



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022



19 T H L E G I S L A T I V E A S S E M B L Y



HOUSE
OF REPRESENTATIVES
19TH LEGISLATIVE ASSEMBLY

**House of Representatives
Of the Commonwealth of Puerto Rico**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30,2022**

PREPARED BY: OFFICE OF FINANCE AND BUDGET

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	Page
<u>INTRODUCTORY SECTION (UNAUDITED)</u>	
Letter of Transmittal.....	1- 7
List of Representatives – By District.....	8- 9
List of Representatives – At Large.....	10
List of Administrative Staff.....	11
Permanent Committees	12- 13
House of Representatives Legislative Organization Chart.....	14
Administrative Organization Chart	15
<u>FINANCIAL SECTION</u>	
Independent Auditor’s Report	16- 19
Required Supplementary Information – Management’s Discussion and Analysis (Unaudited).....	20- 29
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	30- 31
Statement of Activities	32
Fund Financial Statement:	
Balance Sheet – Governmental Funds	33
Reconciliation of the Balance Sheet – Governmental Funds to the Government-Wide Statement of Net Position	34
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	35
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to the Government-Wide Statements of Activities	36
Notes to the Basic Financial Statements	37-104



REQUIRED SUPPLEMENTARY INFORMATION SECTION

Required Supplementary Information: (Unaudited)

Schedule of Revenues and Expenditures – Budget to Actual – General Fund 105

Notes to Schedule of Revenues and Expenditures – Budget to Actual – General Fund..... 106

Other Supplementary information

Schedule of Findings and Questioned Costs 107

Notes to Schedule of Findings and Questioned Costs 108-109

INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS

Independent Auditor’s Report on Internal Control over Financial Reporting on Compliance and Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards 110-111

Independent Auditors’ Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance 112-115

Audit Findings and Questioned Costs

Section I: Summary of Auditors’ Results 116-117

Section II: Financial Statements Findings and Questioned Costs 118

Section III – Federal Award Findings and Questioned Cost..... 119



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
INTRODUCTORY SECTION**





October 15, 2023

The Honorable Pedro R. Pierluisi-Urrutia, Governor
Honorable Members of the House of Representatives
Citizens of Puerto Rico

Dear All:

The Comprehensive Annual Financial Report (CAFR) for the Puerto Rico House of Representatives (hereinafter referred to as the “House of Representatives” or the “House”) for the fiscal year ended June 30, 2022, is submitted herewith. The responsibility for both the accuracy of the presented data, and the completeness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the presented data is accurate in all material respects and is reported in a manner that fairly represents the financial position, and the result of the financial activities of the House of Representatives.

Commonwealth Law requires financial statements to be presented in accordance with the Generally Accepted Accounting Principles in the United States of America (GAAP), as applicable to governmental entities and to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS). This report serves to fulfill those requirements.

The CAFR is organized and presented in three sections. The Introductory Section includes this Transmittal Letter, General information about the House of Representatives, an Organizational Chart, and a List of Representatives that includes Standing and Special Legislative Committees.

The Financial Section includes the Independent Auditors’ Report, Management’s Discussion and Analysis (MD&A), Audited Government-Wide and Fund Financial Statements and related Notes thereto, as well as Required Supplementary Information. The Statistical Section contains selected unaudited financial, economic, and demographic data on a multiyear basis.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of the MD&A. The letter of transmittal is designed to complement the MD&A and should be read in conjunction therewith. The MD&A for the House of Representatives can be found immediately after the independent auditor’s report.



Profile of the House of Representatives

The House of Representatives is Puerto Rico's oldest and most representative governmental entity. After the Autonomic Charter of 1897 authorized the formation of an autonomous government for Puerto Rico, the first formal election of the House of Representatives was held on March 27, 1898. After that first election, under Spanish Regime, Puerto Rico became part of the United States after the Spanish-American War.

Enacted under the rule of the United States of America, the Foraker Act of 1900, allowed Puerto Rico to have a civilian government. The Foraker Act established a Legislative Assembly composed of a House of Delegates, to be solely elected by the people of Puerto Rico, and an Executive Council designated by the President of the United States. This Act was substituted in 1917 by the second organic act passed by Congress for Puerto Rico: the Jones Act. Said Act provided for a House of Representatives as well, while also creating a Senate, with both bodies to be fully elected by the People of Puerto Rico.

Several years later, in 1952, the Constitution of the Commonwealth of Puerto Rico was approved by Congress and ratified by the People of Puerto Rico. It established a Republican Government with a Legislative Branch, to enact and approve legislation; an Executive Branch, to execute the Legislative mandate; and the Judicial Branch, to oversee the Puerto Rico court system and construe the meaning of the constitution and laws passed by the Legislative Assembly. The House was organized as it currently operates by virtue of Article 3, Sections 1 through 3 of the Commonwealth Constitution.

The House of Representatives is usually composed by fifty-one elected representatives. For purposes of electing its district representatives, Puerto Rico is divided into forty representative districts. Each district elects one Representative. In addition, the House of Representatives has eleven at-large representatives. No elector can vote for more than one Representative at large. The House of Representatives has exclusive power to initiate impeachment and budgetary proceedings.

The Legislative Assembly is deemed a continuous body during the term for which its members are elected. During said period both, the House and Senate must hold two regular legislative sessions each year. The first regular annual session of the Legislature shall commence on the second Monday of January of each year and adjourn on June 30th of the same year. The second session shall commence on the third Monday of August and adjourn on the Tuesday before the third Thursday of November. However, in the years in which a general election is held, the Legislature shall not assemble to hold the Second Regular Session. During the fifteen remaining weeks, the Committees shall continue working full time, and the prior approval of the President of the Senate and the Speaker of the House of Representatives shall be required to hold meetings outside of business days. The governor or the Speaker of the House of Representatives, may convene an extraordinary session.



2020 ELECTION

As a result of the November 2020 general election, the Popular Democratic Party (“PPD”, for its Spanish acronym) won a majority of seats in the House of Representatives. This 19th Legislative Assembly is characterized for having a historically diverse House of Representatives, where five political parties are represented.

INDEPENDENT AUDIT

The independent auditors have completed an audit of the House’s Financial Statements, which was performed to obtain reasonable assurance that said statements are free of material misstatements. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded that there was a reasonable basis for issuing an unqualified opinion that the House of Representatives’ Financial Statements for Fiscal Year 2021-2022, which ended on June 30, 2022, are fairly presented in conformity with GAAP.

The Independent Auditors’ Report is presented at the beginning of the Financial Section of this CAFR.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance that assets are safeguarded against loss, theft or misuse and that financial records may be relied upon for preparing financial statements and maintaining accountability of such assets.

The internal control system is designed to provide reasonable, rather than absolute, assurance that these objectives are met and that the financial statements are free from material misstatement. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived from that control and the evaluation of cost and benefit requires estimates and judgments by management. We believe that the internal controls set forth by the House adequately safeguards assets and provides reasonable assurance that financial transactions are properly recorded.

The House of Representatives maintains extensive budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislative Assembly, internal rules, and administrative orders. The general fund activities are included in the annual appropriated budget. Budgetary control for legislative functions rests within the office of each representative. However, regarding the administrative offices, control is exercised by the administration. The House of Representatives also maintains an encumbrance accounting system as a method to maintain budgetary control.

Economic Conditions and Outlook

The economy of Puerto Rico is highly impacted by trends and performance of the United States economy. Major indicators that directly correlate are, exports, direct investment, the amount of federal transfer payments, interest rates levels, inflation rate and tourists' expenditures.

Puerto Rico suffered a severe and prolonged economic slump from 2006 to 2017, resulting in a contraction of 17% in GNP, decreased population and a sustained downward trend of employment. This economic distress led to a fiscal crisis and the default of the debt. On June 30, 2016, President Obama signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), to work towards a remedy to the ongoing crisis in Puerto Rico.

Since 2017, Puerto Rico's economy has faced a series of natural disasters in the form of hurricanes, earthquakes, and the COVID-19 pandemic. In response to the state of emergency caused by Hurricanes Irma and Maria in 2017, repetitive earthquakes in 2019 and 2020, and a deadly pandemic since spring of 2020, the federal government has assigned funds to palliate the effects of those disasters and continues to do so since in September 2022 Hurricane Fiona made landfall in southwestern Puerto Rico. Given Fiona's strength as a Category 1 hurricane, the economic impact to Puerto Rico won't be equivalent to Hurricane Maria, which was a Category 4. Since Maria, federal recovery funds have mostly gone to direct emergency response instead of infrastructure restoration; and the vast majority still hasn't been spent.

In recent years, Puerto Rico has received an unprecedented infusion of federal funds in the form of Disaster Relief Funding and COVID-19 stimulus that has helped the economy recover. The 2023 Fiscal Plan projects that \$81 billion of disaster relief funding in total, from federal and private sources, will be disbursed in the reconstruction effort over a period of 18 years (FY2018 to FY2035). It will be used in a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies) and the public sector (e.g., reconstruction of major infrastructure, roads, and schools). Undoubtedly, the large influx of funds received by the Puerto Rican economy in a relatively short period of time has been instrumental in stimulating the economy and providing for certain stability of the main economic performance indicators.

in August 2022 the unemployment rate in Puerto Rico reached a historic low of 5.8%. Also, labor force participation in Puerto Rico continues to rise. This increase is likely related in part to the recent expansion of the Earned Income Tax Credit program in 2021.

The population is projected to decline due to the demographic composition of Puerto Rico's residents. In 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). The trend in population has significant implications for economic opportunity in Puerto Rico, as well as the nature and scope of services that the

Economic Conditions and Outlook (Continuation)

Government will need to deliver in the future. Puerto Rico's population has been trending downwards for the past decade and this trend is forecasted to continue for many years to come.

