

**SUPERINTENDENCE OF THE
CAPITOL BUILDING**

(An Office of the Legislature of the
Commonwealth of Puerto Rico)

Basic Financial Statements
and Required Supplementary Information

June 30, 2021



SUPERINTENDENCE OF THE CAPITOL BUILDING

Table of Contents

	Page (s)
Independent Auditor's Report	1-3
Management's Discussion and Analysis (Unaudited)	4-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-47
Required Supplementary (Unaudited)	
Schedule of Revenue and Expenditures - Budget to Actual - Budgetary Basis - General Fund	49
Notes to Required Supplementary Information	50
Budget to GAAP Reconciliations	51
Independent Auditor's Report on Internal Control over Financial Reporting	52-53
Schedule of Findings	54
Prior Years Audit Findings	56-57
Status of Prior Years Audit Findings	58
Corrective Action Plan	59

BETANCOURT & CO PSC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Superintendent
Mr. Cesar Hernández Alfonzo
Superintendence of the Capitol Building
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund information of Superintendence of the Capitol Building ("The Superintendence"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Superintendence's Basic Financial Statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Controller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

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INDEPENDENT AUDITOR'S REPORT **(Continued)**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Superintendence as of June 30, 2021, and the respective changes in financial position for the year then ended in conformity with Accounting Principles Generally Accepted in the United States of America.

Other Matters

Required Supplementary Information Omitted

The Superintendence has omitted the schedules and ratios required by GASB Statements 73 and 75, information that Accounting Principles Generally Accepted in the United States of America requires to be presented to supplement the Basic Financial Statements. Such missing information, although not a part of the Basic Financial Statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America requires that the Management's Discussion and Analysis on pages 4 to 9 and Budgetary Comparison Information on pages 49 to 51, be presented to supplement the Basic Financial Statements. Such information, although not a part of the Basic Financial Statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the Basic Financial Statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with Auditing Standards Generally Accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the Basic Financial Statements, and other knowledge we obtained during our audit of the Basic Financial Statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT
(continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2023, on our consideration of the Superintendence'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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



BETANCOURT & CO PSC

San Juan, Puerto Rico

January 31, 2023

Stamp No. E509759 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report



SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited) June 30, 2021

Management's Discussion and Analysis

Management of the Superintendence of the Capitol Building ("The Superintendence") provides this Management's Discussion and Analysis ("MD&A") as a narrative overview and analysis of the financial activities of the Superintendence for the fiscal year ended June 30, 2021. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Superintendence's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. Since the MD&A is designed to focus on the current year activities, we encourage readers to review this information together with the Superintendence's Basic Financial Statements that follow.

Financial Highlights

Government-Wide Financial Statements

- The Superintendence's Net Position decreased by \$6,270,719 during the fiscal year and amounted to \$76,765,316 at June 30, 2021.
- The total assets of the Superintendence decreased by \$3,272,108 during the fiscal year. This fluctuation is mainly attributable to the decrease in current assets by \$1,405,776 and the net decrease in capital assets of 1,866,332.
- The total liabilities of the Superintendence amounted in fiscal year 2021 to \$19,710,987 and it's mainly comprised of the accrual required under GASB No. 34 for compensated absences, accrual required under GASB No. 75 and accrual required under GASB No. 73 for pension liability in the amount of \$682,629, \$333,108 and \$11,782,821 respectively, which represent 65% of total liabilities. The Superintendence has the resources to meet its ongoing obligations, based on the budget assigned by the Legislature, including the liabilities for accrued vacations and sick leave.

Fund Financial Statements

- The total fund balance of the Superintendence's general fund (the primary operating fund) reflected, on a current financial resource's basis, a decrease of \$3,539,630 during the fiscal year and therefore final fund balance amounted to (\$4,819,967) at June 30, 2021.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Superintendence's basic financial statements. The Superintendence's Basic Financial Statements are comprised of three components: (1) Government-Wide Financial Statements; (2) Fund Financial Statements; and (3) Notes to the Basic Financial Statements. This report also contains required supplementary information (Schedule of Revenues and Expenditures- Budget to Actual- General Fund). These components are described below.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)
June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the Basic Financial Statements with a broad overview of the Superintendent's finances in a manner similar to the private sector business. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. These statements present short and long-term information about the Superintendent's financial position, which assists in assessing the Superintendent's economic condition at the end of the year. The Government-Wide Financial Statements include two statements:

- **Statement of Net Position**- This presents all of the Superintendent's assets and liabilities, and their difference reported as net position. Fluctuations in Net Position may serve as a useful indicator of whether the financial position of the Superintendent is improving or deteriorating.
- **Statement of Activities** - This presents information showing how the Superintendent's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Superintendent, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Superintendent and report the operations in more detail than the government-wide financial statements.

- **Governmental Funds Financial Statements** - Are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources. They also focus on the balances of spendable resources at the end of the fiscal year. Such information is useful in evaluating the Superintendent's near-term financial requirements. This approach is known as using the flow of the current financial resource's measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Superintendent that assists in determining whether there will be adequate financial resources available to meet the current needs of the Superintendent.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Superintendent's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)
June 30, 2021

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The Superintendence has two major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in net position. The Superintendence's two major governmental funds are the General Fund and the Capital Projects Fund.

Notes to Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found immediately after the Basic Financial Statements.

Required Supplementary Information

The Basic Financial Statements are followed by a section of Required Supplementary Information, immediately following its notes. This section includes a Budgetary Comparison Schedule, and also a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the Governmental Fund Financial Statements.

