COMMONWEALTH OF PUERTO RICO

STATE HISTORIC PRESERVATION OFFICE

FINANCIAL STATEMENTS – 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

SHPO
OECH
OFICINA ESTATAL DE CONSERVACIÓN HISTÓRICA
OFICINA DEL GOBERNADOR
STATE HISTORIC PRESERVATION OFFICE
OFFICE OF THE GOVERNOR

P.O. Box 9023935, San Juan, Puerto Rico 00902-3935

Visit our website at www.oech.gobierno.pr

Architect – Carlos A. Rubio Cancela, Executive Director

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INDEPENDENT AUDITORS' REPORT

To the Executive Director
Commonwealth of Puerto Rico
State Historic Preservation Office
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the **State Historic Preservation Office (Office)** which comprise the Statements of Cash Receipts and Disbursements – Governmental and Proprietary Funds for the fiscal year ended June 30, 2021, and the related notes to the cash basis financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 statements in these circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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
Special Revenue Fund	Unmodified
Historic Preservation Fund	Unmodified
Emergency Supplemental Historic Preservation Fund	Unmodified
CARES Act Fund	Unmodified
Public Assistance Disaster Grants Fund	Unmodified
Business – Type Activities Enterprise Fund	Unmodified

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the Governmental and Proprietary Funds and of the **Office** for the year ended June 30, 2021, in conformity with the basis of accounting described in **Note 1**.

Basis of Accounting

As described in **Note 1**, the **Office** prepares its financial statements 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 statements of the **Office** are 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**. Our opinion is not modified with respect to these matters.

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 **9** and **35** be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements 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 statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Office's** financial statements. 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 page **36**, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audit of the statements 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 statements of receipts and disbursements or to the statements 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 statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 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
September 30, 2022

Stamp No. 486886 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INTRODUCTION

As management of the **State Historic Preservation 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 statements.

ORGANIZATION AND MISSION STATEMENT

The **Office** was created on August 20, 2000, the Governor of the Commonwealth of Puerto Rico signed a law to attach the **Office** to the Governor's Office and to consider the **Office** as an individual management entity in conformity to the disposition of Law Number 5 of October 14, 1975, as amended, to comply with and provide continuity to the projects of permanent betterments from the Legislature of Puerto Rico, the Governor of the Commonwealth of Puerto Rico and the Federal Government.

The **Office** provides the following services: administer state and federal assistance programs for the preservation of the Puerto Rico cultural resources, educate the public in preservation matters, restore and preserve several buildings in the historical sites of the Old San Juan and coordinate interagency activities related to special projects.

FINANCIAL HIGHLIGHTS

- In the **Office's** Statement of Cash Receipts and Cash Disbursements – Governmental Fund Types, the actual cash disbursements exceeded actual cash receipts by $(1,531,312).

- The **Office's** Statement of Cash Receipts and Cash Disbursements – Business Type Activities, the actual cash disbursements exceeded receipts actual cash by $(10,772).

- The General Fund (the primary operating fund) cash receipts amounted to $1,960,000 and represents 65.02% of total cash receipts during the fiscal year. Also, cash disbursements of the General Fund amounted to $1,612,102 and represents 35.46% of total cash disbursement for the fiscal year.

- During the fiscal year 2021, federal funds received amounted to $1,054,394 and federal funds disbursements amounted to $2,932,204.

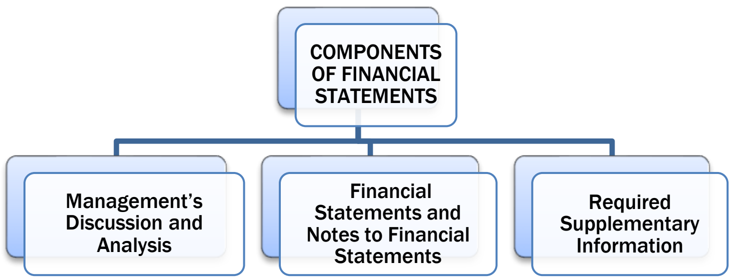
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by $347,898.

FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the **Office** is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2020-2021. The combination of these two perspectives provides the user the opportunity to address significant questions concerning the content of said financial statements and provide the basis for a comparable analysis of future years performance.

Overview of the Financial Statements

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



- **Financial Statements** – 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 statements are not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

  The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of the Interior. 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, one will need to consider other nonfinancial factors within any comprehensive analysis.

- **Notes to the Financial Statements** – Provides integral information needed to explain the basis for the numbers used within the Financial Statements 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

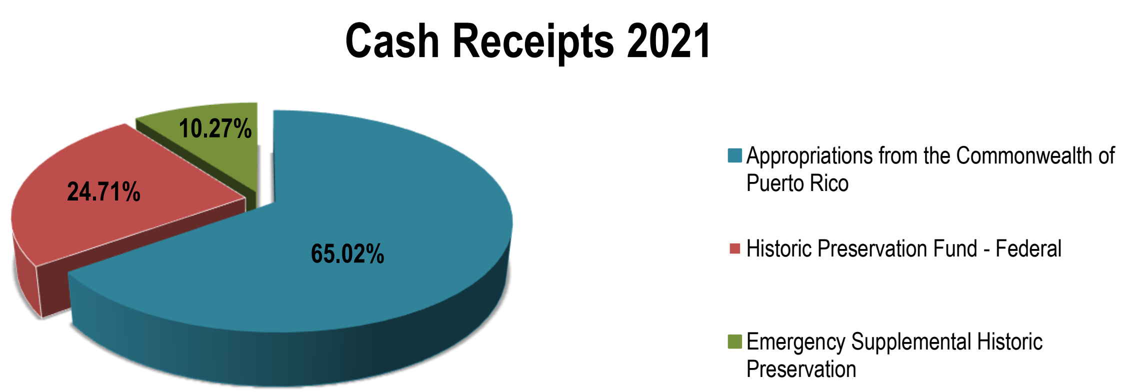
Governmental Fund Financial Statements

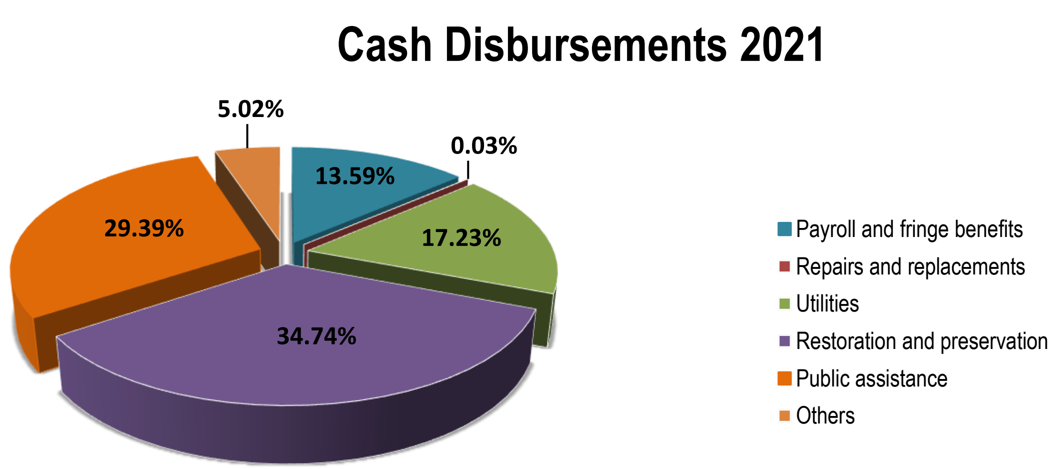
The governmental fund financial statements focus on major funds. The **Office's** major funds are the general fund (which accounts for the main operating activities of the **Office**), special revenue fund (which account for legislative resolution and insurance recovery) and federal funds (which account for historic preservation grant, CARES Act and disaster grants). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds. This year the **Office's** funds were six (6) funds and the same were presented in the financial statements.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

Governmental Fund Financial Statements (continued)

The following figures present how governmental activities of the **Office's** services were financed and distributed. These activities are primarily financed through state assignments, federal grants, charges for services and other revenues. The accounts of the **Office** are organized on three fund types: general fund, special revenue fund and federal funds. The **Office** maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund and other governmental funds, 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.