Over the last year, both U.S. and Puerto Rico have experienced a sharp increase in inflation rates. Puerto Rico inflation has been driven by large increases in the prices of food and beverages, other goods, and services, (including motor fuels).

The unprecedented one-time influx of federal funds has strengthened the Puerto Rico economy during the fiscal years 2021 and 2022. The economy's future growth is highly dependent on ability to deploy federal reconstruction funds.

The main industrial sector of the Puerto Rican economy is manufacturing. The gross domestic product of this sector represents 48% of the total gross domestic product. The main companies in this category are pharmaceuticals, medical equipment, and electronic products. These multinational companies are subject to the provisions of Act 154, 2010. Those companies contributed around \$2.0 billion to the General Fund through payments imposed by Act 154 and other taxes. Those revenues are concentrated in a small number of multinational corporations.

The approval of Act 52 on June 30, 2022, creates significant changes that affect Puerto Rico's Internal Revenue Code. Provisions of Act 52 are pointed to offer alternatives to Act 154 and guarantees that Puerto Rico continues to be an attractive place for businesses. However, the 2023 Fiscal Plan projected that Act 154/Act 52 revenues will gradually decrease. The projected decline is due to U.S. federal tax reform, global supply chain diversification and patent expirations.

On January 18, 2022, Judge Laura Taylor Swain confirmed the Commonwealth Plan of Adjustment restructuring approximately \$35 billion of debt and other claims against the Commonwealth of Puerto Rico. The Plan of Adjustment saves Puerto Rico more than \$50 billion in debt service and reduces outstanding obligations to just over \$7 billion. The process of emerging from bankruptcy has been enormously complex. It took the concerted effort and arduous work of a wide range of stakeholders, including the Government and Legislature of Puerto Rico. The Plan of Adjustment marks a transcendental moment to leave behind the bankruptcy that has burdened for more than five years and begins a new era for Puerto Rico with new grounds for fiscal stability, economic opportunities, and sustainable growth for the benefit of present and future.



BUDGET AND FISCAL POLICY

The fiscal year of all three branches of the Commonwealth of Puerto Rico, including the Legislative Assembly, begins on July 1 and ends on June 30 of the next year. The House of Representatives' annual budget includes an estimate of operating expenditures for its legislative and administrative functions.

ADMINISTRATIVE & LEGISLATIVE

At the start of our term as the House's administration, little to no information was available for us to fully comprehend and assess its financial and fiscal conditions. As we have pointed out so many times before, the House's responsible administration had been relegated to an optional priority. This much was clear, but contrary to safe practices as, the previous administration unlawfully abstained from conducting a timely and thorough transition process, which ultimately increased the challenge in our mission to reestablish the House's finances. This reality highlighted the importance of our administrative and political priorities: (1) to responsibly administrate and safeguard the Government's resources, including its financial and fiscal affairs; and (2) to increase transparency over government operations, to continuously guarantee the People's access and oversight over the effective, correct, and reasonable use of the State apparatus.

In furthering our objectives of responsible administration, on the first day of the first legislative session, we signed and filed the following administrative orders, among others:

- (1) Administrative Order 2021-01, to declare a state of budgetary emergency in the House of Representatives and authorize the immediate enforcement of administrative and internal measures required to stabilize its finances and to ensure continuity in its operations and services.
- (2) Administrative Order 2021-02, Public Policy Declaration as to Transparency in the Puerto Rico House of Representatives' operations.
- (3) Administrative Order 2021-03, to create the Puerto Rico House of Representatives' Lobbyist Registry.
- (4) Administrative Order 2021-04, to extend the effective period of prior administration's bylaws, administrative orders, and procedures to ensure continuity in the House's operations and services.
- (5) Administrative Order 2021-06, to create the General Services Office of the Puerto Rico House of Representatives.

These administrative orders proved to be effective, but insufficient. This led to further challenges that have been, as of this date, successfully overcome. Nevertheless, we shall continue to evaluate the House's internal rules and regulations as part of our commitment to maintaining the highest standards of transparency and sound administration, as well as strengthening the importance and effectiveness of regulations in the work environment which the Representatives, officials and employees of the House must observe.

ACKNOWLEDGMENTS

I would like to acknowledge all administrative staff, especially those of the Finance and Budget Office, without whom this report and its accuracy and completeness could not be accomplished. Their efforts are noted and greatly appreciated.

Respectfully submitted,

Rafael Hernández Montañez
Speaker of the House



HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

LIST OF REPRESENTATIVES - BY DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

REPRESENTATIVES - DISTRICT

NAME	DISTRICT	NAME	DISTRICT
 Eddie Charbonier China	1	 Rafael Hernández Montañez	11
 Luis R. Torres Cruz	2	 Edgardo Feliciano Sánchez	12
 José A. Hernández Concepción	3	 Gabriel F. Rodríguez Aguiló	13
 Víctor L. Parés Otero	4	 José O. González Mercado	14
 Jorge L. Navarro Suárez	5	 Joel I. Franqui Atilés	15
 Ángel Morey Noble	6	 Eladio J. Cardona Quiles	16
 Luis Jr. Perez Ortiz	7	 Wilson J. Román López	17
 Yashira M. Lebrón Rodríguez	8	 Jessie Cortés Ramos	18
 Er Yazzer Morales Díaz	9	 Jocelyn M. Rodríguez Negrón	19
 Deborah Soto Arroyo	10	 Joel Sánchez Ayala	20



REPRESENTIVES - DISTRICT

NAME	DISTRICT	NAME	DISTRICT
 Lydia Méndez Silva	21	 Jesús F. Santa Rodríguez	31
 Jorge A. Rivera Segarra	22	 José M. Varela Fernández	32
 José H. Rivera Madera	23	 Ángel R. Peña Ramírez	33
 Ángel Fourquet Cordero	24	 Ramón L. Cruz Burgos	34
 Domingo J. Torres García	25	 Sol Y. Higgins Cuadrado	35
 Jesús Hernández Arroyo	26	 Carlos J. Méndez Núñez	36
 Estrella Martínez Soto	27	 Angel L. Bulerín Ramos	37
 Juan J. Santiago Nieves	28	 Wanda Del Valle Correa	38
 Gretchen M. Hau	29	 Roberto Rivera Ruiz De Porras	39
 Luis R. Ortiz Lugo	30	 Ángel N. Matos García	40



REPRESENTATIVE- AT LARGE

NAME



José E. Torres Zamora



Héctor E. Ferrer Santiago



José F. Aponte Hernández



José Pérez Cordero



José E. Méendez Ortiz



María de Lourdes Ramos Rivera

NAME



Jesús Manuel Ortiz González



Mariana Nogales Molinelli



Denis Márquez Lugos



José B. Márquez Reyes



Lisie J. Burgos Muñiz



ADMINISTRATIVE STAFF

Manuel Díaz Espino – Chief Administrative Officer

Javier Gómez Cruz – Chief Clerk

Luis A. Ramos Rivera – Chief Sargent of Arms

José A. Delgado Ortiz – Director of Finance and Budget



PERMANENT COMMITTEES

Treasury and Budget

Government Affairs

Health

Housing and Urban Development

Agriculture

Economic Development, Planning, Telecommunications, Public Private Partnerships, and Energy

Legal Affairs

Education, Art, and Culture

Transportation, Infrastructure

For the Study and Evaluation of Constitutional Law and amendments to the Constitution of the Commonwealth of Puerto Rico, and Electoral Affairs

Internal Affairs

Calendars and Special Rules of Debate

Anticorruption and Public Integrity

Youth Affairs

Women Affairs

Laboral Affairs and for the Transformation of the Pension Systems for a Dignifying Retirement

Municipal Autonomy, Decentralization and Regionalization

Social Welfare, People with Disabilities and the Elderly

Tourism and Cooperatives

Ethics

Communities

Consumer Affairs, Banking, and Insurance Industry

Public Funding Accountability



PERMANENT COMMITTEES (Cont.)

For the Development and Accountability of Public Funds assigned to the Capital, Aguas Buenas, Bayamon, Cataño and Guaynabo

For the Development and Accountability of Public Funds Assigned to the Northern Region

For the Development and Accountability of Public Funds assigned to the Northwestern Region

For the Development and Accountability of Public Funds assigned to the Western Region

For the Development and Accountability of Public Funds assigned to the Southwestern Region

For the Development and Accountability of Public Funds assigned to the Southern Central Region

For the Development and Accountability of Public Funds assigned to the Southeastern Region

For the Development and Accountability of Public Funds assigned to the Eastern Region

For the Development and Accountability of Public Funds assigned to the Northeastern Region