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS

As noted earlier, the Superintendence uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Net Position

The Statement of Net Position serves over time as a useful indicator of the Superintendence's financial position at the end of the fiscal year. The Superintendence's net position decreased by \$6,270,719. The Superintendence's net position includes net investment in capital assets of \$92,539,278 and an unrestricted deficit of (\$15,773,962). The following are the condensed statements of net position as of June 30, 2021 and 2020.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)
June 30, 2021

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Condensed Statements of Net Position

	2021	2020	Change	%
Assets:				
Current assets	\$ 1,647,126	\$ 3,052,902	\$ (1,405,776)	-46%
Capital assets, net	92,539,278	94,405,610	(1,866,332)	-2%
Total assets	94,186,404	97,458,512	(3,272,108)	-3%
Deferred outflows of resources	2,289,899	1,205,976	1,083,923	90%
Liabilities:				
Current liabilities	7,073,269	5,166,252	1,907,017	37%
Noncurrent liabilities	12,096,649	11,325,798	770,851	7%
Total liabilities	19,169,918	16,492,050	2,677,868	16%
Deferred inflows of resources	541,069	678,406	(137,337)	-20%
Net Position:				
Invested in capital assets, net of related debt	92,539,278	94,405,610	(1,866,332)	-2%
Unrestricted	(15,773,962)	(12,911,578)	(2,862,384)	22%
Total net position	\$ 76,765,316	\$ 81,494,032	\$ (4,728,716)	-6%

Capital Assets

The Superintendence's investment in capital assets for its governmental activities amounted to \$92,539,278 and \$94,405,610 for 2021 and 2020, respectively, net of accumulated depreciation. This investment in capital assets includes works of arts, construction in progress, equipment, computer equipment and software, furniture, and vehicles. Actual expenditures to purchase or construct capital assets from the Superintendence's governmental activities for the fiscal years ended June 30, 2021 and 2020 were \$69,035 and \$99,510, respectively.

Depreciation charges from the Superintendence's governmental activities were \$3,477,371 and \$4,631,696 for the fiscal years ended June 30, 2021 and 2020, respectively.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)
June 30, 2021

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Condensed Statement of Activities

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>%</u>
Expenses:				
General government	\$ 16,192,120	\$ 19,186,499	\$ (2,994,379)	-16%
Revenues:				
Legislative appropriations	9,428,601	10,261,351	(832,750)	-8%
Legislative Assembly service charges	-	111,854	(111,854)	-100%
Contribution from Commonwealth	-	583,339	(583,339)	-100%
Other Revenue	492,800	226,357	266,443	118%
Total revenues	<u>9,921,401</u>	<u>11,182,901</u>	<u>(1,261,500)</u>	<u>-11%</u>
Net change in net position	(6,270,719)	(8,003,598)	1,732,879	-22%
Net position at beginning of year (as restated)	<u>83,036,035</u>	<u>89,497,630</u>	<u>(6,461,595)</u>	<u>-7%</u>
Net position at end of year	<u>\$ 76,765,316</u>	<u>\$ 81,494,032</u>	<u>\$ (4,728,716)</u>	<u>-6%</u>

Changes in Net Position

The preceding Condensed Statements of Activities reflect how the Superintendence's net position changed during the fiscal years ended June 30, 2021 and 2020.

The Superintendence's major expense is related to salaries, benefits and payroll taxes, which represents 52% and 49% of total expenses for the fiscal years ended June 30, 2021 and 2020, respectively.

Governmental Funds Highlights

The focus of the Superintendence's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Superintendence's financing requirements. In addition, fund balances for governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the Superintendence is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of the end of the fiscal year 2021, the Superintendence's governmental funds reported a combined ending balance of (\$4,724,234). The general fund is the principal operating fund of the Superintendence. There are no restricted fund balances. This is the portion of fund balance that reflects resources that would be subject to externally enforceable legal restrictions to pay for specific program purposes. Accordingly, an unassigned fund balance of (\$4,819,967) was reported in the governmental funds at June 30, 2021.

The Superintendence's combined ending fund balance decreased by \$3,527,258. See additional related comments in the following section titled general fund budgetary highlights.

SUPERINTENDENCE OF CAPITOL BUILDING

Management's Discussion and Analysis (Unaudited)
June 30, 2021

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

General Fund Budgetary Highlights

The General Fund Budget for the fiscal year ended June 30, 2021 was \$3,395,948 and the expenditures were \$4,128,075 on a actual budgetary basis.

The following table summarizes, on a budgetary basis, the actual revenues, expenditures and (over) unexpended balance for the general fund for fiscal years ended June 30, 2021 and 2020.

	<u>Budget 2021</u>	<u>Budget 2020</u>	<u>Change</u>
Revenues	\$ 3,395,948	\$ 5,137,710	\$ (1,741,762)
Expenditures	<u>4,128,075</u>	<u>7,088,245</u>	<u>(2,960,170)</u>
Unspended balance	<u>\$ (732,127)</u>	<u>\$ (1,950,535)</u>	<u>\$ 1,218,408</u>
Expenditure rate	122%	138%	

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

There is one subsequent event that may have a significant effect on the financial position (and/or the results of operations), the government transition due to the general elections of November 2020.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Superintendence's finances for all the citizens, taxpayers, customers and creditors. Also, this report serves to demonstrate the Superintendence's accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests please contact: Superintendencia del Capitolio - Apartado 9023828 San Juan, Puerto Rico 00902-3828.

SUPERINTENDENCE OF THE CAPITOL BUILDING
(An Office of the Legislature of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
June 30, 2021

	<u>Governmental Activities</u>
ASSETS	
Cash in commercial banks	\$ 1,647,126
Capital assets, not being depreciated	7,404,085
Capital assets, net of accumulated depreciation	<u>85,135,193</u>
Total assets	<u>94,186,404</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Related to Pensions	2,263,734
Related to other post employment benefits plans	<u>26,165</u>
Total assets and deferred outflows of resources	<u>96,476,303</u>
 LIABILITIES:	
Accounts payable	5,188,078
Accrued liabilities	813,640
Due to federal government	369,642
Liabilities payable within one year:	
Compensated absences	155,152
Total pension liability	546,757
Liabilities payable after one year:	
Compensated absences	527,477
Total pension liability	11,236,064
Other post employment benefits	<u>333,108</u>
Total liabilities	<u>19,169,918</u>
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS	<u>541,069</u>
Total liabilities and deferred inflows of resources	<u>19,710,987</u>
 NET POSITION	
Net investment in capital assets	92,539,278
Unrestricted (Deficit)	<u>(15,773,962)</u>
TOTAL NET POSITION	<u>\$ 76,765,316</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 <u>96,476,303</u>

The accompanying notes to the financial statements are an integral part of this statement.