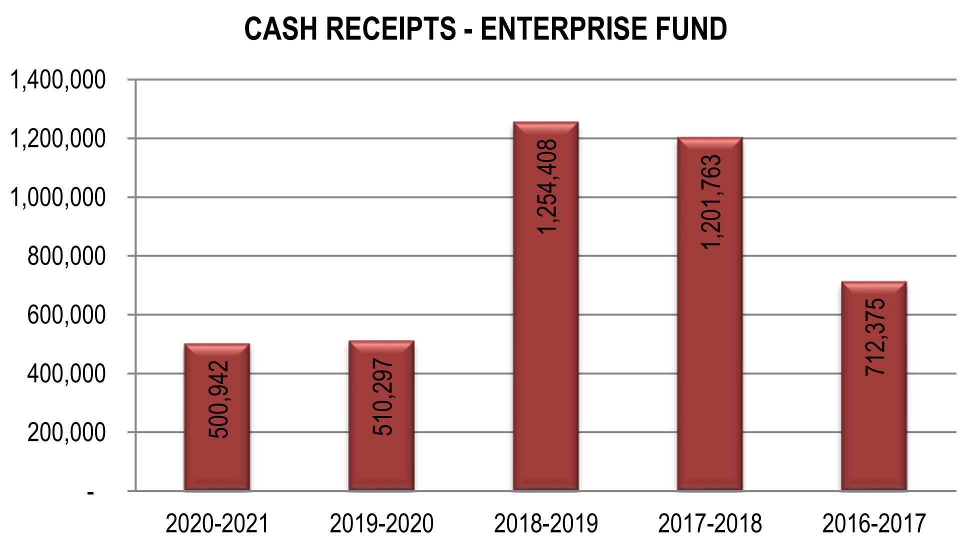


FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

Proprietary Fund – Business-Type Activities – Enterprise Fund

The Enterprise Fund is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis, are financed or recovered primary through user charges; (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The following figure provides information about the behavior of the **Office's** Enterprise Fund during past five years. The **Office's** Cash Receipts-Enterprise Fund increase in comparison with the previous fiscal years.



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 $347,898.

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.

ECONOMIC FACTORS (CONTINUED)

As more fully explained in **Note 9** to the financial statements, 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:

- ***Commonwealth Plan of Adjustment***

  On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [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. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. 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.

  On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

  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.

  All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Puerto Rico Public Finance Corporation Bonds and certain loans held by the Public Entity Trust. 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.ra.kroll.com/puertorico/Home-DocketInfo.

- **Impact of COVID-19 Pandemic**

  See also **Note 8**, on March 12, 2020, Governor Vázquez declared a state of emergency across the island due to the COVID-19 global pandemic. Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID- 19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16, 2020.

ECONOMIC FACTORS (CONTINUED)

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

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

  American Rescue Plan Act (ARPA)- Stimulus Package

  On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **$350** billion for states, municipalities, counties, tribes, and territories, including **$130.2** billion for local governments split evenly between municipalities and counties. The **Office** was assigned **$528** thousand in ARPA funds during 2021-2022 fiscal year.

  CARES Act – Stimulus Package

  The CARES Act has assigned funds to the Puerto Rico Government where part of such funds was allocated as transfers grant to the local governments and agencies, including the **Office**, and other as participating funds transferred through approved proposals. This should help the **Office** to cover costs arising from the said emergency. The **Office** received **$83,211** thousand in CARES Act - Stimulus Package during 2020-2021 fiscal year.

FINANCIAL CONTACT

The **Office**'s financial statements 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 State Historic Preservation Office Executive Director, PO Box 9023935, San Juan, PR 00902-3935.