Small and Medium Business and Permits

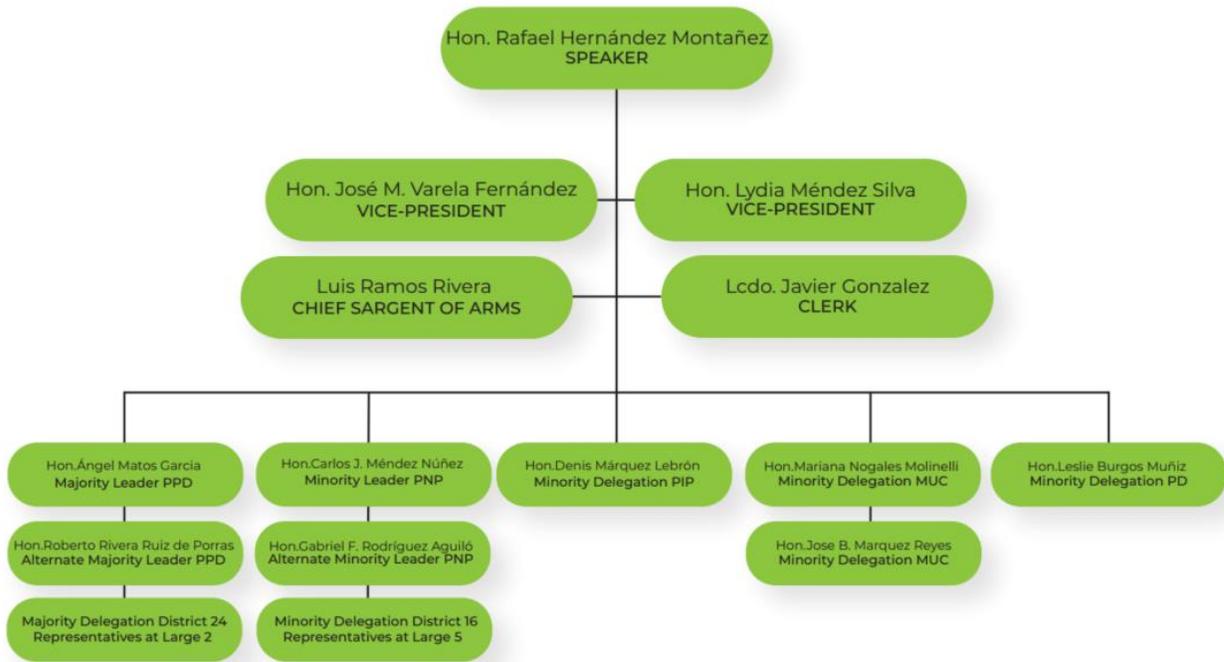
Natural Resources, Environmental Affairs and Recycling

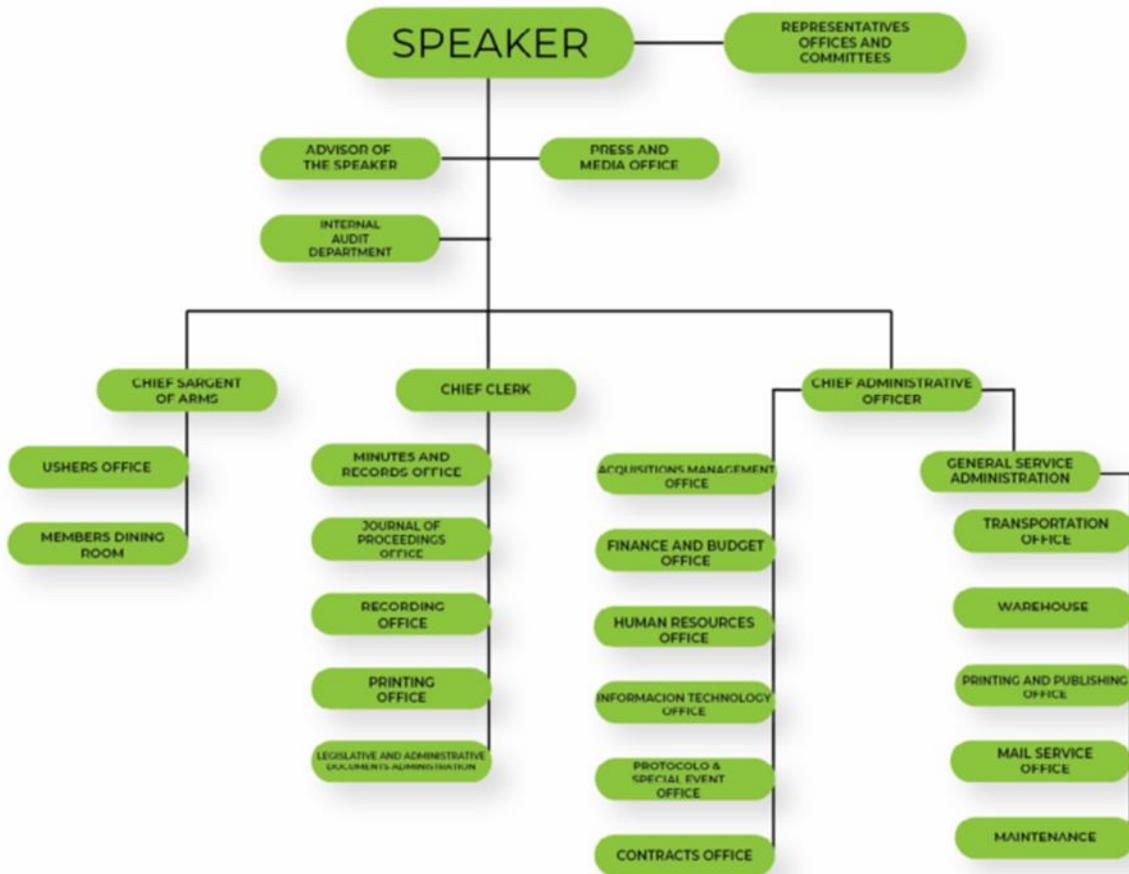
Federal and International, Veteran Affairs and Status

Public Security, Science and Technology

Sports and Recreation

Emergency Preparedness, Reconstruction and Reorganization







FINANCIAL SECTION



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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on the Audit of the Financial Statements

Unmodified Opinions

We have audited the financial statements of the governmental activities, each major fund information, of the **House of Representatives** of Commonwealth of Puerto Rico, as of and for the year ended June 30, 2022, and the related Notes to the Financial Statements, which collectively comprise the House of Representatives' Basic Financial Statements as listed in the Table of Contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
General Fund	Unmodified
Special Revenue Fund	Unmodified
Coronavirus State and Local Fiscal Recovery Fund	Unmodified
COVID-19 Coronavirus Relief Fund	Unmodified

Unmodified Opinions of Governmental Activities and Each Major Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund information, of the **House of Representatives** of Puerto Rico as of June 30, 2022, and the respective changes in financial position, for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

Basis Unmodified Opinions

We conducted our audit in accordance with Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **House of Representatives**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Emphasis of Matters

The **House of Representatives** – Only Basic Financial Statements

As discussed in Note 2, the Financial Statements of House of Representatives are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the House of Representatives. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with Accounting Principles Generally Accepted in the United States of America.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **House of Representatives** of the Puerto Rico internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT

(continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **House of Representatives'** ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information Omitted

The House of Representatives has omitted historical information related to GASB Statement No. 73 and GASB Statement No. 75, information that Accounting Principles Generally Accepted in the United States of America require 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 Boards 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 this omitted or missing information.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America require that the Management's Discussion and Analysis, on pages 20-29, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 105-106, be presented to supplement the Basic Financial Statements. Such information is the responsibility of management and, 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 related to Management's Discussion and Analysis, and Budgetary Comparison 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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information and employees' other postemployment benefits information applicable to the House of Representatives, in accordance with Auditing Standards Generally Accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

INDEPENDENT AUDITOR'S REPORT (continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the Financial Statements that collectively comprise the House of Representatives' Basic Financial Statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award, on pages 107 through 109, is presented for purposes of additional analysis and is not required parts of the Basic Financial Statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Basic Financial Statements. The information has been subjected to the auditing procedures applied in the audit of the Basic Financial Statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Basic Financial Statements or to the financial statements themselves, and other additional procedures in accordance with Auditing Standards Generally Accepted in the United States of America. In our opinion, the Schedule of Expenditures of the Federal Awards is fairly stated, in all material respects, in relation to the Basic Financial Statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions of the Financial Statements that collectively comprise the House of Representatives' basic financial statements. The Introductory Section and Statistical Section are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the Basic Financial Statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2023, on our consideration of the House of Representatives' internal control over financial reporting on our test 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 in consideration of House of Representatives' internal control over financial reporting and compliance.



BETANCOURT & CO PSC

San Juan, Puerto Rico

October 15, 2023



Stamp No. E546096 of Puerto Rico Society of Certified Public Accountants has been affixed to the original of report



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
MANAGEMENT'S DISCUSSION
AND ANALYSIS**





The House of Representatives of the Commonwealth of Puerto Rico (the "House of Representatives") provides this Management Discussion and Analysis to the readers of these basic financial statements. This narrative overview and analysis of the financial activities of the House of Representatives is for the fiscal year ended June 30, 2022.

Since the Management's Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the House of Representatives basic financial statements.

FINANCIAL HIGHLIGHTS

Government – Wide Financial Statements

- The House of Representatives net position (deficit) amounted to (\$57,875,939) on June 30, 2022. Such net position (deficit) decreased when compared to the net position (deficit) amounting to (\$61,490,941) as of June 30, 2021. The net position (deficit) from 2021 was increased due to a prior year adjustment. This increase is mostly attributable to the application of GASB 73 that required the recognition of the Total Pension Liability instead of the Net Pension Liability.
- The total assets of the House of Representatives amounted to \$8,165,547 on June 30, 2022. This represented an increase of \$2,904,407 when compared to the total assets at the end of fiscal year 2021.
- The total liabilities of the House of Representatives amounted to \$73,256,070 and include the accrual for vacations and sick leave in the amount of \$5,454,780 of which \$2,127,364 are due in the next twelve months. Other accounts payable for \$155,656, other accruals for \$485,792, deferred revenue \$191,683 and total pension liability of \$66,854,918 at the close of the fiscal year ended June 30, 2022. The House of Representatives has the resources to meet its ongoing obligations, including the liabilities for accrued vacations and sick leave.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

