
COMMONWEALTH OF PUERTO RICO
STATE HISTORIC PRESERVATION OFFICE

**FINANCIAL STATEMENTS – CASH BASIS,
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, 2023



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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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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying cash basis financial statements and the business-type activities of the **State Historic Preservation Office (Office)** which comprise the Statements of Cash Receipts and Disbursements – Governmental and Proprietary Fund for the fiscal year ended June 30, 2023, and the related notes to the cash basis financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements transactions of the **Office's** governmental funds, and the respective cash basis net changes thereof, for the fiscal year ended June 30, 2023, in conformity with the basis of accounting described in **Note 1**.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Statement section of our report. We are required to be independent of the **Office** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described in **Note 1**, the **Office** prepares its Statements of Cash Receipts and Disbursements – Governmental and Proprietary Funds on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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**, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements – (continued)

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Office's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Office's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Office's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement 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, Cost Principles, and Audit Requirements for Federal Awards*, 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024, on our consideration of the **Office's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office's** internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office's** internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the United States Department of the Interior and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 31, 2024

Stamp No. E537131 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, 2023. 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

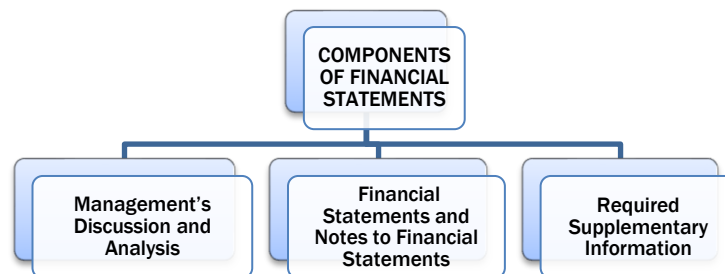
- In the **Office's** Statement of Cash Receipts and Cash Disbursements – Governmental Fund Types, the actual cash receipts exceeded actual cash disbursements by \$7,497,432.
- The **Office's** Statement of Cash Receipts and Cash Disbursements – Business Type Activities, the actual cash receipts exceeded actual cash disbursements by \$347,170.
- The General Fund (the primary operating fund) cash receipts amounted to \$7,765,195 and represents 52.31% of total cash receipts during the fiscal year. Also, cash disbursements of the General Fund amounted to \$2,870,541 and represents 39.07% of total cash disbursement for the fiscal year.
- During the fiscal year 2023, federal funds received amounted to \$7,079,115 and federal funds disbursements amounted to \$4,476,337.
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$4,894,654.

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 the individual funds behavior during fiscal year 2022-2023. 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 of 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

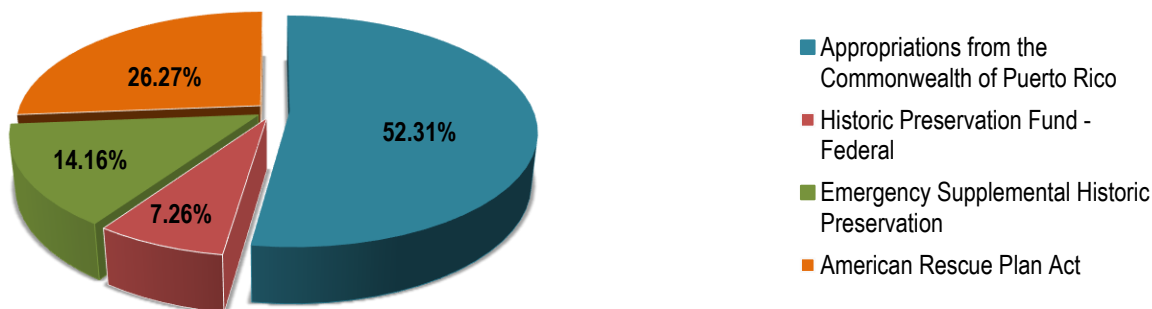
The governmental fund financial statements focus on major funds. The **Office’s** major funds are the general fund (which accounts for the main operating activities of the **Office**), federal funds (which account for Historic Preservation Grant, Emergency Supplemental Historic Preservation, Disaster Grants and American Rescue Plan Act). 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 five (5) funds and the same were presented in the financial statements.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