Statement of Cash Receipts and Cash Disbursements – Governmental Funds
For the Fiscal Year Ended June 30, 2021

	General Fund	Special Revenue Fund	Historic Preservation Fund	Emergency Supplemental Historic Preservation Fund	CARES Act Fund	Public Assistance Disaster Grants Fund	Total Governmental Funds
CASH RECEIPTS							
Appropriations from the Commonwealth of Puerto Rico	$ 1,960,000	$ -	$ -	$ -	$ -	$ -	$ 1,960,000
Federal Grants	-	-	744,875	309,519	-	-	1,054,394
Total receipts	1,960,000	-	744,875	309,519	-	-	3,014,394
CASH DISBURSEMENTS							
Payroll and fringe benefits	617,959	-	-	-	-	-	617,959
Repairs and replacements	-	1,400	-	-	-	-	1,400
Utilities	783,000	-	-	-	-	-	783,000
Restoration and preservation	65,384	-	776,341	737,328	-	-	1,579,053
Public assistance	-	-	-	-	-	1,336,021	1,336,021
Others	145,759	-	-	-	82,514	-	228,273
Total disbursements	1,612,102	1,400	776,341	737,328	82,514	1,336,021	4,545,706
Excess (deficiency) of cash receipts over (under) cash disbursements	$ 347,898	$ (1,400)	$ (31,466)	$ (427,809)	$ (82,514)	$ (1,336,021)	$ (1,531,312)

See accompanying notes to financial statements – cash basis

	Business - Type Activities Enterprise Fund
CASH RECEIPTS:	
Rent of property	$ 500,942
Total receipts	500,942
CASH DISBURSEMENTS:	
Operations and maintenance	511,714
Total disbursements	511,714
Excess of cash receipts over (under) cash disbursements	$ (10,772)

See accompanying notes to financial statements – cash basis

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

On August 20, 2000, the Governor of the Commonwealth of Puerto Rico signed a law to attach the **State Historic Preservation Office (the Office)** to the Governor's Office and to consider the **Office** as an individual management entity in conformity to the disposition of Law Number 5 of October 14, 1975, as amended, to comply with and provide continuity to the projects of permanent betterments from the Legislature of Puerto Rico, the Governor of the Commonwealth of Puerto Rico and the Federal Government.

The **Office** provides the following services: administer state and federal assistance programs for the preservation of the Puerto Rico cultural resources, educate the public in preservation matters, restore and preserve several buildings in the historical sites of the Old San Juan and coordinate interagency activities related to special projects.

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

1. **Historic Preservation Program** – The general objective of this Program is to expand and maintain a National Register of Historic Places composed of districts, sites, buildings, structures and objects significant in American History, architecture, archeology, engineering and culture. In addition, administer a program of matching-in-aid to the State for projects of survey and planning related to historic preservation purpose. Funds are awarded under the National Historic Preservation Act of 1966, Public Law 89-655.

2. **Construction, Restoration and Preservation Program** – The general objective of this program is to carry out certain construction, restoration, conservation and rehabilitation activities in the infrastructure comprised in the Special Plan of Interior Reform of the Office of San Juan Historic Zone located in the Ballajá Ward and in the Santa Catalina Palace.

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 statements, 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.

Basis of Presentation

The accounts of the **Office** are organized on the basis of the three fund types: general fund, federal fund, and other 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

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

Basis of Presentation (continued)

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 in 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 $1,960,000, for the fiscal year ended June 30, 2021.

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 subject to accrual.

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

Measurement Focus (continued)

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 follows:

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

2. **Financial Statements** – 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 statements are not intended to present the **Office's** 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 the Interior. 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, one will need to consider other nonfinancial factors within any comprehensive analysis.

3. **Notes to the Financial Statements** – Provides integral information needed to explain the basis for the numbers used within the Financial Statements 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 required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed, it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

Governmental fund types

Governmental funds are those through which most governmental functions are financed. The acquisition uses and balances of the **Office** expendable financial resources and the related current liabilities are accounted for through governmental funds.