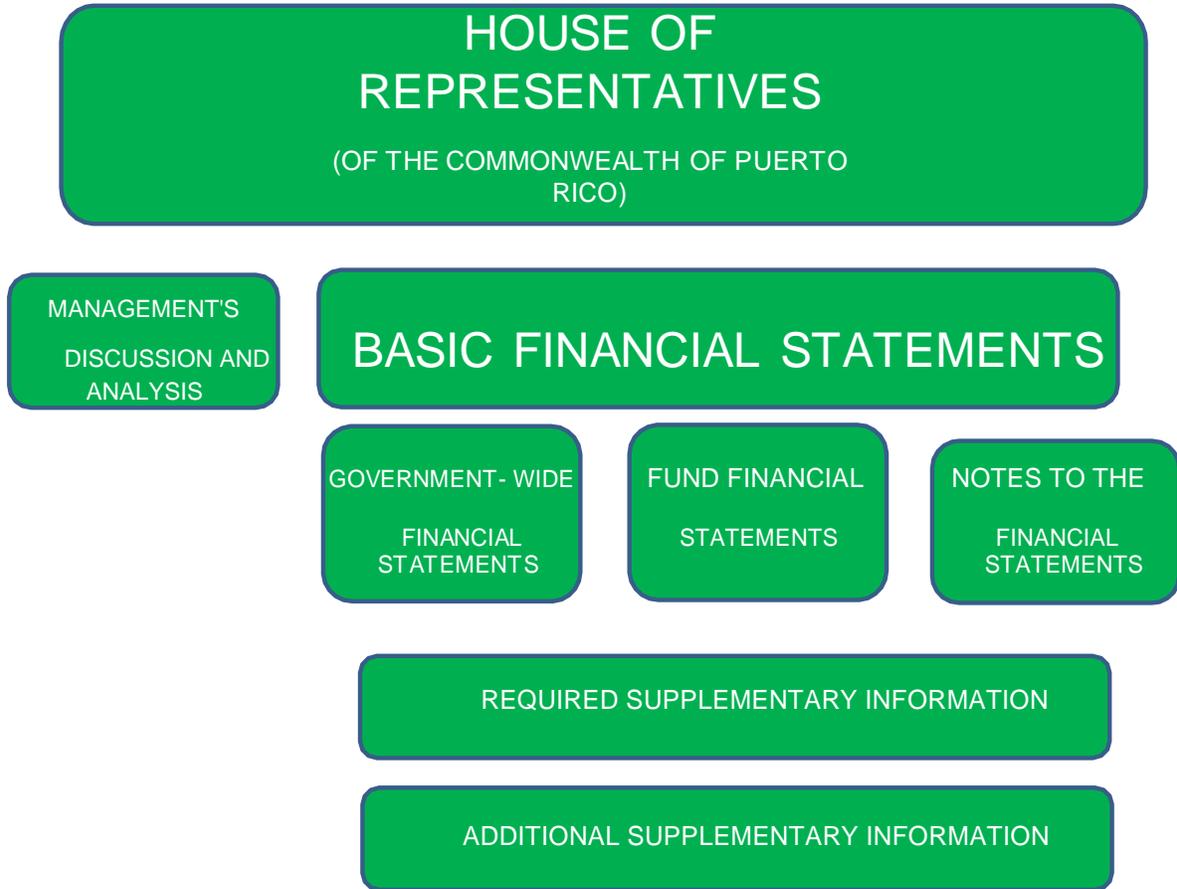
This Management's Discussion and Analysis is required supplementary information to the Basic Financial Statements and is intended to serve as introduction to the Basic Financial Statements of the House of Representatives. The Basic Financial Statements are comprised of three components: (1) Government-Wide Financial Statements; (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. This report also contains Required Supplementary Information (Statement of Revenues and Expenditures – Budget to Actual – General Fund) and Additional Supplementary Information (Statistical Data) in addition to the Basic Financial Statements themselves. These components are described below in Figure 1.



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Required Components of Annual Financial Report

Figure 1



Summary -----> Detail



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 House of Representatives 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. These statements present short and long-term information about the House of Representatives financial position, which assists in assessing the House of Representatives economic condition at the end of the year.

The Statement of Net Position presents all the House of Representatives 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 House of Representatives is improving or deteriorating.

The Statements of Activities presents information showing how the House of Representatives 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 that will only result in cash flows in future fiscal periods.

The Government-Wide Financial Statements can be found on pages 30-32 of this report.

Funds 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 House of Representatives like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The funds of the House of Representatives belong to categories of governmental Funds.

Governmental funds 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 expendable resources, as well as on balances of expendable House of Representatives resources available at the end of the fiscal year. Such information is useful in evaluating the House of Representatives near term financial requirements.

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 fund 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 House of Representatives near term financial decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.



Funds Financial Statements (Continued)

The House of Representatives maintains one individual governmental fund and adopts an annual appropriated budget for its General Fund. A Budgetary Comparison Statement has been provided for the general fund to demonstrate compliance with such budget.

The Governmental Fund Financial Statements can be found on pages 33 & 35 of this report.

Notes to the 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 and can be found immediately after the Basic Financial Statements.

The Notes to the Basic Financial Statements can be found on pages 37-104 of this report.

Required Supplementary Information

The Basic Financial Statements are followed by a Section of Required Supplementary Information. This section includes a Budgetary Comparison Schedule, which includes 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.

Also, the Required Supplementary Information reported are related to the GASB Statement No. 73 & 75 for pension liability reporting, and those required supplementary information are presented immediately following the Notes to the Financial Statements and can be found on pages 62 through 78 of this report.

FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS

Net Position

The Statement of Net Position serves over time as a useful indicator of the House of Representatives financial position at the end of the fiscal year. The House of Representatives net position (deficit) decreased by \$3,614,995 when compared to 2021. This decrease is due to a prior year Adjustment made to follow GASB 73. This adjustment increased the long-term debt regarding the pension liability. The House of Representatives net position (deficit) of (57,875,939) includes investment in capital assets, net of related debt, for \$754,876 restricted net position for \$4,517,398 and unrestricted net position (deficit) of (\$63,148,213).

The following are the condensed statements of net position (deficit) for the fiscal years ended June 30, 2022, and 2021:



FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Condensed Statement of Net Position (Deficit)

	2022	2021	Change	%
Assets:				
Current assets	\$ 7,300,548	\$ 4,101,317	\$ 3,199,231	78%
Capital assets, net	864,999	1,159,823	(294,824)	-25%
Total assets	8,165,547	5,261,140	2,904,407	55%
Deferred outflows of resources	10,660,362	12,397,606	(1,737,244)	-14%
Liabilities:				
Current liabilities	6,000,494	6,387,482	(386,988)	-6%
Noncurrent liabilities	67,255,576	69,133,003	(1,877,427)	-3%
Total liabilities	73,256,070	75,520,485	(2,264,415)	-3%
Deferred inflows of resources	3,445,778	3,629,203	(183,425)	-5%
Net Position:				
Invested in capital assets, net of related debt	754,876	587,313	167,563	29%
Restricted	4,517,398	1,695,352	2,822,046	166%
Unrestricted	(63,148,213)	(63,773,606)	625,393	-1%
Total net position (Deficit)	\$ (57,875,939)	\$ (61,490,941)	\$ 3,615,002	-6%

Capital Assets

The House of Representatives investment in capital assets for its governmental activities amounted to \$5,924,222, net of accumulated depreciation of \$5,259,249 for a net book value of \$864,999, as of June 30, 2022. These investments in capital assets include equipment, computer equipment, furniture, and vehicles. Depreciation and amortization charges amounted to \$433,475 for the year ended June 30, 2022.

Long-Term Liabilities

Total liabilities of the House of Representatives as of June 30, 2022, were \$73,256,070 of which \$5,164,245 are due within one year, this amount includes 2,994,472 as the current of the Pension Liability. Long term obligations decrease by 1,877,427 or approximately 3% when compare with the prior fiscal year. The increase is mainly related to the implementation of GASB 73 and 75. The total pension liability amounted \$66,854,918 or the 91% of the total liabilities of the House of Representatives.



FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Long-Term Liabilities (Continued)

Additional information of the House of Representatives' capital assets and long-term liabilities can be found in Note 6 page 59 and note 9 to the Basic Financial Statements on pages 60 and 61 of this report respectively.

Changes in Net Position

The following Condensed Statements of Activities reflect how the House of Representatives net position (deficit) changed in the fiscal years ended June 30, 2022, and 2021:

Condensed Statement of Activities				
	<u>2022</u>	<u>2021</u>	<u>Change</u>	%
Expenses:				
Governmental Activities	\$ 34,311,266	\$ 33,509,273	\$ 801,993	2%
Revenues:				
Legislative Appropriations	33,474,786	35,924,390	(2,449,604)	-7%
Operating Grant and Contributions	4,447,889	-	4,447,889	
Other Revenue	3,586	3,121	465	15%
Total revenues	<u>37,926,261</u>	<u>35,927,511</u>	1,998,750	6%
Change in Net Position	3,614,995	2,418,237	1,196,758	49%
Net Position at Beginning of Year	<u>(61,490,934)</u>	<u>(63,909,179)</u>	<u>2,418,245</u>	-4%
Net Position (Deficit), End of Year	\$ <u>(57,875,939)</u>	\$ <u>(61,490,934)</u>	\$ <u>3,614,995</u>	-6%

The House of Representatives had an decrease in legislative appropriations of \$2,449,604 or-7% when compared to 2021.

The House of Representatives major expense is related to salaries and fringe benefits that include accrued vacations and sick leave and payroll taxes, which represent approximately 72% and 85% of total expenses, for the fiscal years ended June 30, 2022, and 2021, respectively. When compared to fiscal year ended June 30, 2021, such expense shows a decrease of 14.19%.



FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Following is a detail of expenses of the condensed statement of activities for the years ended June 30, 2022, and 2021.

