to account for resources of funds that are deposited for specific purposes in accordance with its applicable laws. They can come from governmental entities and authorizations by the Legislature of Commonwealth of Puerto Rico, which are designated to achieve specific purposes. Expenditures charged to these accounts are authorized by legislation previously approved.

2. **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grants Awards administered by the **Office**. The nonmajor governmental fund include the 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.

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

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.

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.

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.

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

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 ("OPEB")

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 provided the updated financial statement, nor has it provided to the Agency with the required information to implement the referred accounting pronouncement. The Office'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.

Postponed Accounting Standards Implementation

During the fiscal year ended June 30, 2018, the **Office** was required to implement GASB No. 75, Accounting and Financial Reporting for Postemployment Benefit Other Than Pension, however, the **Office** determined not to implement it. The **Office** implemented partially GASB No. 85, Omnibus 2017, as follows:

GASB Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics: (1) blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts. Previously reported as goodwill and "negative" goodwill, (3) classifying real estate held by insurance entities, (4) measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (5) timing of the measurement of pension or OPEB liabilities and expenditures, (6) recognized in financial statements prepared using the current financial resources measurement focus, (7) recognizing on-behalf payments for pensions or OPEB in employer financial statements, (8) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (9) classifying employer-paid member contributions for OPEB, (10) simplifying certain aspects of the alternative measurement method for OPEB and (11) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. However, the **Office** partially implemented this standard, as areas related to OPEB were not implemented.

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

Future Accounting Standards

The GASB has issued the following accounting standards that have effective dates after June 30, 2021.

GASB Statement No. 87, "Leases". The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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 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.

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.

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

Future Accounting Standards (continued)

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.

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.

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

Future Accounting Standards (continued)

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.

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.

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

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

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

Future Accounting Standards (continued)

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

GASB Statement No. 91, "Conduit Debt Obligation". 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 the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- 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 even 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 voluntary 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.

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

Future Accounting Standards (continued)

Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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

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

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, "Omnibus 2020". The objectives of this Statement are to 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 effective date of Statement No. 87, Leases, and Implementation Guide No. 2020-3, Leases, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and component unit defined benefit other postemployment benefits (OPEB) plan.
- The applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84*, Fiduciary Activities*, to postemployment benefit arrangements.

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

Future Accounting Standards (continued)

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2020-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
- The requirements related to application of Statement 84 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.
- 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, 2021. Earlier application is encouraged and is permitted by topic.

GASB Statement No. 93, "Replacement of Interbank Offered Rates". The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 94, "Public-Private and Public-Public Partnership and Availability Payment Arrangements". The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements". The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32". *The requirements of this Statement are effective as follows:* The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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

Future Accounting Standards (continued)

Earlier application is encouraged and is permitted by specific requirement as follows: paragraph 4 of this Statement as it applies to arrangements other than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans; Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement). Questions 4.3 and 4.5 of Implementation Guide 2019-2, as amended, are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 84, as amended, has been implemented.

GASB Statement No. 98, "The Annual Comprehensive Financial Report". The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the **Office**'s basic financial statements.

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, 2021, 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, 2021, funds were advanced to **Office** for this purpose.

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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 **Office** 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 hired before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hired 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

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 and **Office**, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

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 with 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 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.

5. PENSION PLAN (CONTINUED)

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the **Office** 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. Only July 20,2017, ERS sold investment for approximately $297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or **Office** to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required.

Creation and transition to a new defined contribution plan

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, 2021, employees' contributions amounted to $172,066.

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.

5. PENSION PLAN (CONTINUED)

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 2018.

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 and 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"*.

The ERS has not issued audited financial statements, nor has provided to the **Office** certain required information necessary to properly implement the provisions of ***GASB Statement No. 73***. In addition, applicable disclosures and required supplementary information have been omitted.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **Office** is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain Administration of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No.483, as amended by Act No. 3).

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6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and **Office** for their former employees. The Administration's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS has not provided the updated audited financial statements, nor has it provided the **Office** with the audited schedules of employment allocations and OPEB amounts by employer (**Office**'s measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability,
applicable disclosures and required supplementary information have been omitted.

7. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of 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**.

8. 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 this 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.

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.