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

Governmental fund types (continued)

The measurement focus is upon determination of changes in financial position, rather than upon net income determination. Fund financial statements focus on information about the **Office's** major governmental funds. Major individual governmental funds are reported as separately columns in the Combined Statement of Cash Receipts and Cash Disbursements on the cash basis of accounting.

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

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

Special Revenue Fund – This fund is used to account for and report revenue sources from state funds assignment by commonwealth legislature resolutions, recovery insurance and other special revenue funds that are not federal or operational funds.

Historic Preservation Fund – This fund is a major governmental fund used to account for and report the proceeds of revenues derived from the Department of the Interior, National Park Services, used to maintain a National Register of Historical Places, composed of districts, sites, buildings, structures and objects significant in American History, architecture, archeology, engineering and culture. In addition, administer a program of matching-in-aid to the State for projects of survey and planning related to historic preservation purpose. Funds are awarded under the National Historic Preservation Act of 1966, Public Law 89-655.

Emergency Supplemental Historic Preservation Fund – This fund is a major governmental fund used to account for and report the expenses related to the consequences of Hurricanes Irma and Maria. The use of federal funds to improve public buildings, to finance services or programs contained in public buildings, or alter any building or facility financed in whole or in part with Federal funds (except privately owned residential structures). The costs needed to administer the program; and cost for the preservation, stabilization, rehabilitation, and repair of historic properties that are listed in, or considered eligible for listing in, the National Register of Historic Places damaged by the above-named storms within such as areas.

CARES Act Fund – This fund is used to account for and report revenue sources from the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to cover costs arising from public health emergency, or its negative economic impacts. The CARES Act requires that the payments, only be used to cover expenses that: (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for in the budget most recently approved as of March 27, 2020 and (3) were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.

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

Governmental fund types (continued)

Public Assistance Disaster Grants Fund – This fund is used to account for and report revenue sources from the Federal Emergency Management Agency ("FEMA") for assistance in debris removal, emergency protective measures, and the repair, restoration reconstruction, or replacement of public facilities or infrastructure damaged or destroyed by the devastating effects of natural disasters, the most significant Hurricanes Irma and Maria. Funds are received through the Puerto Rico Central Office for Recovery, Reconstruction, and Resiliency, the grantee for FEMA State Agreement DR-4336 (Hurricane Irma) and DR-4339 (Hurricane Maria).

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 acquisitions

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 the **Office's** financial statements. 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.

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

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, is recorded when paid.

Accounting for pension costs

Effective on July 1, 2017, the **Office** and other participants of the Employee Retirement System of the Government of the Commonwealth of Puerto Rico converted to a new "pay-as-you-go" ("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 statements.

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 **Office** 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 **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 statements.

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.

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

Future Accounting Standards (continued)

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 periods relevant factors, that the lessor will exercise that option.

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

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

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

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

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

SHORT-TERM LEASES

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

LESSEE ACCOUNTING

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

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

Future Accounting Standards (continued)

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 non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

LEASE MODIFICATIONS AND TERMINATIONS

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

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

Future Accounting Standards (continued)

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. 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, 2019. Earlier application is encouraged.

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

Future Accounting Standard (continued)

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.

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, 2021. Earlier application is encouraged.

GASB Statement No. 92, "Omnibus 2020". The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, 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, 2021.
- 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, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations 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". Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (LIBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

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

Future Accounting Standards (continued)

GASB Statement No. 93, "Replacement of Interbank Offered Rates". (continued)

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.

- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.

- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

  Earlier application is encouraged.

GASB Statement No. 94, "Public-Private and Public-Public Partnership and Availability Payment Arrangements". The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

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

Future Accounting Standards (continued)

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

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

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements". This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset— an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB 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 primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension

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

Future Accounting Standards (continued)

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". (continued)

plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

The impact of the implementation of these Statements on the **Office's** financial statements, if any, has not yet been determined.