Detail of Expenses of Condensed Statements of Activities

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Salaries and payroll related costs	\$ 25,079,887	\$ 28,444,414	\$ (3,364,527)	-11.83%
Meals and travel	230,863	188,253	42,610	22.63%
Professional services	2,955,566	3,248,306	(292,740)	-9.01%
Insurance	383,232	9,550	373,682	3913%
Rent	304,290	201,773	102,517	50.81%
Non-capitalizable equipment	4,209,842	208,726	4,001,116	1916.92%
Depreciation expense	473,546	372,436	101,110	27.15%
Interest	-	31,575	(31,575)	-100.00%
Repairs and maintenance	30,568	77,217	(46,649)	-60.41%
Utilities	124,011	146,779	(22,768)	-15.51%
Materials and supplies	136,517	169,796	(33,279)	-19.60%
Announcements and Media Publica	-	64,394	(64,394)	-100.00%
Postage	-	72,215	(72,215)	-100.00%
Loss on Diposal of FA	7,601	-	7,601	0.00%
Miscellaneous	<u>375,343</u>	<u>273,839</u>	<u>101,504</u>	37.07%
Total	\$ <u>34,311,266</u>	\$ <u>33,509,273</u>	\$ <u>801,993</u>	2.39%



FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Governmental Funds Highlights

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

The following are the condensed balance sheets-governmental funds as of June 30, 2022, and 2021, respectively:

Condensed Balance Sheets- Governmental Funds

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Total Assets	\$ <u>7,300,548</u>	\$ <u>4,101,318</u>	\$ <u>3,199,230</u>	78.00%
Total Liabilities	<u>836,249</u>	<u>1,723,331</u>	<u>(887,082)</u>	-51.47%
Fund Balance				
Nonspendable	169,100	132,289	36,811	27.83%
Restricted	4,517,398	1,695,352	2,822,046	166.46%
Unassigned	<u>1,777,801</u>	<u>550,346</u>	<u>1,227,455</u>	223.03%
Total Fund Balance	<u>6,464,299</u>	<u>2,377,987</u>	<u>4,086,312</u>	171.84%
Total Liabilities and Fund Balance	\$ <u>7,300,548</u>	\$ <u>4,101,318</u>	\$ <u>3,199,230</u>	78.00%

As of the end of the fiscal year 2022, the House of Representatives governmental funds reported a combined ending balance of \$6,464,299. The general fund is the main operating fund of the House of Representatives. There are non-spendable fund balances amounting to \$169,100. Non-spendable fund balances reflect the portion of fund balance that cannot be spent with cash or are legally or contractually required not to be spent. There are also restricted fund balances amounting to \$4,517,398. Restricted fund balance reflects resources that are subject to externally enforceable legal restrictions to pay for specific program purposes. An unassigned fund balance of \$1,177,801 was reported in the governmental funds on June 30, 2022. The House of Representatives fund balance increased by \$4,086,312 as a result of the current fiscal year's net changes.



FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Governmental Funds Highlights (Continued)

The general fund budget for the fiscal year ended June 30, 2022, was \$37,926,261 an increase of \$1,998,751 when compared to 2021, and the actual expenditures were \$33,839,949. The total expenditures represented approximately 89.23% of the total budget availability for the fiscal year 2022. The House of Representatives operated evenly in its management of the general fund budget for the fiscal year ended June 30, 2022, overcoming the deficit presented in 2021. The following table summarizes the budget, expenditures and unexpended balance for fiscal years ended June 30, 2022, and 2021:

Budget and Expenditures Comparison

	2022 Budget	2021 Budget	Change
Revenues			
Intergovernmental	26,808,754	35,367,217	(8,558,463)
Special Appropriations	<u>11,117,507</u>	<u>560,293</u>	<u>10,557,214</u>
	37,926,261	35,927,510	1,998,751
Expenditures	<u>33,839,949</u>	<u>33,489,800</u>	350,149
Unexpended Balance	\$ <u>4,086,312</u>	\$ <u>2,437,710</u>	\$ <u>1,648,602</u>
Expenditure Rate	89.23%	93.21%	17.52%

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FINANCIAL ANALYSIS OF THE BASIC FINANCIAL STATEMENTS (Continued)

Economic Factors and Next Year Budget

The economic factors of the House of Representatives must be analyzed as a component of the Commonwealth of Puerto Rico.

Puerto Rico's economy entered a recession in the fourth quarter of the fiscal year 2006. The Commonwealth's gross national product (GNP) contracted (in real terms) every fiscal year between 2007 and 2017, except for fiscal year 2012. The lower rate of GNP decline during fiscal year 2012 is due to the fund received by the commonwealth related to American Recovery and Reinvestment Act, local stimulus funded by bond proceeds, and tax cuts.

Despite all adverse conditions, the economic activity on the Island regain its growth in March 2021; after having experienced a consecutive decline of thirteen months. According to the

Puerto Rico Planning Board, in fiscal year 2022, Puerto Rico's Gross National Product (GNP) grew 5.34% with an expected growth of 8% in 2023.

REQUEST OF INFORMATION

This financial report is designed to provide a general overview of the House of Representatives' finances for all the citizens. Also, this report serves to demonstrate the House of Representatives' accountability for the money it receives from legislative appropriations. For questions regarding the information provided or additional information requests, please contact: Puerto Rico House of Representatives, Office of Finance and Budget, PO Box 9022228, San Juan, PR 00902-2228.



COMPREHENSIVE ANNUAL FINANCIAL REPORT
BASIC FINANCIAL
STATEMENTS





	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Current Assets:	
Cash	\$ 7,121,769
Receivables (Net):	
Other	9,679
Inventories	<u>169,100</u>
Total Current Assets	<u>7,300,548</u>
Non-Current Assets:	
Capital Assets, Net	<u>864,999</u>
TOTAL ASSETS	<u>8,165,547</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Contributions to Employees Retirement System	10,540,962
Related to other post employment benefit plans	<u>119,400</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>10,660,362</u>

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



LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 155,656
Due to Governmental Units	3,118
Accrued Liabilities	485,792
Unearned Revenue	191,683
Short-Term Obligations:	
Current Pension Liability	2,994,472
Lease Liability	42,409
Compensated Absences	2,127,364
Total Current Liabilities	6,000,494
Non-Current Liabilities:	
Compensated Absences	3,327,416
Lease Liability	67,714
Pension Liabilities	62,327,374
Other post employment benefits	1,533,072
Total Non-Current Liabilities	67,255,576
TOTAL LIABILITIES	73,256,070
DEFERRED INFLOWS OF RESOURCES:	
Unamortized Investment in Employees Retirement System	3,445,778
TOTAL DEFERRED INFLOWS OF RESOURCES	3,445,778
NET POSITION:	
Net Investment in Capital Assets	754,876
Restricted for:	
Subsidies and Incentives	4,517,398
Unrestricted	(63,148,213)
TOTAL NET POSITION	\$ (57,875,939)

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



Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Government - Administrative and Operating	\$ 34,311,266	\$ -	\$ 4,447,889	\$ -	\$ (29,863,377)
Total Primary Government	\$ 34,311,266	\$ -	\$ 4,447,889	\$ -	\$ (29,863,377)
General Revenues:					
					33,474,786
					3,586
					<u>33,478,372</u>
CHANGES IN NET POSITION					
					3,614,995
					<u>(61,490,934)</u>
					<u>\$ (57,875,939)</u>

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



HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

BALANCE SHEET- GOVERNMENTAL FUNDS

JUNE 30, 2022

	<u>GENERAL FUND</u>	<u>SPECIAL FUND</u>	<u>CSLFRF FUND</u>	<u>CRF FUND</u>	<u>TOTAL FUNDS</u>
ASSETS:					
Cash	\$ 2,353,658.00	4,576,428.00	191,683.00	-	\$ 7,121,769
Receivables (Net):					
Other	9,166.00	513.00	-	-	9,679
Inventory Supplies	<u>169,100.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,100</u>
Total Assets	<u>2,531,924.00</u>	<u>4,576,941.00</u>	<u>191,683.00</u>	<u>-</u>	<u>7,300,548.00</u>
LIABILITIES:					
Accounts Payable	99,231.00	56,425.00	-	-	155,656
Due to Governmental Units	-	3,118.00	-	-	3,118
Deferred Revenue	-	-	191,683.00	-	191,683
Accrued Liabilities	<u>485,792.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>485,792</u>
Total Liabilities	<u>585,023.00</u>	<u>59,543.00</u>	<u>191,683.00</u>	<u>-</u>	<u>836,249</u>
FUND BALANCES:					
Nonspendable - Inventory	169,100.00	-	-	-	169,100
Spendable:					
Restricted	-	4,517,398.00	-	-	4,517,398
Unassigned	<u>1,777,801.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,777,801</u>
Total Fund Balances	<u>1,946,901.00</u>	<u>4,517,398.00</u>	<u>-</u>	<u>-</u>	<u>6,464,299</u>
Total Liabilities and Fund Balances	<u>\$ 2,531,924.00</u>	<u>4,576,941.00</u>	<u>191,683.00</u>	<u>-</u>	<u>\$ 7,300,548</u>

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



HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANG IN
FUND BALANCE - GOVERNMENTAL FUNDS TO THE
GOVERNMENT- WIDE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Total Fund Balances – Government Funds (Page 33) \$ 6,464,299

Amount reported for Governmental Activities in the Statement of Net Position (Page 30)
are different because:

Capital Assets used in governmental activities are not financial resources and therefore
are not reported in the funds. In the current period, these amounts are:

Capital Assets	\$ 6,124,246	
Accumulated Depreciation	<u>(5,259,247)</u>	
Total Capital Assets		864,999

Deferred Outflows of Resources in Governmental Activities are paid in the current available soon
period and therefore are reported in the funds. 10,660,363

Deferred Inflows of Resources in Governmental Activities corresponded to future period
and therefore are not reported in the funds. (3,445,778)

Some liabilities are not due and payable in the current period and therefore are not reported
in the funds. Those liabilities consist of:

Net Pension Liabilities	(66,854,918)	
Capital Leases	(110,123)	
Accrued Compensated Absences	<u>(5,454,781)</u>	
Total Long-Term Liabilities		<u>(72,419,822)</u>

Total Net Position of Governmental Activities (Page 31) \$ (57,875,939)

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



HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
INFUND BALANCE-GOVERNMENTAL FUNDS FOR THE

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	GENERAL FUND	SPECIAL FUND	CSLFRF FUND	CRF FUND	TOTAL FUNDS
REVENUES:					
Intergovernmental	\$ 26,805,174	6,669,612	-	-	\$ 33,474,786
Other Revenues	3,580	6	4,186,664	261,225	4,451,475
Total Revenues	26,808,754	6,669,618	4,186,664	261,225	37,926,261
EXPENDITURES:					
Current					
General Government - Administrative and Operating Activities	25,239,024	3,847,572	4,186,664	261,225	33,534,485
Capital Outlays	305,464	-	-	-	305,464
Total Expenditures	25,544,488	3,847,572	4,186,664	261,225	33,839,949
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,264,266	2,822,046	-	-	4,086,312
Other Financing Sources (Uses)					
Net Change in Fund Balances	1,264,266	2,822,046	-	-	4,086,312
Fund Balances	682,635	1,695,352	-	-	2,377,987
FUND BALANCES – ENDING	\$ 1,946,901	4,517,398	-	-	\$ 6,464,299

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



Net Change in Fund Balances – Government Funds (Page 35) \$ 4,086,312

Amount reported for Governmental Activities in the Statement of Activities (Page 32)
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 expense. In the current period, these amounts are:

Depreciation Expense	\$ (433,475)	
Capital Outlays	305,464	
Excess of Depreciation Expense over Capital Outlays		(128,011)

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.