9. 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.

9. GOING CONCERN – PRIMARY GOVERNMENT (CONTINUED)

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.

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, 2021, 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.

10. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 31, 2022, 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.

New Commonwealth Title III Note

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests' rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

10. SUBSEQUENT EVENTS (CONTINUED)

New Commonwealth Title III Note (continued)

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

10. SUBSEQUENT EVENTS (CONTINUED)

New Commonwealth Title III Note (continued)

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of $3.5 billion, with maximum annual payments of $200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding $400 million. Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.

- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

10. SUBSEQUENT EVENTS (CONTINUED)

New Commonwealth Title III Note (continued)

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).

- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.

- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

	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	$ 5,353,000	$ 5,379,000	$ 5,379,000	$ -
Total cash receipts	5,353,000	5,379,000	5,379,000	-
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,705,000	1,731,000	1,457,476	273,524
Professional services	359,000	359,000	262,415	96,585
Equipments	5,000	60,000	598	59,402
Supplies and materials	40,000	32,000	28,273	3,727
Permanent improvements	-	32,000	27,711	4,289
Utilities	64,000	203,000	188,861	14,139
Transportation	58,000	57,000	16,203	40,797
Others	3,122,000	2,905,000	20,359	2,884,641
Total cash disbursements and encumbrances	5,353,000	5,379,000	2,001,896	3,377,104
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	$ -	$ -	$ 3,377,104	$ 3,377,104

See notes to Budgetary Comparison Schedule.

Note 1 - General

As an Executive Agency of the Commonwealth of Puerto Rico, the **Office** uses the following procedures in establishing the budget adopted for the General Fund:

a. The **Office**'s management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).

b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the Legislature.

c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project is prepared (the 1st of July of each year).

d. Once the budget project is approved, legally adopted and in operations, the **Office**'s management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.

e. Formal budget integration is employed as a management control devise during the fiscal year for the General Fund.

f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the **Office** in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statements purposes, the **Office** considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present compliance with budget adopted, which lapses at the end of fiscal year.

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF JUSTICE				
Direct Program:				
Juvenile Justice and Delinquency Prevention-allocation to State (States Formula Grant)	16.540	2018JFFX039	$ -	$ 61,138
		2016JFFX029	-	168,095
		2015JFFX008		10,178
		2013MUFX041	-	22,900
Total Juvenile Justice and Delinquency Prevention-allocation to State (States Formula Grant)			-	262,311
Total U.S. Department of Justice			**-**	**262,311**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Program:				
Community Services Block Grant	93.569			
FY 2020CSBG Program		G21-B1PRCOSR	5,823,619	5,835,956
FY 2019CSBG Program		G20-B1PRCOSR	23,807,268	24,808,204
FY 2018CSBG Program		G19-B1PRCOSR	444,859	880,711
COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental	93.569	G20-01PRCSC3	38,707,018	39,491,020
Total U.S. Department of Health and Human Services			**68,782,764**	**71,015,891**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 68,782,764**	**$ 71,278,202**

See notes to Schedule of Expenditures of Federal Awards.

A. 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, 2021. The **Office's** reporting entity is defined in **Note 1** to the financial statement.

B. 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and was prepared following the modified accrual basis of accounting.

C. 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.

D. ASSISTANCE LISTING NUMBER AND PASS-THROUGH ENTITY IDENTIFYING NUMBER

The Assistance Listing Number (ALN), formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. Assistance listings are detailed public descriptions of federal programs that provide grants, loans, scholarships, insurance, and other types of assistance awards. The Sam.gov assistance listing is the publicly available online database showing all available Federally-funded programs.

State or local government redistributions of federal awards to the Municipality, known as "pass–through awards", should be treated by the Municipality 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.

E. INDIRECT COST RATE

The **Office** has elected not to use the 10% minimum cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2021.

F. RECONCILIATION TO FINANCIAL STATEMENT

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

Community Service Block Grant Fund	$ 31,524,871
COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental	39,491,020
Juvenile Justice and Delinquency Prevention – Allocation to State	262,311
Total	**$ 71,278,202**

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, 2021, 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 March 31, 2022.

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 9** 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 9**. The financial statement does 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 item **2021-001** that we consider to be material weaknesses.