GASB Statement No. 98, "The Annual Comprehensive Financial Report". This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs.

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

Future Accounting Standards (continued)

GASB Statement No. 98, "The Annual Comprehensive Financial Report". (continued)

The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. Little direct cost will be incurred as a result of instituting the new term. Moreover, there will be no direct benefits in the form of new or improved information for making decisions or assessing accountability. However, establishing a new name for the financial report in response to the concerns of stakeholders benefits all stakeholders. The Board believes that those benefits are qualitative and justify the costs that will result from implementing the new term.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.

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

Future Accounting Standards (continued)

GASB Statement No. 99, "OMNIBUS 2022". (continued)

- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.
- Terminology used in Statement 53 to refer to resource flows statements

The requirements of this Statement that are effective as follows:

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

***GASB Statement No. 100, "Accounting Changes and Error Corrections*—an amendment of GASB Statements No. 62 -** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

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

Future Accounting Standards (continued)

GASB Statement No. 100, "Accounting Changes and Error Corrections*—an amendment of GASB Statements No. 62 *(continued)

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

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

GASB Statement No. 101, "Compensated Absences". The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The impact of the implementation of these statements on the **Office's** financial statements, if any, has not yet been determined.

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.

2. CASH WITH FISCAL AGENTS (CONTINUED)

Custodial Credit Risk

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, obligations of the United States, certificates of deposit, commercial paper, or banker's acceptance. Therefore, **Office**'s management has concluded that at 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.

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 maximum allowed number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

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

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

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

5. PENSION PLAN

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 administration, effective on July 1, 2017. Those dispositions are summarized as follows:

5. PENSION PLAN (CONTINUED)

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 to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

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

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the **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 (including other special laws and additional pensioner 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 additional uniform contributions were eliminated. Payments are made by the employers (the Agency) 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. On July 20, 2017 ERS sold investments 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 Administration to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. During the fiscal year 2020-2021, the **Office** was billed and recorded the amount of $280,000 as PayGo expenditures.

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

5. PENSION PLAN (CONTINUED)

Creation and transition to a new defined contribution plan (continued)

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 $111,589.

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

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2018.

Plan description

The Administration 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).

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 Administration 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.

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.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

Subsequently, the central government has issued several executive orders to deal with the impact of the COVID-19 pandemic.

The **Office's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place. On July 1, 2020, the **Office**'s administrative and programmatic work was resumed as usual, following the protective measures established by the COVID-19 Contingency Plan issued by the **Office**.

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 30, 2022, the date the financial statements were available to be issued.

Approval of Commonwealth's Plan of Adjustment

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 interest 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 GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA 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).

9. SUBSEQUENT EVENTS (CONTINUED)

Approval of Commonwealth's Plan of Adjustment(continued)

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).

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. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss.

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. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending. 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.

American Rescue Plan Act (ARPA)- Stimulus Package

On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides **$350** billion for states, municipalities, counties, tribes, and territories, including **$130.2** billion for local governments split evenly between municipalities and counties. The **Office** was assigned **$528** thousand in ARPA funds during 2021-2022 fiscal year.

CARES Act – Stimulus Package

The CARES Act has assigned funds to the Puerto Rico Government where part of such funds was allocated as transfers grant to the local governments and agencies, including the **Office**, and other as participating funds transferred through approved proposals. This should help the **Office** to cover costs arising from the said emergency. Accordingly, the **Office** received a grant agreement with National Endowment for the Arts for a total amount of **$83,211** thousand.

END OF NOTES

	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:	$ 1,941,000	$ 1,960,000	$ 1,960,000	$ -
Total cash receipts	1,941,000	1,960,000	1,960,000	-
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,007,000	960,000	617,959	342,041
Facilities and public services	788,000	783,000	783,000	-
Utilities	146,000	217,000	211,143	5,857
Total cash disbursements and Encumbrances	1,941,000	1,960,000	1,612,102	347,898
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	$ -	$ -	$ 347,898	$ 347,898

See notes to Budgetary Comparison Schedule.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2018-2019 and subsequent fiscal years, per the applicable techniques and approaches of Zero- Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, *Puerto Rico Oversight, Management and Economic Stability Act* (PROMESA).