These activities consist of:

Change in Compensated Absences	(776,180)	
Lease Liability	274,000	
Change in Net Pension Liability	1,712,692	
Change in deferred Outflow	(1,737,243)	
Change in deferred Inflow	183,425	
Total Additional Expenses		(343,306)

Change in Net Position of Governmental Activities (Page 32) \$ 3,614,995

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



1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the House of Representatives of the Commonwealth of Puerto Rico over which the Speaker and Representatives, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP).

A. Organization

House of Representatives of the Commonwealth of Puerto Rico (“the House of Representatives”) was organized by virtue of Article 3, Sections 1 to 3 of the Constitution of the Commonwealth of Puerto Rico (“the Constitution”) enacted on July 25, 1952, as approved by the people of Puerto Rico and the United States Congress. The Commonwealth’s Constitution provides for separation of powers of the executive, legislative and judicial branches of the government. The Constitution establishes that the Commonwealth’s Legislative power will be exercised by a legislature composed of two bodies: a House of Representatives and a Senate, whose members will be elected through direct vote in each general election. The House of Representatives is composed of fifty-one representatives who are elected by the citizens. The majority and minority caucuses nominate candidates for the House of Representatives officer positions. The administration of the House of Representatives is autonomous and is under the direction of the Speaker of the House of Representatives.

The House of Representatives and the Senate enact and approve all legislation related to public safety, public health, public housing, public works and transportation, culture and recreation, welfare, urban development, education, and economic development; while the Executive Branch executes the legislation to provide such services to the citizens of the Commonwealth of Puerto Rico.

B. Reporting Entity

The House of Representatives is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Its financial data is included as part of the general government section in the general fund of the Commonwealth of Puerto Rico financial statements. Effective August 1, 2007, the House of Representatives became fiscally autonomous pursuant to the provisions of Act 230 of July 23, 1974, as amended on June 11, 2004, known as the “Commonwealth of Puerto Rico Accounting Law”. The funds of the House of Representatives are under the custody of the Secretary of the Treasury of Puerto Rico until transferred to the House of Representatives. The



1. FINANCIAL REPORTING ENTITY (Continued)

C. Reporting Entity (Continued)

accompanying Basic Financial Statements are issued solely and for the information and use of the Secretary of the Treasury, the President of the House of Representatives, the Senators, the Governor, and the citizens of the Commonwealth of Puerto Rico. GASB Statement 61, The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34, as amended, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. There are two methods of presentation of the component unit in the financial statements: blending – presentation of the financial data of the component unit’s balances and transactions in a manner similar to the presentation of the House of Representatives’ balances and transactions; and discrete – presentation of the component unit’s financial data in a separate column for the House of Representatives’ balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the House of Representatives, as of June 30, 2022, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statements Presentation

The Basic Financial Statements of the House of Representatives have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America as applicable to state and local governmental units. The Basic Financial Statements include both government-wide (based on the House of Representatives as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities. The financial information of the House of Representatives is presented in this report as follows:



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Statements Presentation (Continued)

Required Supplementary Information – Management’s Discussion and Analysis

Management’s Discussion and Analysis is required supplementary information that introduces the Basic Financial Statements and provides an analytical overview of the House of Representatives’ financial activities.

Government-Wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the Statement of Net Position and the Statement of Activities) report information of all the activities of the House of Representatives. The focus of the Statement of Net Position is designed to be similar to bottom line results for the House of Representatives’ Governmental Activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets and long-term obligations. The Statement of Net Position presents the reporting entities’ assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the House of Representatives’ management are not presented as restricted net position. The Statement of Activities presents a comparison between direct expenses and program revenues for the activities of the House of Representatives and for each function of the House of Representatives’ Governmental Activities. Direct expenses are those that are clearly identifiable with a specific function or segment.

Governmental Funds (GFFS)

The GFFS [the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance] provide information about the House of Representatives’ funds. The emphasis of fund financial statements is on the major funds in the governmental category, each displayed in a separate column. Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The House of Representatives uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Statements Presentation (Continued)

Governmental Funds (GFFS) (Continued)

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively, (1) an individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures; (2) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of particular importance to financial statement users.

The House of Representatives reports the following major governmental funds:

- General Fund – This is the general operating fund of the House of Representatives. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Special Fund – This is the fund used to account for all transactions with special assignment resolution.

The House of Representatives periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the House of Representatives in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information on June 30, 2022 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund. Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2022.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Statements Presentation (Continued)

Governmental Funds (GFFS) (Continued)

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented along with separate explanations for each difference. During operations, the House of Representatives has transactions between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental.

Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column. Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column. The House of Representatives reports its financial position (Balance Sheet) and results of operations in funds (Statement of Revenues, Expenditures and Changes in Fund Balance), which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide information that is essential to a user's full understanding of the data provided in the Basic Financial Statements.

Required Supplementary Information – Budgetary Comparison Schedule

The Budgetary Comparison Schedule – General Fund, includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 categories.

- **Net Investment in Capital Assets** – consists of capital assets, net of accumulated depreciation, that are attributed to the acquisition, construction or improvement of those assets, net of debts.
- **Restricted Net Position** – consists of restricted net assets with constraints placed on the use of resources which are either a) externally imposed by creditors or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – consists of net assets that are neither restricted nor invested in capital assets. Unrestricted net assets often have constraints that are imposed by management, but that can be removed or modified.

Governmental Funds Financial Statements

The 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. 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 House of Representatives considers revenues to be available if they are collected within the current period or soon enough thereafter. All other revenue items are measurable and available only when collected by the House of Representatives. On June 30, 2022, all revenues sources met this availability criterion.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds Financial Statements (Continued)

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 mature (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.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

1) Cash

The House of Representatives held its cash balances in commercial banks. The Puerto Rico Commissioner of Financial Institutions requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”. Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance restricted account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Receivables consist of all revenues earned but not collected on June 30, 2022. 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 represent amounts owed to the House of Representatives for reimbursement of expenditures incurred pursuant to state appropriations. Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

Inventories consist primarily of material and supplies, furniture construction materials and vehicle spare parts and are valued at cost, using the first-in first-out method. All inventories are reportable for financial statements purposes in the government-wide and governmental funds. For governmental fund financial reporting, inventories balances are also recorded as a non-spendable fund balance indicating that they do not constitute “available spendable resources”.

4) Capital Assets

Capital assets, which include equipment and equipment under capital lease agreements, computer equipment and software, furniture, and vehicles, are reported in the Government-Wide Financial Statements. Capital assets are defined by the House of Representatives as assets with an initial, individual cost of more than \$500 and an estimated useful life of five years or more.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the House of Representatives capitalization threshold is met. Depreciation and amortization expense are recorded only in the GWFS. No depreciation is recorded for works of art and historical treasures. The other equipment and vehicles of the primary government are depreciated using the straight-line method over an estimated useful life of five years.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

4) Capital Assets (Continued)

Depreciation expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset.

The accounting policy for Works of Art is that they are capitalized at their historical cost or acquisition value at date of donation whether they are held as individual items or in a collection.

Impaired capital assets that will no longer be used by the House of Representatives, 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 House of Representatives 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.

The House of Representatives is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the House of Representatives contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations.

5) 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 House of Representatives recognizes deferred outflows and inflows of resources.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

5) Deferred Outflows/Inflows of Resources (Continued)

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 House of Representatives 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 & 75. Note 13 presents additional information about the composition of these items.
- Revenues earned but not available within 60 days of fiscal year end.

Notes 9 and 11 provide details on deferred outflows of resources and deferred inflows of resources.

The House of Representatives has items, which arise under accrual basis and modified 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, and unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6) Unearned Revenues

Unearned revenues represent the portion of federal grants received for which qualifying expenditures have not been incurred. In subsequent periods, when the revenue recognition criteria are met, the revenue is recognized.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

7) Long-Term Obligations

The liabilities reported in the GWFS include long-term liabilities such as vacations and sick leave, reserves for contingencies and long-term portion of obligations under capital lease agreements.

8) Lease Obligations

The House of Representatives leases various assets under both operating and capital lease agreements. In the government wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the statement of net position.

9) Compensated Absences

The House of Representatives accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, Compensated Absences. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying Statement of Net Position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2022 and (2) is not contingent on a specific event (such as illness) that is outside the control of the House of Representatives and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and Medicare taxes).