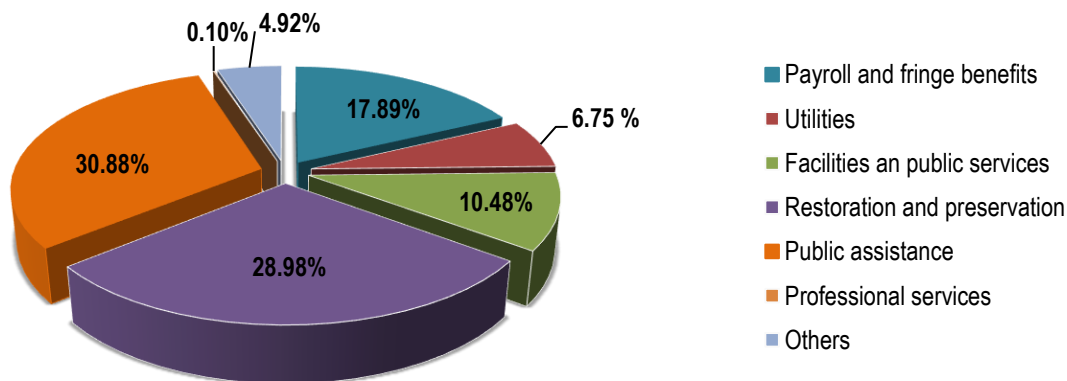
Governmental Fund Financial Statements (continued)

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 **Office’s** accounts are organized by 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.

Cash Receipts 2023



Cash Disbursements 2023

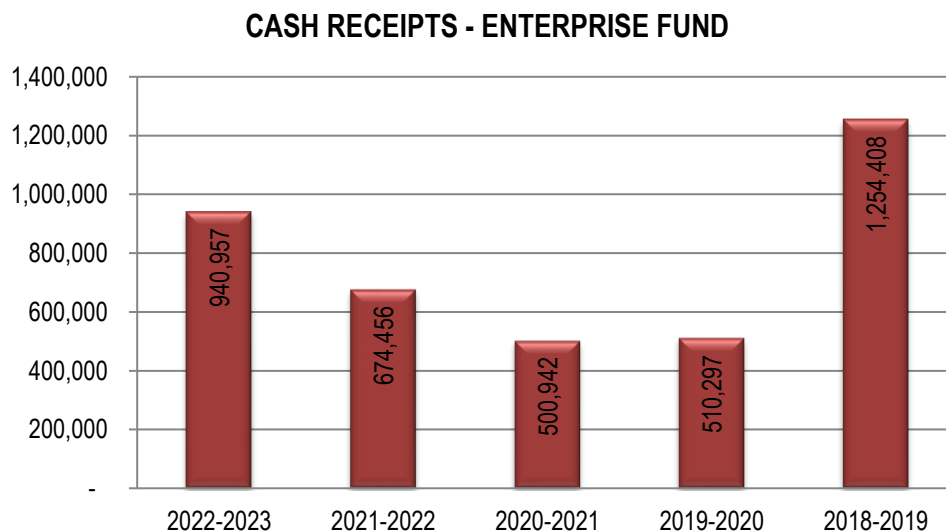


FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

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 the past five years. The **Office’s** Cash Receipts-Enterprise Fund increased in comparison to 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 \$4,894,654.

ECONOMIC FACTORS

American Rescue Plan Act (ARPA) – Stimulus Package

On March 11, 2021, the American Rescue Plan Act (ARPA) of 2021, was signed into law, 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 **\$2.9** million in ARPA funds during 2022-2023 fiscal year.

ECONOMIC FACTORS (CONTINUED)

Puerto Rico Tourism Company

On November 27, 2023, the Office of Management and Budget along with the Financial Oversight & Management Board approved a cash transfer from the Puerto Rico Tourism Company to execute the following transactions: \$1,142,327 to the Institute of Puerto Rican Culture (ICP) and \$8,978,416 to the State Historic Preservation Office (SHPO). The amount allocated to SHPO is designated to cover the rehabilitation and construction costs associated with the Quinto Centenario Plaza, the Soportal Plaza, and the Ballajá Underground Parking.