SUPERINTENDENCE OF THE CAPITOL BUILDING
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Government - Administrative and Operating	\$ 16,192,120	-	-	-	\$ (16,192,120)
Total Primary Government	<u>\$ 16,192,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (16,192,120)</u>
General Revenues:					
					9,428,601
					<u>492,800</u>
					<u>9,921,401</u>
CHANGES IN NET POSITION					(6,270,719)
Net Position – Beginning of Year restated					<u>83,036,035</u>
Net Position – Ending of Year					<u>\$ 76,765,316</u>

The accompanying notes to the financial statements are an integral part of this statement.

SUPERINTENDENCE OF THE CAPITOL BUILDING
 (An Office of the Legislature of the Commonwealth of Puerto Rico)
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash in commercial banks	\$ 1,362,054	\$ 285,072	\$ 1,647,126
Due from other funds	80,459	194,000	274,459
Total assets	<u>\$ 1,442,513</u>	<u>\$ 479,072</u>	<u>\$ 1,921,585</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 5,188,078	\$ -	\$ 5,188,078
Accrued liabilities	510,760	302,880	813,640
Due to federal government	369,642	-	369,642
Due to other funds	194,000	80,459	274,459
Total liabilities	<u>6,262,480</u>	<u>383,339</u>	<u>6,645,819</u>
 FUND BALANCE			
Restricted	-	95,733	95,733
Unassigned	(4,819,967)	-	(4,819,967)
Total fund balance	<u>(4,819,967)</u>	<u>95,733</u>	<u>(4,724,234)</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 1,442,513</u>	 <u>\$ 479,072</u>	 <u>\$ 1,921,585</u>

The accompanying notes to the financial statements are an integral part of this statement.

SUPERINTENDENCE OF THE CAPITOL BUILDING

(AN OFFICE OF THE LEGISLATURE OF THE COMMONWEALTH OF PUERTO RICO)

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2021

Total fund balances of governmental funds	\$ (4,724,234)
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds	92,539,278
Deferred outflows of resources in governmental activities are not recorded in the funds in the current period.- pension related	2,263,734
and related to ophther post employment benefits	26,165
Deferred inflows of resources in governmental activities correspond to future periods and therefore not reported in the funds- pension related	(541,069)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences	(682,629)
Other post employment benefit liability	(333,108)
Total pension liability	<u>(11,782,821)</u>
Total net position of governmental activities	\$ <u><u>76,765,316</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Contributions from Commonwealth of Puerto Rico	\$ 9,255,830	\$ 97,771	\$ 9,353,601
Rent and others	567,799	-	567,799
Total revenues	<u>9,823,629</u>	<u>97,771</u>	<u>9,921,400</u>
EXPENDITURES			
<i>General government:</i>			
Salaries and payroll related costs	6,914,737	85,399	7,000,136
Meals and travel	14,947	-	14,947
Professional services	873,966	-	873,966
Insurance	2,390,455	-	2,390,455
Rent	160,150	-	160,150
Non-capitalizable equipment	191,755	-	191,755
Repairs and maintenance	107,000	-	107,000
Utilities	2,434,997	-	2,434,997
Materials and supplies	136,567	-	136,567
Postage	776	-	776
Miscellaneous	68,874	-	68,874
Capital outlays	-	69,035	69,035
Total expenditures	<u>13,294,224</u>	<u>154,434</u>	<u>13,448,658</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,470,595)</u>	<u>(56,663)</u>	<u>(3,527,258)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out) between funds	(69,035)	69,035	-
Total other financing sources	<u>(69,035)</u>	<u>69,035</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(3,539,630)	12,372	(3,527,258)
FUND BALANCES AT BEGINNING OF YEAR	<u>(1,280,337)</u>	<u>83,361</u>	<u>(1,196,976)</u>
FUND BALANCES AT THE END OF YEAR	<u>\$ (4,819,967)</u>	<u>\$ 95,733</u>	<u>\$ (4,724,234)</u>

The accompanying notes to the financial statements are an integral part of this statement.

SUPERINTENDENCE OF THE CAPITOL BUILDING

(AN OFFICE OF THE LEGISLATURE OF THE COMMONWEALTH OF PUERTO RICO)

Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2021

Net change in fund balances – total governmental funds	\$	(3,527,258)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	\$	69,035
Less depreciation expense		<u>(3,477,371)</u>
Subtotal		(3,408,336)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Deferred outflow related to pension		1,083,923
Pension related debt		(1,309,861)
Deferred inflow related to pension		137,337
Other post employment benefit		(29,163)
Accrued compensated absences		<u>782,639</u>
		<u>664,875</u>
Change in net position of governmental activities	\$	<u><u>(6,270,719)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Superintendence of the Capitol Building (the "Superintendence") is an office of the Legislature of the Commonwealth of Puerto Rico (the "Commonwealth") and was organized by Act No. 4 of July 21, 1977. The Superintendence oversees the preservation of the Complex of the Capitol Building under the direction of a Superintendent appointed by agreement between the President of the Superintendence and the Speaker of the House of Representatives of the Commonwealth of Puerto Rico.

On December 24, 1998, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 321, an amendment of Act No. 4, recognizing the Superintendence as a juridical person.

On July 1, 2010, the Superintendence became fiscally autonomous pursuant to the provisions of Act 230 of July 23, 1974, as amended on September 11, 2004, known as the "Commonwealth of Puerto Rico Accounting Law". The funds of the Superintendence are under the custody of the Secretary of Treasury of Puerto Rico until transferred to the Superintendence.

Reporting Entity

The Superintendence is for financial reporting purposes part of the Commonwealth of Puerto Rico, and its financial data is reported as part of the general fund in the Commonwealth's financial statements. The accompanying Basic Financial Statements are issued solely and for the information and use of the Secretary of Treasury, the Legislative Assembly, the Governor, and the citizens of the Commonwealth of Puerto Rico.

Summary of Significant Accounting Policies

The accompanying Basic Financial Statements of the Superintendence have been prepared in conformity with generally accepted accounting principles in the United States of America (USGAAP) as required by the Governmental Accounting Standards Board ("GASB").

The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

The accompanying Basic Financial Statements present the financial position and the changes in net position of the Superintendence and its funds as of June 30, 2021, and for the fiscal year then ended. The Superintendence's Basic Financial Statements consist of Government-Wide Financial Statements, including a Statement of Net Position and a Statement of Activities, and Fund Financial Statements, which provide a more detailed level of financial information.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Government-Wide Financial Statements

The Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. All transactions and events that affect the total economic resources (net position) during the period are reported. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the Government-Wide Financial Statements. The effect of Inter-fund activities is eliminated.