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 **2021-001** to **2021-002.**

Office's Response to Findings

The **Office's** response to the 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 the financial statements and, accordingly, we express no opinion on it.

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
March 31, 2022

Stamp No. E486834 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM 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, 2021. 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 9** to cash basis financial statement. The financial statement of the **Office** does 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.

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

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 (**ALN 93.569**) **Community Services Block Grant** as described in finding number **2021-002 for Subrecipient Monitoring.** Compliance with such requirements is necessary, in our opinion, for the **Office** to comply with the requirements applicable to that program.

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 (**ALN 93.569) Community Services Block Grant** for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item **2021-002.**

The **Office**'s 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.

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. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item **2021-002** to be a material weakness.

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.

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
March 31, 2022

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was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statement

Opinion Unit	Type of Opinion
General Fund	Unmodified
Community Services Block Grant – Federal	Unmodified
Community Services Block Grant – Federal CARES Act	Unmodified
Other Non-Major 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:

Assistance Listing Numbers	Name of Federal Program or Cluster
93.569	Community Services Block Grant
93.569	COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental

Dollar threshold used to distinguish between Type A and Type B programs	$ 2,138,346	
Auditee qualified as low-risk auditee?	Yes ☐	No ☒

Section II – Financial Statement Findings

Finding Reference	**2021-001**
Requirement	**Financial Reporting- Accounting Records**
Type of finding	**Material weakness (MW), Instance of Noncompliance (NC)**

This finding is similar to prior years finding 2020-001, 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 III-Major Federal Award Program Finding and Questioned Costs

Finding Reference	**2021-002**
Federal Agency	**U.S. Department of Health of Health and Human Services**
Federal Program Title	**Community Services Block Grant (ALN 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 years finding 2020-005, 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 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 Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2020 – June 30, 2021 Fiscal Year: 2020-2021

Principal Executive: Thais M. Reyes Serrano, Executive Director

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

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2021-001	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. **Office'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 provide 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 2022-2023 Responsible Persons: Mr. Armando López Financial Official

March 31, 2022

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 Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2020 – June 30, 2021 Fiscal Year: 2020-2021

Principal Executive: Thais M. Reyes Serrano, Executive Director

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

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2021-002	We concur with the finding.	The **Office** agrees with the audit recommendation. The **Office** 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 2022-2023. Responsible Persons: Mrs. Guarina Delgado Federal Director

March 31, 2022

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 Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2020 – June 30, 2021

Fiscal Year: 2020-2021

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-001	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** 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 provide 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 **2021-001**.

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-002	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 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 acquired twenty-eight (28) HP Elite Computers with a cost of $39,060.00. This units were not included in the Property Subsidiary Ledger.	The **Office** agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provide 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-003	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** 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** agrees with the audit recommendation. The **Office**'s disbursement vouchers include all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-004	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 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 were not included in the Property Subsidiary Ledger.	The **Office** agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provide 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021.

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Fiscal Year: 2020-2021

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-005	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found 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** agrees with the audit recommendation. The **Office** 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 **2021-002**.

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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** 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 **2021-001**.

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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** acquired 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 examined that these units were stamped with a property tag and the existence of these properties. e) We noted that the **Office** acquired a van ford transit with a cost of $45,495.00. This unit was not included in the Property Subsidiary Ledger.	The **Office** 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021.

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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** 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** agrees with the audit recommendation. The **Office**'s disbursement vouchers include all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021.

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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** acquired 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 examined that these units were stamped with a property tag and the existence of these properties. e) We noted that the **Office** acquired a van ford transit with a cost of $45,495.00. This unit was not included in the Property Subsidiary Ledger.	The **Office** agrees with the audit recommendation. The **Office**'s administration purchased an accounting system (*Purchase Order 21329142 – June 3, 2021*) that will provide 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2020-2021. .

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Contact Person: Mr. Armando López, Accounting Supervisor 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 found 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** agrees with the audit recommendation. The **Office** 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 **2021-002**.

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

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Principal Executive: Thais M. Reyes Serrano, Executive Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-006	Single Audit Act	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** agrees with the audit recommendation. The **Office** administration will improve the internal controls and procedures in order to assure it 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.