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.

	General Fund	Historic Preservation Fund	Emergency Supplemental Historic Preservation Fund	Public Assistance Disaster Grants Fund	ARPA Fund	Total Governmental Funds
CASH RECEIPTS						
Appropriations from the Commonwealth of Puerto Rico	\$ 7,765,195	\$ -	\$ -	\$ -	\$ -	\$ 7,765,195
Federal Grants	-	1,077,760	2,101,355	-	3,900,000	7,079,115
Total receipts	<u>7,765,195</u>	<u>1,077,760</u>	<u>2,101,355</u>	<u>-</u>	<u>3,900,000</u>	<u>14,844,310</u>
CASH DISBURSEMENTS						
Payroll and fringe benefits	1,314,419	-	-	-	-	1,314,419
Utilities	495,300	-	-	-	-	495,300
Facilities and public services	770,218	-	-	-	-	770,218
Restoration and preservation	283,604	613,792	1,231,895	-	-	2,129,291
Public assistance	-	-	-	2,268,539	-	2,268,539
Professional services	7,000	-	-	-	-	7,000
Others	-	-	-	-	362,111	362,111
Total disbursements	<u>2,870,541</u>	<u>613,792</u>	<u>1,231,895</u>	<u>2,268,539</u>	<u>362,111</u>	<u>7,346,878</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>\$ 4,894,654</u>	<u>\$ 463,968</u>	<u>\$ 869,460</u>	<u>\$ (2,268,539)</u>	<u>\$ 3,537,889</u>	<u>\$ 7,497,432</u>

See accompanying notes to financial statements – cash basis

	Business - Type Activities
	Enterprise Fund
CASH RECEIPTS:	
Rent of property	\$ 940,957
Total receipts	940,957
CASH DISBURSEMENTS:	
Operations and maintenance	593,787
Total disbursements	593,787
Excess of cash receipts over cash disbursements	\$ 347,170

See accompanying notes to financial statements – cash basis

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. The **Office** accompanying financial statements is issued solely to comply with the Single Audit Amendments of 1996 (P.L. 104-156) and for the information and use of **Office** management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. 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.

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

Basis of Presentation

The accounts of the **Office** are organized on the basis of the four fund types: general fund, federal fund, other governmental funds and proprietary fund. The **Office** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **Office** and appropriations granted for specific purposes, respectively. As more fully explained in the section “Basis of Accounting” below, each fund is accounted for with a set of accounts which include only receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations, and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **Office** from programs funded by the Federal Government. The individual funds included in this fund type are classified 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 original budgetary appropriation amounted to \$7,019,000 and its final revision amounted to \$7,262,430 for the fiscal year ended June 30, 2023.

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 governmental and proprietary 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 Statements 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 for governmental funds. For the Proprietary Fund cash receipts are derived from rental revenues. It also presents the cash disbursements for governmental and proprietary funds. 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. **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 separate 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 consists mainly of state appropriations.

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.

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).

American Rescue Plan Grants Fund – This fund accounts for revenue sources provided by the American Rescue Plan Act (ARPA) that is intended to help to combat the COVID-19 pandemic, including health and economic impacts. Eligible uses under American Rescue Plan include: (1) to respond the public health emergency or its negative economic impacts; (2) to respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers;(3) for the provision of the government services to the extent of the reduction in revenue due to COVID-19 public health emergency relative to revenue collected in the most recent full fiscal year prior to the emergency, and (4) to make necessary investments in water, sewer, or broadband infrastructure.

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

Proprietary funds – Enterprise fund

Proprietary funds consist of the enterprise fund. Enterprise funds are used to account for operation that are financed and operate in a manner similar to private business enterprise where the intent is that the cost of the providing goods and services be financed or recovered primarily through user charges.

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 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.

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.

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

Accounting for pension costs

Effective on July 1, 2017, the **Office** and other participants of the 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.

2. CASH WITH FISCAL AGENT

Department of the Treasury of the Commonwealth of Puerto Rico

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

Custodial Credit Risk

Custodial Credit Risk 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, 2023, the custodial credit risk associated with the **Office’s** cash and cash equivalents is considered low.