The Statement of Net Position incorporates all capital (long lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Superintendence. Both the gross and net cost of the function which is otherwise being supported by the general government revenues is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The Superintendence first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

Governmental Fund Financial Statements

The Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund and one column for the capital projects funds. Major funds are determined based on a minimum criterion, which is a percentage of the position, liabilities, revenues or expenditures or based on Management official's criteria. The Superintendence reports the following major governmental funds:

- **General Fund** - is used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Superintendence'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) US GAAP requirements or (3) the demands of sound financial administration requiring the use of governmental fund other than the general fund. Its revenues consist mainly of legislative appropriations.
- **Capital Projects Fund** - is used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The use of the capital projects funds has been limited to only the major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Superintendence's operating activities.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Measurement Focus and Basis of Accounting

Except for budgetary purposes, the basis of accounting used by the Superintendence conforms with USGAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Government-Wide Financial Statements

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Statement of Net Position presents the assets and liabilities with the difference reported as net position. Net Position is reported in three main categories:

Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balance attributed to the acquisition, construction or improvement of those assets.

Restricted Net Position - consist of net resources externally restricted by creditors, grantors, laws and regulations for the acquisition or construction of major capital facilities.

Unrestricted Net Position - consists of net position that are neither externally nor legally restricted, neither invested in capital assets. Unrestricted net position often has constraints that are imposed by management, but that can be removed or modified.

Governmental Funds Financial Statements

The Governmental Funds Financial Statements (GFFS) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. The revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Superintendence considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are considered to be measurable and available only when collected by the Superintendence. On June 30, 2021, all revenues sources met this availability criterion. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest debt are recorded when they matured (when payment is due. Proceeds of acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities but are not recorded in the accompanying GFFS.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Governmental Funds Financial Statements (Continuation)

Use of estimates-Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. All other revenue items are considered measurable and available only when the Superintendence receives cash. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, expenditures for compensated absences and claims and judgments are recognized as expenditures when the payment is due. General capital outlays are reported as expenditures in governmental funds.

Legislative Appropriations and Joint Resolutions - The Superintendence's principal sources of revenue are legislative appropriations and joint resolutions from the Commonwealth. Appropriations are for general operating purposes of the Superintendence.

Cash and Cash with Fiscal Agent

Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

Accounts Receivables

Receivables consist of all revenues earned but not collected at June 30, 2021. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions.

Intergovernmental receivables (Contributions from Commonwealth) represent amounts owed to the Superintendence for reimbursement of expenditures incurred pursuant to state appropriations.

The rent and other revenues in the governmental funds are recognize as revenues when it becomes measurable and available based on actual collections during the 60 days following the current fiscal year end related to sales and use transactions due on or before year end. In the government-wide financial statement these revenues are recognized in the period when earned.

Interfund Transactions

Activity between funds that are representative of lending /borrowing arrangements outstanding at the end of the fiscal year are refer to as either "due to/ from other funds" (current portion of inter fund loans) or "advance to/from other funds" (non-current portion of inter fund loans). All other outstanding balances, between funds are reported as "due to/from other funds". During the fiscal year ended June 30, 2021, the Superintendence made routinary transfers for approximately \$99 thousand from the general fund to the capital project fund to finance the capital expenditures of the fund.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continuation)**

Capital Assets

Capital assets, which include, equipment, computer equipment, furniture and vehicles, are reported in the government-wide financial statements. The Superintendence defames capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life exceeding five years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide financial statements. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. No depreciation or amortization has been recorded for land and construction in progress. The estimated useful lives of other major capital asset categories are:

	<u>Years</u>
Buildings	40
Improvements	40
Equipment	5
Computer equipment and software	5
Furniture	5

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

Accounts Payables

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

Long-term Debt

The liabilities reported in the Government-Wide Financial Statements include long-term liabilities such as vacations and sick leave, reserves for contingencies long term portion of obligations under line of credits agreements and pension liability.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Compensated Absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pays and salary related benefits are accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Superintendence. All sick leave and salary related benefits are accrued when incurred in the government-wide financial statements when the employee meets such criteria. The "Public Service Personnel Law" requires the Superintendence to pay annually the accumulated vacation and sick leave earned exceeding the limits mentioned above.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate up to the maximum of sixty (60) days. When the reason for the separation is to qualify for the retirement for years of services or disability, a deferred pension or after having worked for at least ten (10) years of services without being a participant in a retirement system sponsored by the government you will also be entitled to pay of the lump sum of sick leave accumulated and not use up to maximum of ninety (90) days.

Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the Statement of Net Position when the liability is incurred.

Fund Balances

The Superintendence adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Superintendence is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying Governmental Fund Financial Statements report fund balance amounts that are considered no spendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a) *Non-spendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long-term balances of loans and notes receivable.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Fund Balances (Continuation)

- b) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Superintendence's highest level of decision-making authority (Legislative Assembly through resolutions and administrative orders) and can only be changed by a similar orders or resolution, no later than the end of fiscal year.
- d) *Assigned* - Represent resources intended to be used by the Superintendence for specific purposes but do not meet the criteria to be classified as restricted or committed (generally administrative orders approved by the President of the Superintendence). Intent can be expressed by an official or body to which the Superintendence delegates authority.
- e) *Unassigned*- Represent the residual classification for the Superintendence's general fund and includes all spendable amounts not contained in the other classifications.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Superintendence uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Superintendence generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures are incurred.

Risk Management

The Superintendence carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Department of Treasury and costs are allocated among all the governmental units of the Commonwealth. Cost of insurance allocated to the Superintendence amounted to approximately \$1,445,926 for the fiscal year ended June 30, 2021. The current insurance policies have not been cancelled or terminated. The State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides workmen compensation insurance to cover all Superintendence employees. The Superintendence's workmen compensation insurance expenditures amounted to approximately \$131,327 for the fiscal year ended June 30, 2021.