The employees of the House of Representatives are granted thirty days of vacation and eighteen days of sick leave annually. The employee has the right to accumulate the excess of vacation up to sixty days and sick leave up to ninety days, until December 31st of each year.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the Statement of Net Position.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

9) Compensated Absences (Continued)

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 days. When the reason for the separation is to qualify for the retirement for years of service or disability, a deferred pension or after having worked for at least ten years of service without being a participant in a retirement system sponsored by the government, an employee will also be entitled to the payment of the lump sum of sick leave accumulated and not used up to a maximum of ninety days. However, if the employee has ten years of service within which some years, he has participated in a retirement system sponsored by the government, he will not be entitled to the payment of the aforementioned license, except if he withdraws the contributions made to the retirement systems, which would make him a non-participant with ten years of service.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, Compensated Absences, the House of Representatives has accrued a liability for compensated absences, which have been earned but not taken by House of Representatives' employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective on June 30, 2022. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year.

For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due is accrued upon the employee's separation from employment.

10) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-term Obligations include an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

11) Accounting for Pension Costs

The House of Representatives accounts for pension costs under the provision of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68 (GASB Statement No. 73). GASB Statement No. 73 maintains the “accrual basis” model under Statement 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the pension plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, The House of Representatives recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation not under The House of Representatives’ management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 13.

12) Other Postemployment Benefits

In addition to the pension benefits described in Note 13, 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. The Commonwealth follows the guidance of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflow of resources, deferred inflow of resources and expenses. For additional information regarding OPEB, refer to Note 13.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

13) Net Position/Fund Balance

A) Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the GWFS.

The GWFS utilize a net position presentation, which is categorized as follows:

- *Net Investment in Capital Assets* – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.
- *Restricted Net Position* – This results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that management does not consider them to be available for general operations. Unrestricted Net Position often has constraints on resources that are imposed by management but can be removed or modified.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

13) Net Position/Fund Balance (Continued)

Net Position Flow Assumption

Sometimes the House of Representatives will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the House of Representatives' policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the House of Representatives honors constraints on the specific purposes for which amounts in those funds can be spent.

- *Nonspendable* – amounts that cannot be spent because they are either (1) not spendable in form; or (2) legally or contractually required to be maintained intact.
- *Restricted* – amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- *Assigned* – amounts that are constrained by the House of Representatives' intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.
- *Unassigned* – the residual classification for the House of Representatives' General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

13) Net Position/Fund Balance (Continued)

B) Fund Balance (Continued)

Fund Balance Flow Assumption

Sometimes the House of Representatives will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the House of Representatives' policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The House of Representatives has implemented the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2010, in which it is required to classify, and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Policy on Committing Funds

It is the policy of the House of Representatives that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Legislative Assembly. The Legislative Assembly has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

13) Net Position/Fund Balance (Continued)

C. Risk Financing

The Capitol District for Superintendency purchases commercial insurance covering casualty, theft, tort, claims and other losses for the House of Representatives. The House paid directly for the auto insurance.

The House of Representatives carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACCA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACCA.

The House of Representatives obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the House of Representatives for the year ended June 30, 2022, amounted to \$43,431.

The House of Representatives obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or non-occupational disability.

D. Use of Estimates

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



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance (Continued)

13) Net Position/Fund Balance (Continued)

E. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The House of Representatives' annually receives an appropriation from the general Budget Resolution of the Commonwealth of Puerto Rico. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrances included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established, by means of Act No. 123 from August 17, 2001, which amended the existing appropriations and encumbrances lapsing provision of Act No. 230 from July 23, 1974. Amounts required for settling claims and judgments against the House of Representatives, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under the statutory basis of accounting, the House of Representatives uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the House of Representatives governmental funds, encumbrance is a significant aspect of budget control.

Budgetary Control

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.



3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Control (Continued)

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Legislative Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Puerto Rico Office of Management and Budget (PROMB) and takes into consideration the advice provided by the Puerto Rico Planning Board (PRPB) (annual economic growth forecasts and four-year capital improvements plan), the Puerto Rico Department of Treasury (DOT) (revenue estimates, accounting records, and the comprehensive annual financial report), Puerto Rico Fiscal Agency and Financial Advisory Authority (PRFAFAA) (the fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that “the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law.”

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor’s recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four -year capital improvements plan adopted by the PRPB.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two-thirds majority in each house, may override the Governor’s veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2022 (including other financing sources) amounted to approximately \$10.045 billion.



3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Control (Continued)

The PROMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

The Puerto Rico Oversight, Management, Economic Stability Act (PROMESA) has significantly changed the approval process for the Commonwealth's general fund budget see note 19. After fiscal year 2017 the process to approve the budget is controlled by the Oversight Board. The Oversight Board submits to the Governor a notice delineating a schedule for the development, submission, approval, and certification of proposed budgets to be submitted by the Governor and the Legislature to the Oversight Board for its approval. The Oversight Board, at its discretion, is responsible for determining the number of fiscal years to be covered by the budget submission.

The Oversight Board is responsible for submitting revenue estimates for the period covered by the proposed budgets to the Governor and Legislature for use by the Governor in developing budgets to be submitted for review and approval to the Oversight Board. The bill outlines three means by which a proposed budget could be approved.

Budget Submission by Governor. If the Oversight Board determines that the proposed budget is compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to approve the proposed budget and submit it to the Legislature for approval. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the bill would allow the Oversight Board to issue a "notice of violation" which would include recommendations to correct the deficiencies.

Oversight Board Budget. Should the Governor fail to submit a compliant budget then the bill would permit the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory, and only to the Governor in the case of a territorial instrumentality.

Budget Adopted by Legislature. The bill would direct the Legislature to adopt a proposed budget for submission to the Oversight Board. If the proposed budget is found to be non-compliant with the applicable fiscal plan, then the Oversight Board may issue a "notice of violation" which includes recommendations to correct the deficiencies.

Oversight Board Budget. Should the Legislature fail to submit a compliant budget then the bill would allow the Oversight Board to develop and submit to the Governor and Legislature a revised compliant budget for the territory.



3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Control (Continued)

Certification of Budget as Compliant. Under provisions of the bill, if the Governor and Legislature approve a territorial budget that is compliant, or if the Governor develops a budget for the Commonwealth that is compliant with the applicable fiscal plan, then the Oversight Board could issue a certificate of compliance. If the Governor and Legislature fail to develop and approve a budget that would be compliant, then the Oversight Board could develop and submit a budget to the Governor and Legislature and such budget would be deemed approved by the Governor and the Legislature. In the case of a territorial instrumentality, only the Governor could submit a proposed budget for review by the Oversight Board.

Budget jointly developed by the Oversight Board, the Governor, and Legislature. The bill would allow the Oversight Board, the Governor, and the Legislature to work collaboratively to develop a consensus budget for the territorial government. In the case of a territorial instrumentality, the bill would allow the Oversight Board and the Governor to work collaboratively to develop a budget.

4. CASH AND INVESTMENTS

Cash in Banks

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The House of Representatives is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. Under the laws and regulations of the Commonwealth, public funds deposited by the House of Representatives in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the House of Representatives' name. The House of Representatives cash balances in commercial banks were approximately \$7,121,769 as of June 30, 2022.



4. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. On June 30, 2022, the House of Representatives has invested \$7.1 million in cash equivalents consisting of interest-bearing accounts in commercial banks, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the House of Representatives in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt or equity securities were made during the Fiscal Year ended June 30, 2022. Therefore, the House of Representatives' management has concluded that the concentration of credit risk related to any possible loss due to defaults by commercial banks on the House of Representatives' deposits is considered low as of June 30, 2022.

5. RECEIVABLES

GASB Statement No. 38, Certain Financial Statement Note Disclosures, requires disclosure of significant receivable balances not expected to be collected within one year of the date of the financial statements. As of June 30, 2022, amounts are aggregated into account receivables line for certain funds and aggregated columns. Accounts receivable, net on June 30, 2022, includes the following:

Other Receivables	\$ 50,099
Less Allowance for Doubtful Accounts	<u>(40,420)</u>
Total	<u>\$ 9,679</u>



6. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2022, were as follows:

Description	Balance at June 30, 2021	Adjustments	Additions	Retirements	Balance at June 30, 2022
Governmental Activities:					
Capital Assets:					
No depreciable	\$ 200,026	\$ -	\$ -	\$ -	\$ 200,026
Equipment	6,263,436	(763,808)	285,769	(677,023)	5,108,374
Vehicles	767,861	-	19,695	(119,439)	668,117
Right to Use-Property	-	147,731	-	-	147,731
Total Depreciable Capital Assets	7,031,297	(616,077)	305,464	(796,462)	5,924,222
Less: accumulated depreciation					
Equipment	(5,450,492)	496,933	(391,295)	672,642	(4,672,212)
Vehicles	(621,005)	-	(42,180)	116,219	(546,966)
Less: accumulated amortization					
Right to Use-Property	-	(40,071)	-	-	(40,071)
Total Accumulated Depreciation	(6,071,497)	456,862	(433,475)	788,861	(5,259,249)
Total Depreciable Capital Assets (Net)	-	-	-	-	-
CAPITAL ASSETS, NET	\$ 1,159,826	\$ (159,215)	\$ (128,011)	\$ (7,601)	\$ 864,999

Depreciation expense was charged to governmental functions/programs for the fiscal year ended June 30, 2022, as Administrative and Operating.