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

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

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

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

4. Beginning with fiscal year 2020-2021 the budget procedure to be used for the confection of the budget must be the methodology of Zero-Base budgeting.

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

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal ALN	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF THE INTERIOR:				
Direct Program:				
National Park Service		P20AP00044	$ -	$ 462,830
Historic Preservation Fund Grants – In Aid	15.904	P19AP00140	-	313,511
Emergency Supplemental Historic Preservation Fund	15.957	P19AP00010	-	737,328
Total U.S. Department of the Interior			**-**	**1,513,669**
U.S. DEPARTMENT OF THE TREASURY:				
Pass-through from Commonwealth of Puerto Rico Governor's Office of Management and Budget Coronavirus Relief Fund	21.019		-	82,514
Total U.S. Department of the Treasury			**-**	**82,514**
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through the Government of Puerto Rico Central Office for Recovery, Reconstruction, and Resiliency				
Disaster Grants – Public Assistance (Presidentially Declared Disaster)	97.036	FEMA 4339-DR-PR	-	1,336,021
Total U.S. Department of Homeland Security			**-**	**1,336,021**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ -**	**$ 2,932,204**

See Notes to Schedule of Expenditures of Federal Awards.

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **State Historic Preservation 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 statements.

BASIS OF PRESENTATION

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the cash basis of accounting. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for Public Assistance Grants (FEMA) are recognized in the period under: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

The Federal Assistance Listing Number (ALN), formerly known as Catalog of Federal Domestic Assistance Number (CFDA), is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the **Office**, known as "pass–through awards", should be treated by the Agency as though they were received directly from the federal government. The Uniform Guidance requires the schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

RECONCILIATION TO FINANCIAL STATEMENTS

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has being reconciled to the information reported in the **Office's** financial statements.

INDIRECT COST RATE

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

LATENESS OF SINGLE AUDIT REPORTING PACKAGE

In accordance with the Federal Office of Management and Budget Memorandum of March 19, 2021, agencies should allow grantees to delay the completion and submission of the single audit report, as required under Subpart F of 2 C.F.R. Part 200 - Audits Requirements, to six (6) months beyond the normal due date (from March 31, 2022 to September 30, 2022).

In addition, on September 18, 2022, Puerto Rico was declared a major disaster area due to the effects of the passing of the Hurricane Fiona. As a result, the OMB has granted a six months extension for single audit that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. In the case of the **Office**, the due date was extended up to March 31, 2023.

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

To the Executive Director
Commonwealth of Puerto Rico
State Historic Preservation 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 statements – cash basis of the governmental activities, business – type activities, and each major fund of the **State Historic Preservation Office (the Office)**, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the **Office's** financial statements as listed in the table of contents, and have issued our report thereon dated September 30, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **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 opinion on the financial statements, 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 statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Office's** financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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.

We noted certain matters that we reported to management of the **Office** in a separate letter dated September 30, 2022.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
September 30, 2022

Stamp No. 486887 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

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

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

To the Executive Director
Commonwealth of Puerto Rico
State Historic Preservation Office
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **State Historic Preservation 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.

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.

Opinion on Each Major Federal Programs

In our opinion, 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 each of its major federal programs for the year ended June 30, 2021.

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

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness.