Deferred Outflows/Inflows of Resources

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

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continuation)

Deferred Outflows/Inflows of Resources (Continuation)

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

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

Based on this concept, the Superintendence reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 73.
- Deferred outflows of resources related to OPEB should be reported for (a) amounts paid by the employer for OPEB as the benefits come due subsequent to the measurement date of the total OPEB liability and before the end of the reporting period (excluding amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) amounts incurred by the employer for OPEB administrative expenses subsequent to the measurement date of the total OPEB liability and before the end of the reporting period. [GASBS 75, ¶159]
- Revenues earned but not available within 60 days of fiscal year end.

The Superintendence has items, which arise under accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*.

Accounting for Pension Costs

In June 2015, the Governmental Accounting Standards Board (GASB) issued pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, replaces the requirements of GASB Statement Nos. 68 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Government of Puerto Rico (ERS) as of June 30, 2021.

In addition, the GASB issued Statement No. 82, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the Superintendence's fiscal year beginning July 1, 2021. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continuation)

Accounting for Pension Costs (Continuation)

Required Supplementary Information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The Superintendence implemented GASB Statements No. 73 for the fiscal year ending June 30, 2021, and the financial statements of the Superintendence for the year ended June 30, 2021 were issued, with audited information available at the date of the Superintendence's reports.

Other Postemployment Benefits

In accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made.

In addition to the pension benefits described in Note 8, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico.

Implementation of New Governmental Accounting Standards Board (GASB) Statements

The GASB has issued the following accounting pronouncements that have an effective date after June 30, 2021:

- (a) 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, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, which allowed for an eighteen-month postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements
June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

- (b) GASB Statement No. 89, *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 costs 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, 2020, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged, and it's permitted to the extent specified in each pronouncement as originally issued.
- (c) GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

- (d) GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and *Implementation Guide No. 2019-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of 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, as amended*, and Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.
- (e) GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

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, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

- (f) GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). 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 requires that: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (“APAs”). 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.
- (g) 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

- (h) GASB Statement No. 97, *Certain Component 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 than postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

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.

- (i) 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.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements
June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

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.

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

- (j) 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 requirements of this Statement are effective as follows:

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

- (k) GASB Statement No. 100, *Accounting Changes and Error Corrections*. 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.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

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 number 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, and all reporting periods thereafter. Earlier application is encouraged.

- (l) 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.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continuation)**

Implementation of New Governmental Accounting Standards Board (GASB) Statements (Continuation)

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

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

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

Management is evaluating the impact that these statements will have, if any, on the Agency’s financial statements.

NOTE 2- CORRECTION OF ERRORS

During fiscal year ended June 30, 2021, the Superintendence identified an error related to prior year basic financial statements. The impact of the related adjustment to beginning net position is as follows:

Net position – July 1, 2020, as previously reported	\$ 81,494,032
Understatement of capital assets	<u>1,542,003</u>
Net position – July 1, 2020, as restated	<u><u>\$ 83,036,035</u></u>

The correction of errors in the beginning net position of the Superintendence were related to an understatement of capital assets identified by management as a result of a physical inspection performed during the year ended June 30, 2021.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 3 - DEPOSITS

The Superintendence maintains its cash in bank deposit accounts at high credit qualified financial institutions. Bank balance at June 30, 2021 was approximately \$1.6 million.

The Superintendence follows the provisions of GASB Statement No. 40 (GASB No. 40), Deposit and Investment Risk Disclosures – an Amendment to GASB Statement No. 3. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Superintendence at June 30, 2021:

- a) Credit risk – In the case of deposits this is the risk that in the event of a bank failure, the Superintendence’s deposit may not be recovered. Public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. At June 30, 2021, the Superintendence has balances deposited in commercial bank which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. No investments in debt or equity securities were made during the fiscal year ended June 30, 2021. Therefore, the Superintendence’s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Superintendence’s deposits and certificates of deposit is considered low at June 30, 2021.
- b) Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Superintendence manages its exposures de declines in fair values by: (1) not including debt or equity investments in its investment’s portfolio at June 30, 2021, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its bank deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2021, the interest rate risk associated with the Superintendence’s cash and cash with fiscal agents is considered low since they have no investment portfolio.
- c) Custodial credit risk - In the case of deposits this is the risk that in the event of a bank failure, the Superintendence’s deposit may not be recovered. Public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.
- d) Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. The Superintendence is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Superintendence’s deposits is considered low at June 30, 2021.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the fiscal year ended June 30, 2021 were as follows:

	Beginning Balance (As Restated)	Additions	Retirements/ Transfers	Ending Balance
<u>Governmental activities:</u>				
<i>Capital assets, not being depreciated :</i>				
Land	\$ 4,514,998	\$ -	\$ -	\$ 4,514,998
Works of art	2,889,088	-	-	2,889,088
Total capital assets not being depreciated	<u>7,404,086</u>	<u>-</u>	<u>-</u>	<u>7,404,086</u>
<i>Capital assets being depreciated</i>				
Building	20,840,406	-	-	20,840,406
Leasehold improvements	87,903,552	-	-	87,903,552
Computer equipment	557,546	-	-	557,546
Equipment	9,877,534	67,336	(10,065)	9,934,805
Furniture	1,517,615	1,699	(690)	1,518,624
Motor vehicles	753,358	-	-	753,358
Intangibles (Software)	50,630	-	-	50,630
Total capital assets	<u>121,500,641</u>	<u>69,035</u>	<u>(10,755)</u>	<u>121,558,921</u>
<i>Less accumulated depreciation for:</i>				
Building	(4,881,884)	(521,010)	-	(5,402,894)
Leasehold improvements	(16,342,458)	(2,460,333)	-	(18,802,791)
Computer equipment	(528,835)	(14,801)	-	(543,636)
Equipment	(8,974,656)	(392,724)	10,065	(9,357,315)
Furniture	(1,457,659)	(24,978)	690	(1,481,947)
Motor vehicles	(691,591)	(35,717)	-	(727,308)
Intangibles	(80,030)	(27,808)	-	(107,838)
Total accumulated depreciation	<u>(32,957,113)</u>	<u>(3,477,371)</u>	<u>10,755</u>	<u>(36,423,729)</u>
Total capital assets being depreciated, net	<u>88,543,528</u>	<u>(3,408,336)</u>	<u>-</u>	<u>85,135,192</u>
Governmental activities capital assets, net	<u>\$ 95,947,614</u>	<u>\$ (3,408,336)</u>	<u>\$ -</u>	<u>\$ 92,539,278</u>