3. FUND ADVANCES

The **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, 2023, funds were advanced to **Office** for this purpose.

4. COMPENSATED ABSENCES

According to Act Num. 8-2017 and Act. Num 26-2017, the compensated absences policy of the Commonwealth that applies to the **Office's** employees provides for the of accrual of 1.25 days per month up to the annual amount of 15 days of vacation leave, and the accrual of 1.5 days per month up to an annual amount of 18 days of sick leave if hired before February 4, 2017, or 12 days of sick leave if hired after February 4, 2017.

Thereafter, according to Act. Num. 176-2019 (effective December 16, 2019, to December 31, 2020) the compensated absences policy provided for the accrual of 2.5 days of vacation leave and 1.5 days of sick leave per calendar month during a year. However, the United States District Court for the District of Puerto Rico ordered to the Government of Puerto Rico that Act Num. 176-2019 cannot be put into effect because it is contrary to the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). In compliance with the Court's decision, effective on January, 2021, the accrual of vacation and sick leaves were returned to how it is established on Act Num. 8-2017 (1.25 days per month up to the annual amount of 15 days of vacation leave, and the accrual of 1.5 days per month up to an annual amount of 18 days of sick leave if hired before February 4, 2017 or 12 days of sick leave if hired after February 4, 2017).

Vacation leave may be accrued up to sixty (60) days and if at the end of the year (December 31st) the employee has surpassed the accrual limit, on January 1st of the next natural year, the days accrued in excess of 60 days will be lost, unless the **Office** grants an authorization to extend the use of those days accrued in excess of 60 days in a period no greater than March 31st. (See Article 2.04(g) of Act Num. 26-2017). Sick Leave may be accrued up to ninety (90) days.

Vacation leave is fully granted to the employees from the first day of work up to a maximum of 60 days. In the event of an employee resignation or termination, the employee receives payment for the accrued vacation leave up to the maximum of 60 days. Employees don't receive payment for accrued sick leave upon employment resignation or termination.

5. RETIREMENT PLAN

Plan description

The Defined Benefit Pension Plan for Participants of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a pay-as-you-go (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

5. RETIREMENT PLAN (CONTINUED)

Plan description - (continued)

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. During the fiscal year 2022-2023, the **Office** was billed and recorded the amount of \$240,228 as PayGo expenditures.

Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013, as described below:

- Members of Act No. 447 of May 15, 1951 (Act No. 447) are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (Contributory, Defined Contribution Program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (Define Contribution Hybrid Program, known as System 2000).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013 were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013, froze all retirement benefits accrued through June 30, 2013, under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula for the System 2000 program participants. During the fiscal year ended June 30, 2023, the **Office** employees' contributions amounted to \$116,565.

Service Retirements Eligibility

Eligibility for Act No. 447 Members - members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service.

5. RETIREMENT PLAN (CONTINUED)

Service Retirements Eligibility – (continued)

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

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

Eligibility for Act No. 1 Members - members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service.

Act No. 1 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service.

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

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below.

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

Eligibility for Members Hired after June 30, 2013 - Attainment of age 67.

Service Retirement Annuity Benefits

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

5. RETIREMENT PLAN (CONTINUED)

Service Retirement Annuity Benefits – (continued)

- Accrued Benefit as of June 30, 2013, for Act No. 447 Members - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

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

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

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. The maximum benefit is 75% of average compensation. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years.

- Accrued Benefit as of June 30, 2013 for Act No. I Members - The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. I members, the years of credited service, and the attained age of the member all as of June 30, 2013.

Special Benefits

Minimum Benefits

- a) Past ad hoc Increases

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

5. RETIREMENT PLAN (CONTINUED)

Special Benefits – (continued)

Minimum Benefits – (continued)

- b) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3 of 2013)

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

- c) Coordination Plan Minimum Benefit

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

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

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

Special "Bonus" Benefits

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

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

- b) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 6, the Commonwealth provides other retirement benefits, such as healthcare benefits for its retired employees in accordance with local laws.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The Commonwealth accounts for OPEB under the provisions of GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. This statement requires a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding that plan. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters. These benefits are recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis.

Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB plan.

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

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 few 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.