Purpose of this Report

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC
San Juan, Puerto Rico
September 30, 2022

Stamp No. 486888 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Opinion Unit	Type of Opinion
General Fund	Unmodified
Special Revenue Fund	Unmodified
Historic Preservation Fund	Unmodified
Emergency Supplemental Historic Preservation Fund	Unmodified
CARES Act Fund	Unmodified
Public Assistance Disaster Grants Fund	Unmodified
Business – Type Activities Enterprise Fund	Unmodified

Internal control over financial reporting:		
Material weakness identified?	Yes ☐	No ☒
Significant deficiencies identified not considered to be material weaknesses?	Yes ☐	None reported ☒
Noncompliance material to financial statements noted?	Yes ☐	No ☒

Federal awards

Internal Control over major programs:		
Material weakness (es) identified?	Yes ☐	No ☒
Significant deficiency (ies)?	Yes ☐	No ☒
Type of auditor's report issued on compliance for major programs:	Unmodified	
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 programs:

ALN Number	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disaster)

Dollar threshold used to distinguish between Type A and Type B programs	$750,000	
Auditee qualified as low-risk auditee?	Yes ☒	No ☐

Section II – Financial Statements Findings

During our audit, we did not detect significant deficiencies, material weakness and instances of noncompliance related to basic financial statements that are required to be reported in accordance with *Governmental Auditing Standards.*

Section III – Major Federal Award Program Findings and Questioned Costs

During our audit, we did not detect deficiencies, material weaknesses, or instances of compliance related to federal awards that are required to be reported in accordance with OMB Uniform Guidance.

Audit Report: Reports on Compliance and Internal Control 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*

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

Fiscal Year: 2020-2021

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2020-001	Office Materials Warehouse Operations - Subsidiary Ledger	During our audit, we noted the following exceptions: a. The **Office** management has not followed with the procedures established to perform a perpetual inventory. The written policies of the minimum and maximum levels of the material have not been followed either. b. A perpetual inventory register was not maintained by a person not related with the operations of the warehouse. c. A physical inventory duly documented and approved was not performed.	The Office's Property Department staff plans to continue its efforts in order to update the subsidiary ledger.	None	Audit finding has been partially corrected. See Management Letter.

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Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2019-001	Office Materials Warehouse Operations - Subsidiary Ledger	During our audit, we noted the following exceptions: a. The **Office** management has not followed with the procedures established to perform a perpetual inventory. The written policies of the minimum and maximum levels of the material have not been followed either. b. A perpetual inventory register was not maintained by a person not related with the operations of the warehouse. c. A physical inventory duly documented and approved was not performed.	The Office's Property Department staff plans to continue its efforts in order to update the subsidiary ledger.	None	Audit finding has been partially corrected. See Management Letter.

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Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2018-001	Office Materials Warehouse Operations - Subsidiary Ledger	During our audit, we noted the following exceptions: a. The **Office** management has not followed with the procedures established to perform a perpetual inventory. The written policies of the minimum and maximum levels of the material have not been followed either. b. A perpetual inventory register was not maintained by a person not related with the operations of the warehouse. c. A physical inventory duly documented and approved was not performed.	The Office's Property Department staff plans to continue its efforts in order to update the subsidiary ledger.	None	Audit finding has been partially corrected. See Management Letter.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2018-002	Fixed – Capital Assets and Expenditures – Subsidiary Ledger and Additions	During our audit, we noted the following exceptions: a. The **Office** did not obtain evidence of the physical inventory documentation duly supervised by a functionary not involved in the day to day operations of the area. The property must be reconciled with records at least once every year. b. The Property ledger did not detail the equipment trademark, disposition date (If apply) and the reparations performed to the property and equipment.	Fully corrected	None	Audit finding has been fully corrected.

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

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2018-003	Fixed – Capital Assets and Expenditures – Subsidiary Ledger and Additions	During our audit, we noted the following exceptions: a. The **Office** did not obtain evidence of the physical inventory documentation duly supervised by a functionary not involved in the day to day operations of the area. The property must be reconciled with records at least once every year. b. The Property ledger did not detail the equipment trademark, disposition date (If apply) and the reparations performed to the property and equipment.	Fully corrected	None	Audit finding has been fully corrected.
2018-004	Single Audit Act	The Single Audit Report for the fiscal year ended June 30, 2018 was not issued within nine (9) months after the end of the audit period. significant deficiencies	Fully corrected	None	Audit finding has been fully corrected.