The Superintendence evaluates its capital assets to determine whether an impairment of capital assets actually occurred as of and for the fiscal year ended June 30, 2021. No material impairment loss has been incurred as of and for the fiscal year ended June 30, 2021 because there were no material declines in service utility of the capital assets.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 5 - LONG-TERM DEBT AND NOTE PAYABLE

Long-term liability activity for the fiscal year ended June 30, 2021 is summarized as follows:

	<u>Beginning Balance</u>	<u>Payments</u>	<u>Use / Accruals</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Long-term Portion</u>
Accrued compensated absences	\$ 1,465,268	\$ -	\$ (782,639)	\$ 682,629	\$ 155,152	\$ 527,477
Other post employment liability	303,945	-	29,163	333,108	-	333,108
Total Pension Liability	10,472,960	-	1,309,861	11,782,821	546,757	11,236,064
	<u>\$ 12,242,173</u>	<u>\$ -</u>	<u>\$ 556,385</u>	<u>\$ 12,798,558</u>	<u>\$ 701,909</u>	<u>\$ 12,096,649</u>

NOTE 6 - DEFERED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Superintendence recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Superintendence that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Superintendence has items that are reportable on the Government-wide *Statement of Net Position* that are related to outflows/inflows from changes in the Net Pension Liability (Note 6).

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

NOTE 7 - PENSION PLAN

The Superintendence employees are eligible to participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth of Puerto Rico. The Employees Retirement System covers substantially all employees of the Commonwealth, its component units and the municipalities of Puerto Rico. 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" (Pay Go) 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.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

As a result of the implementation of the Pay Go 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.

The ERS System issues publicly available financial reports that include its financial statements and required supplementary information. These reports can be obtained by written request to the administrator at the addresses detailed below.

ERS Defined Benefit Pension Plan

The benefits provided to the Plan participants are established by the Plan 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 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 benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

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 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(a) Service Retirement Eligibility Requirements

1. Eligibility for Act No. 447 Members – Act No. 447 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, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

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.

<u>Date of Birth</u>	<u>Attained Age As of June 30, 2013</u>	<u>Retirement Eligibility Age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July1, 1956	57 and up	59

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

2. *Eligibility for Act No. 1 Members* – Act No. 1 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, (3) for Public Officers in High-Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

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

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

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

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

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

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

(b) Compulsory Retirement

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

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution 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 Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

- (1) *Accrued Benefit as of June 30, 2013 for Act No. 447 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. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(c) *Service Retirement Annuity Benefits (Continuation)*

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 recalculated 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 recalculated 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 Defined Contribution 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. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

- (2) Accrued Benefit as of June 30, 2013 for Act No. 1 Members – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

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

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

The legislature, 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.

- Mini mum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, 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).

- Coordination Plan Minimum Benefit

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

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

The Legislature, from time to time, increased 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 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007).

(3) Special "Bonus" Benefits

- 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.

- 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. The amount is prorated if there are multiple beneficiaries.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements
June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(e) *Total Pension Liability and Actuarial Information*

The total pension liability was approximately \$11.8 million as of June 30, 2020. The total pension liability as of June 30, 2020 was determined by an actuarial valuation as of July 1, 2019 which was rolled forward to June 30, 2020 (measurement date as of June 30, 2020).

(f) *Actuarial Methods and Assumptions*

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2020 was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2020 actuarial valuation were as follows:

— Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

— Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(f) Actuarial Methods and Assumptions (Continuation)

— *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the

UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2020:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable

(g) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 2.21%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate (dollars in thousands):

	At 1% decrease	At current discount rate	At 1% increase
Total Pension Liability	\$ (13,314,587)	\$ (11,782,821)	\$ (10,368,882)

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(h) Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension benefits paid subsequent to measurement date	\$ 548,298	\$ -
Difference between expected and actual experience in measuring the total pension liability	24,304	265,242
Changes in assumption	1,479,217	202,260
Change in employer's contributions and the employer's proportionate share of contributions	211,915	73,567
Total	\$ 2,263,734	\$ 541,069

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2020:

	Year of deferral	Amortization period	Beginning of the balance	Additions	Deductions	End of year balance
Deferred outflows of resources:						
Changes of assumptions	2020	4 years	\$ 340,083	\$ 1,139,134	\$ -	\$ 1,479,217
Changes in proportions	2020	4 years	282,554	-	70,639	211,915
Deferred inflows of resources:						
Difference between expected and actual experience	2020	4 years	(355,064)	-	(89,822)	(265,242)
Changes of assumptions	2020	4 years	(270,754)	-	(68,494)	(202,260)
Changes in proportions	2020	4 years	(52,588)	(20,979)	-	(73,567)
Total			\$ (55,769)	\$ 1,118,155	\$ (87,677)	\$ 1,150,063

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(i) Pension Expense

For the fiscal year ended June 30, 2021, the Superintendence recognized a pension expense of \$637,256. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

(j) Total Pension Liability

The Superintendence's Total Pension Liability for each plan program is measured as the proportionate share of the Total Pension Liability. The Total Pension Liability of each of the plan program was measured as of June 30, 2020, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation. The Superintendence's proportion of the Total Pension Liability was based on a projection of the Superintendence's long-term share of contributions to the pension plans program relative to the projected benefits paid of all participating employers, actuarially determined. As of June 30, 2020, the Superintendence used the proportional share of 0.04198%. As of June 30, 2021, the Superintendence reported \$11,782,821 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS as follows:

	June 30, 2021	
	TOTAL	Proportional Share (.04198%)
Total Pension Liability	\$ 28,069,797,731	\$ 11,782,821

The financial statements and required supplementary information for the pension plan are available at the administration Superintendence of the Employees' Retirement System (ERS) of the Commonwealth of Puerto Rico, P.O. Box 42003 San Juan PR 00940-2203.

Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, multi-employer 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 the Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(j) Total Pension Liability (Continuation)

Plan Description (Continuation)

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. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. 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 pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

Collective Total OPEB Liability and Actuarial Information

The total OPEB liability as of June 30, 2021 was determined by an actuarial valuation as of June 30, 2020. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

a) Actuarial Assumptions

Discount Rate

The discount rate for June 30, 2019 was 3.50%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 7 - PENSION PLAN (Continuation)

ERS Defined Benefit Pension Plan (Continuation)

(j) Total Pension Liability (Continuation)

Post-retirement Healthy Mortality

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the Superintendence total OPEB liability of the Plan at June 30, 2020 calculated using the discount rate of 2.21%, as well as the Plan's total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (1.21%) or 1-percentage point higher (3.21%) than the current rate:

	1% Decrease	Current	1%
	1.21%	Discount	Increase
	<u>1.21%</u>	<u>Rate 2.21%</u>	<u>3.21%</u>
Total OPEB liability as of June 30, 2021	<u>\$ 376,412</u>	<u>\$ 333,108</u>	<u>\$ 289,804</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. During fiscal year 2021, approximately, \$26,000 of benefits paid should be deferred the measurement date of June 30,2020.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (Continuation)

OPEB Expense

The components of Superintendence OPEB expense with a proportionate share of .03809% for the year ending June 30, 2021 is as follows:

	<u>Amount</u>
Interest on total OPEB liability	\$ 10,644
Effect of economic/demographic gains and losses	(2,224)
Effect of assumptions changes or inputs	<u>33,697</u>
	<u>\$ 42,117</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Commitments - Lease

The Superintendence is committed under various non-cancelable operating leases, primarily for office equipment.

At June 30, 2021, total minimum lease installments payments are as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 47,816
2023	29,062
2024	<u>20,007</u>
Total	<u>\$ 96,885</u>

Rent expenditures were \$160,150 for the year ended June 30, 2021.

Contingency – Legal Claims

The Superintendence is defendant in lawsuits arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. With respect to the pending and threatened litigations, the Superintendence, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider necessary making any provision on its books for these cases and intends to contest them vigorously. At this time, all legal proceedings have been suspended while the Puerto Rico’s government Tile III case under Promesa Act is being resolved.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Notes to Basic Financial Statements

June 30, 2021

NOTE 10- UNCERTAINTY AND LIQUIDITY RISK

As discussed in Note 1 to the basic financial statements, The Superintendence's principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). The funds of the Superintendence are under the custody of the Secretary of Treasury of - the Commonwealth until transferred to the Superintendence during the year.

The Commonwealth's liquidity during fiscal year 2021 continues to be severely affected and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external sources of financing. The Commonwealth has not been able to fulfill its obligations on a timely manner.

Considering that the Superintendence is financially dependent from the Commonwealth, the limitations of the Commonwealth to meet its obligations on a timely manner may prevent the Superintendence's operations in the future.

The management has reduced operating expenditures in order to adapt to budget reductions from primary government. On these circumstance management has contemplated to lowered the spending on project maintenance and payroll expenditures.

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2023 which is the same date the financial statements were available to be issued.

Future Budgets

The general fund budget, for fiscal year 2021-2022 is \$10,519,819, representing an increase of \$7,252,819 when compared with fiscal year ended June 30, 2021. For 2022-2023 the budget will be \$5,794,402 representing an increase with respect to 2021-2022. These funds come from State Legislative appropriations.

Government of Puerto Rico's debt restructuring

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof. As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

REQUIRED SUPPLEMENTARY INFORMATION

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information
June 30, 2021

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance</u>
REVENUES				
Legislative appropriations	\$ 3,267,000	\$ 3,395,948	\$ 3,395,948	\$ -
Total revenues				
EXPENDITURES				
Salaries and payroll related costs	<u>3,267,000</u>	<u>3,395,948</u>	<u>4,128,075</u>	<u>(732,127)</u>
EXCESS OF EXPENDITURES OVER REVENUES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(732,127)</u>	\$ <u>(732,127)</u>

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information

June 30, 2021

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Superintendence's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations recommended by the President of the Superintendence and approved by the Superintendence prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Superintendence. Transfers of certain appropriations within the budget do not require the approval of the Superintendence in accordance with Administrative Order 10-35 of January 2010. The Superintendence prepares its annual budget only for the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2021 was \$3,395,948.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The Commonwealth of Puerto Rico Accounting Law establishes that unassigned funds at the end of the fiscal year from the Legislative Branch will be carried forward and made available for spending for the next three fiscal years. The Superintendence's Administrative Order 2010-35 of January 2010 stipulates that such unassigned funds must be spent exclusively for non-recurrent expenditures. The remaining unexpended amounts after the three years have lapsed should be reverted to the Secretary of the Treasury of Puerto Rico pursuant to Act 230.

Budget GAAP/Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in expenditures for the fiscal year ended June 30, 2021 is presented in the next page.

SUPERINTENDENCE OF THE CAPITOL BUILDING

Required Supplementary Information
June 30, 2021

BUDGET GAAP/RECONCILIATION

Sources / Inflows of Resources:

Revenues according to the Schedule of Revenues and Expenditures	
Budget to Actual - General Fund	\$ 3,395,948
Perspective difference	
Non budgetary items:	
Other income	786,681
Special revenues funds' revenues	<u>5,641,000</u>
Total revenues as reported on the Statement of	
Revenues, Expenditures and Changes in	
Fund Balance	<u><u>\$ 9,823,629</u></u>

Uses / Outflows of Resources:

Expenditures according to the Schedule of Revenues and Expenditures	
Budget to Actual - General Fund	\$ 4,128,075
Differences - budget to USGAAP	
Perspective difference:	
Non Budgetary items - Non budgeted expenditures	3,525,138
Non Budgetary items - Special revenue funds expenditures	<u>5,641,011</u>
Total expenditures as reported on the Statement of	
Revenues, Expenditures and Changes in	
Fund Balance	<u><u>\$ 13,294,224</u></u>

BETANCOURT & CO PSC

Certified Public Accountants

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

To the Superintendence of
the Capitol Building
San Juan, Puerto Rico

We have audited, in accordance with the Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller, General of the United States, the Basic Financial Statements of the governmental activities and the general fund information of the Superintendence of the Capitol Building (the Superintendence) (a component unit of the Commonwealth of Puerto Rico), as of and for the year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise the Superintendence 's Basic Financial Statements, and have issued our report thereon dated January 31, 2023.

Internal Control Over Financial Reporting

In Planning and performing our audit of the Basic Financial Statements, we considered the Superintendence'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 Basic Financial Statements, but not for the purpose of expressing an opinion on the effectiveness of the Superintendence's internal control. Accordingly, we do not express an opinion on the effectiveness of the Superintendence'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to be material weaknesses.