Comptroller's Office of Puerto Rico Reports - The **Office** is also subject to audits by the Comptroller's Office (COPR). As of financial statements of cash receipts, disbursements, and excess (deficiency) of receipts over (under) disbursement statement date, **Office** has no outstanding audits from COPR. 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

The **Office** has evaluated subsequent events through January 31, 2024, the date which the financial stat was available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2023.

Puerto Rico Tourism Company

On November 27, 2023, the Office of Management and Budget along with the Financial Oversight & Management Board approved a cash transfer for the Puerto Rico Tourism Company to execute the following transactions: \$1,142,327 to the Institute of Puerto Rican Culture (ICP) and \$8,978,416 to the State Historic Preservation Office (SHPO). The amount allocated to SHPO is designated to cover the rehabilitation and construction costs associated with the Quinto Centenario Plaza, the Soportal Plaza, and the Ballajá Underground Parking.

END OF NOTES

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico:	\$ 7,019,000	\$ 7,262,430	\$ 7,765,195	\$ 502,765
Total cash receipts	<u>7,019,000</u>	<u>7,262,430</u>	<u>7,765,195</u>	<u>502,765</u>
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,246,000	1,489,430	1,314,419	175,011
Utilities	508,000	508,000	495,300	12,700
Facilities and public services	133,000	148,000	770,218	(622,218)
Restoration and preservation	5,000,000	5,000,000	283,604	4,716,396
Others	132,000	117,000	7,000	110,000
Total cash disbursements and Encumbrances	<u>7,019,000</u>	<u>7,262,430</u>	<u>2,870,541</u>	<u>4,391,889</u>
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,894,654</u>	<u>\$ 4,894,654</u>

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 financial statements are presented at the programmatic level. 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 2021-2022 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:				
		PF22AF01731	\$ -	\$ 359,757
National Park Service		P21AF11061	-	247,574
Historic Preservation Fund Grants – In Aid	15.904	P20AP00044	-	6,461
Emergency Supplemental Historic Preservation Fund	15.957	P19AP00010	-	1,231,895
Total U.S. Department of the Interior			-	1,845,687
U.S. DEPARTMENT OF THE TREASURY:				
Pass-through from Commonwealth of Puerto Rico – Coronavirus Relief Fund Disbursement Oversight Committee				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	362,111
Total U.S. Department of the Treasury			-	362,111
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through the Central Office for Recovery, Reconstruction, and Resiliency of Puerto Rico				
Disaster Grants – Public Assistance (Presidentially Declared Disaster)	97.036	FEMA 4339-DR-PR	-	2,268,539
Total U.S. Department of Homeland Security			-	2,268,539
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 4,476,337

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, 2023. 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. The financial transactions are recorded by the **Office** accordance with the terms and conditions of the grants, which are consistent with US GAAP. 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 been reconciled to the information reported in the **Office's** financial statements.

INDIRECT COST RATE

The **Office** has elected not to use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2023.



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 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, 2023, 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 January 31, 2024.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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*.

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

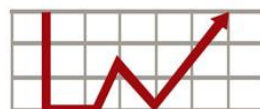
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office's** internal control or on compliance. This report is an integral part of an audit performed 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.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 31, 2024

Stamp No. E537132 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



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

Opinion on 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, 2023. The **Office's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the **Office** complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis Opinion on Each Major Federal Program

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, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **Office** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the **Office's** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the **Office's** federal programs.

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **Office's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **Office's** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **Office's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the **Office's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 **Office's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Report on Internal Control over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.



LOPEZ-VEGA, CPA, PSC
San Juan, Puerto Rico
January 31, 2024

Stamp No. E537133 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors’ Results

The independent auditors’ report on the cash basis financial statements expressed an unmodified opinion, and that such cash basis financial statements were prepared using the cash basis method of accounting, which is a basis of accounting other than US GAAP.

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 Federal Programs:

<u>Federal ALN</u>	<u>Name of Federal Program or Cluster</u>
15.957	Emergency Supplemental Historic Preservation

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 noncompliance 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, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance and Budget Director

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 the procedures established to perform a perpetual inventory. The written policies of the minimum and maximum amount of inventory 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	Pending final action of the Agency's Management.