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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Superintendence's Basic Financial Statements are free from material misstatement, we performed test 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 basic financial statements 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 test disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

The Superintendence Capitol Building Response to Finding

The Superintendence response to the findings identified in our audit is described in the accompanying Schedule of Findings and Question Cost. The Superintendence response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BETANCOURT & CO PSC

San Juan, Puerto Rico
January 31, 2023

Stamp No. E509760 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report



SUPERINTENDENCE OF THE CAPITOL BUILDING

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2021

FINANCIAL STATEMENT FINDINGS:

Finding Number: 2021-001

Finding Type: Financial Statement

Finding Category: Internal Control Material Weakness

2021-001: Budget Appropriations — Internal Control Over Operating Budget Appropriations

Criteria: Budgetary controls over the expenditure's generation is good sign of healthy administration of resources within any organization.

Condition: As per Superintendence budgetary reports on general fund, fund 111, for the fiscal year ended June 30, 2021, shows excess of actual expenditures over budgeted expenditures of \$732,127 negative variance. The finding was mentioned the prior year.

Cause: Responsible personnel have not made the necessary budgetary adjustments to assigned budget resources to avoid negative variances balances.

Effect: It will produce a negative impact on the Superintendence finances. Since operating expenditures are not covered or satisfied for payment by applicable financial resources.

Recommendation: The Superintendence's management should make necessary budgetary adjustments to make sure expenditures are always covered by their respective financial resources.

View of Responsible Official:

The law requires that during the year of change in administration, 50% of the current budget be left to cover current expenses and contracts until the new administration works on its budget. The past administration did not comply with this requirement, leaving the accounts corresponding to payroll at less than 50%. Although our new administration took measures and controls to minimize the impact, the result was negative in the budget. The situation depicted by the external auditors falls under the responsibility of management of the previous administration, During the transition process current management proactively assessed the operations of the entity, assigning to the new finance team the obligation of ensuring that all aspects of the financial function meet the required accountability standards. Reducing operational expenditures, restructuring consulting contracts, evaluating the entity's employee requirements, ensuring past due financial statements are issued, and enhancing the budget preparation process, are some of the main measures that are currently on going and that are expected to address any condition affecting the financial environment of the organization.

Official: Wilmar Morales Rodriguez

PRIOR YEAR AUDIT FINDINGS

SUPERINTENDENCE OF THE CAPITOL BUILDING

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2020

FINANCIAL STATEMENT FINDINGS:

Finding Number: 2020-001

Finding Type: Financial Statement

Finding Category: Internal Control Significant Deficiency

2020-001 Bank Reconciliations — Timeliness on Bank Reconciliations

Criteria: General Accepted Accounting Principles (GAAP) state that financial statements should be complete with respect to account balances and required disclosures.

Condition: During our audit of cash, we observed the June 2020 bank reconciliations dated on October 2020, three months after the bank statement. We consider a reconciliation done after 30 days of reporting date or closing date, a reasonable time. The same finding was mentioned on prior year.

Cause: There are no controls put in place, like, monitoring and supervision, to assure the timeliness of bank reconciliations.

Effect: The missed of timeliness on bank reconciliations may cause the missing of monitoring over cash transactions and therefore may miss any improper or unauthorized cash transactions, not identified on time to make necessary action and corrections, accordingly. Also, this matter will the accounting records not to be on time for financial reporting and others.

Recommendation: The Superintendence's management should request, monitor and supervise on time the bank reconciliation one month after the date of bank statement.

View of responsible Official:

Situation depicted by the external auditors falls under the responsibility of management of the previous administration. During the transition process current management proactively assessed the operations of the entity, assigning to the new finance team the obligation of ensuring that all aspects of the financial function meet the required accountability standards.

Official: Mrs. Camille M. Rivera Parilla

SUPERINTENDENCE OF THE CAPITOL BUILDING

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2020

FINANCIAL STATEMENT FINDINGS:

Finding Number: 2020-002

Finding Type: Financial Statement

Finding Category: Internal Control – Material Weakness

2020-002 Budget Appropriations — Internal Control Over Operating Budget Appropriations

Criteria: Budgetary controls over the expenditure's generation is good sign of healthy administration of resources within any organization.

Condition: As per Superintendence budgetary reports on general fund, fund 111, for the fiscal year ended June 30, 2020, shows excess of actual expenditures over budgeted expenditures of \$1.950 million, negative variance.

Cause: Responsible personnel have not done the necessary budgetary adjustments to assigned budget resources to avoid negative variances balances.

Effect: It will produce a negative in impact on the Superintendence finances. Since operating expenditures are not covered or satisfied for payment by applicable financial resources.

Recommendation: The Superintendence's management should do necessary budgetary adjustments to make sure expenditures are always cover by respective financial resources.

View of Responsible Official:

Situation depicted by the external auditors falls under the responsibility of management of the previous administration. During the transition process current management proactively assessed the operations of the entity, assigning to the new finance team the obligation of ensuring that all aspects of the financial function meet the required accountability standards. Reducing operational expenditures, restructuring consulting contracts, evaluating the entity's employee requirements, ensuring past due financial statements are issued, and enhancing the budget preparation process, are some of the main measures that are currently on going and that are expected to address any condition affecting the financial environment of the organization.

Official: Wilmar Morales Rodriguez

SUPERINTENDENCE OF CAPITOL

Status of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2021

Finding Number	Finding Description	Status
2020-001	During our audit of cash, we observed the June 2020 bank reconciliation dated on October 202, three months after the bank statement.	Finding Corrected
2020-002	As per Superintendence budgetary reports on general fund, fund 111, for the fiscal year ended June 30, 2020, shows excess of actual expenditures over budgeted expenditures of \$1.950 million, negative variance.	Finding Remain

SUPERINTENDENCE OF CAPITOL

Corrective Action Plan
For the Fiscal Year Ended June 30, 2021

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards.

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

Original Finding Number: 2021-001

Statement of Concurrence or Nonconcurrence: We concur with the finding.

Corrective Action: The Superintendence closely monitoring the actions of the Budget Administration to make sure to obtain no deficit for 2022.

Implementation Date: next fiscal year 2022



Wilmar Morales Rodríguez
Finance Director

December 15, 2022

Date