7. DEFERRED OUTFLOWS 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 House of Representatives recognized deferred outflows of resources in the government-wide statements. These items are a consumption of net position by the House of Representatives 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. At the end of the current fiscal year, the House of Representatives has an item that is reportable on the Government-wide Statement of Net Position that is related to outflows from changes in the Net Pension Liability (Note 12), as follows:

<u>Governmental Activities:</u>	<u>Amount</u>
Deferred Outflows of Resources	
Contributions to ERS	\$10,540,962
Related to other post-employment benefits plan	<u>119,400</u>
Total Deferred Outflows of Resources	<u>\$10,660,362</u>

8. DEFERRED REVENUES

Unearned revenues represent Coronavirus Relief Fund grant received by the House of Representatives to upgrade its communication systems to broadcast the commissions activities. A total amount of \$4,378,347 were received of which \$4,186,664 were spent during the 2022 fiscal year. The remaining balance of \$191,683 will be spent during the next fiscal year.

9. LONG-TERM LIABILITIES

Long term obligations on June 30, 2022, and changes for the year then ended were as follows:

	Balance at June 30, 2021	Increase	Decrease	Balance at June 30, 2022	Due within One (1) Year	Due after One (1) Year
Compensated Absences	\$ 4,678,602	\$ 776,178	\$ -	\$ 5,454,780	\$ 2,127,364	\$ 3,327,416
Obligations Under Capital Lease Agreements	572,510	-	(462,387)	110,123	42,409	67,714
Net Pension Liability	66,905,564		(1,583,718)	65,321,846	2,994,472	62,327,374
Other Post Employment Benefits	1,640,475	-	(107,403)	1,533,072	-	1,533,072
TOTAL	<u>\$ 73,797,151</u>	<u>\$ 776,178</u>	<u>\$ (2,153,508)</u>	<u>\$ 72,419,821</u>	<u>\$ 5,164,245</u>	<u>\$ 67,255,576</u>



9. LONG-TERM LIABILITIES (Continued)

Compensated Absences

The GWFS, Statement of Net Position, includes approximately \$5.4 Million in the governmental funds for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the House of Representatives' commitment to fund such costs from future operations. The General Fund has been used to liquidate the liability for this concept.

Obligations Under Capital Lease Agreements

The House of Representatives is obligated under capital lease agreements with third parties that expire through 2024 for equipment. The present value of future minimum lease payments on June 30, 2022, reported in the accompanying Statement of Net Position is as follows:

	Year ending June 30,	
	<u> </u>	
	2023	46,952
	2024	46,952
	2025	<u>23,476</u>
Total future minimum lease payments		117,380
Less: amounts representing interest		<u>7,255</u>
Present value of minimum lease payments		110,125
Less: current portion		(42,209)
Obligations under capital lease agreements, net of current portion		<u><u>\$ 67,914</u></u>

Leased equipment amounting to \$1,108,751 (less accumulated depreciation of \$566,636) is included as part of the capital assets, being depreciated in the Statement of Net Position in the government-wide financial statements. Depreciation charges applicable to leased equipment amounted to \$566,636.



10. DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 73 & 75, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 73 & 75, Items Previously Reported as Assets and Liabilities, the House of Representatives recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the House of Representatives 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.

At the end of the current fiscal year, the various components of Deferred Inflows of Resources reported in the Basic Financial Statements were as follows:

Governmental Activities	
Deferred Inflows of Resources	
Unamortized Investment in ERS	<u>\$3,445,778</u>

11. INTERGOVERNMENTAL REVENUES

The House of Representatives principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico. Appropriations are general purpose revenues of the House of Representatives.

12. PENSION PLAN

The employees of the House of Representatives are eligible to participate in the Commonwealth Employees Retirement System (ERS) pension plan. Participation is optional for employees hired before January 1, 2000, and less than 55 years of age at the date of employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

On July 1, 2019, membership of the ERS consisted of the following:

Active Members receiving benefits	\$ 90,139
Inactive members in pay status	<u>123,171</u>
Total Membership	<u>\$ 213,310</u>

The House accounts for pension liability based on actuarial valuations measured as of the beginning of the year (June 30, 2021). The retirement plan is not administered as trust and follows the guidance in GASB Statement No. 73 since there are no assets accumulated in trusts meeting the following criteria established by GASB Statement No. 68 was not used:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.



13. PENSION PLAN (Continued)

- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. Defined benefit pension plan assets also are legally protected from creditors of the plan members.

On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan for the Commonwealth Plan of Adjustment. The Plan preserves all accrued pension benefits for current retirees at ERS.

Plan Description

Prior to Act No. 106-2017, ERS administered different benefit structures pursuant to Act No. 447-1951, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on members date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (the Commonwealth, 78 municipalities, and 55 public corporations) were covered by the ERS. These benefits were paid by the ERS until June 30, 2018. Through Act No. 106-2017, the Commonwealth transformed the retirement systems into a single pay-as-you-go system (whereby future benefit payments are guaranteed by the Commonwealth's General Fund) and created the Retirement System Board as the new Retirement Systems governing body.

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

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (the System 2000 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, became members of the Contributory Hybrid Program as a condition to their employment. In addition, participant employees of previous programs as of June 30, 2013, became part of the Contributory Hybrid Program on July 1, 2013. Pursuant to a settlement incorporated into the Eighth Amended Plan, on the effective date of the Eighth Amended Plan, all participants in the System 2000 Program will receive a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act No. 106-2017 (discussed below). Upon the payment of these refunds, all claims related to the System 2000 Program will be discharged.



13. PENSION PLAN (Continued)

The following summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the applicable laws and regulations.

Service Retirements

- (a) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013, would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 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 PRPOB and Commonwealth 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. 447-1951 members who would attain 30 years of credited service by December 31, 2013, would be eligible to retire at any time.

Act No. 447-1951 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 upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

<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 July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 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.



13. PENSION PLAN (Continued)

Service Retirements (Continued)

- (b) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 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. 1-1990 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. 1-1990 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.1-1990 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.

- (c) 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.

<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	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

- (d) 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.



13. PENSION PLAN (Continued)

Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity.

- (a) Accrued Benefit as of June 30, 2013, for Act No. 447-1951 Members: The accrued benefit as of June 30, 2013, was determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act No. 447-1951 members, determined as of June 30, 2013.

If the Act No. 447-1951 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 the Coordination Plan, the benefit was 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. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 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 was 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. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service were considered pre- July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 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 the PRPOB policemen and



13. PENSION PLAN (Continued)

Service Retirement Annuity Benefits (Continued)

Commonwealth Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation 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 was actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a mayor.

- (b) Accrued Benefit as of June 30, 2013, for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013, is determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For Act No. 1-1990 Mayors, the highest compensation as a Mayor was determined as of June 30, 2013. If the Act No. 1-1990 member is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equaled 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. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65. For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a mayor.



13. PENSION PLAN (Continued)

Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High-Risk Positions were required to 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 PRPOB, the Chief of the Firefighter Corps, or supervising authority as applicable.

Termination Benefits

a) Lump Sum Withdrawal

Eligibility: A Member was eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contribution account is \$10,000 or less.

Benefit: The benefit equaled a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

b) Deferred Retirement

Eligibility: A Member was eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member had not taken a lump sum withdrawal of the accumulated contributions from the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

Death Benefits

(a) Pre-retirement Death Benefit

Eligibility: Any current nonretired member was eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.



13. PENSION PLAN (Continued)

Death Benefits (Continued)

(b) High Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro rata among eligible children. The annuity was payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member should each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post death Increases: Effective July 1, 1996, and subsequently every three-years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three-years.

The cost of these benefits was paid by the Commonwealth.

(c) Postretirement Death Benefit for Members Who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who had not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

- i. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30%, prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the Commonwealth for former government employees or by the public enterprise or municipality for their former employees. See Act No. 105 of 1969, as amended by Act No. 158 of 2003.



13. PENSION PLAN (Continued)

Death Benefits (Continued)

- i. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case may the benefit be less than \$1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to \$250, between (1) the accumulated contributions less the lifetime annual income paid and (2) \$1,000. ERS pays for the rest. See Article 2-113 of Act No. 447- 1951, as amended by Act No. 524-2004.

(d) Postretirement Death Benefit for Members Who Retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment must be payable to a beneficiary or the member's estate.

Beneficiaries receiving occupational death benefits as of June 30, 2013, continue to be eligible to receive such benefits.

Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity, or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013, commencing at the applicable retirement eligibility age.



13. PENSION PLAN (Continued)

Disability Benefits (Continued)

(b) High Risk Disability under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended).

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member died while still disabled, this annuity benefit continued to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996, and subsequently every three-years, the disability benefit was increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three-years (Act No. 127-1958, as amended). The cost of these benefits was paid by the Commonwealth.

(c) Members who qualified for occupational or nonoccupational disability benefits as of June 30, 2013, continue to be eligible to receive such benefits.

Special Benefits

(a) Minimum Benefits

- i. Past Ad hoc Increases: The Legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits were paid 50% by the Commonwealth and 50% by ERS.
- ii. Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013): 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). The increase in the minimum monthly benefit from \$200 per month to \$300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.



13. PENSION PLAN (Continued)

Special Benefits (Continued)

14. Coordination Plan Minimum Benefit: A minimum monthly benefit was payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

- (b) Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase



up to 3% without exceeding the limit of \$1,200 per month (Act No. 33-2007). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees are to be paid by ERS. All other COLAs granted in 1995 and later were required to be paid by the Commonwealth for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees. Under the Eighth Amended Plan, these COLAs will be eliminated from and after the Effective Date. As of the date hereof, the Effective Date has not yet occurred. For further information on the Eighth Amended Plan's impact on pension benefits, refer to the final version of the Eighth Amended Plan, which is available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

(c) Special "Bonus" Benefits

- i. Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth for former government and certain public corporations without their own treasuries, or by certain public corporations with their own treasuries or municipalities for their former employees.



13. PENSION PLAN (Continued)

Special Benefits (Continued)

(c) Special “Bonus” Benefits (Continued)

- ii. Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): 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. This benefit is paid from the Supplemental Contributions received from the Commonwealth for former government and certain public corporations without their own treasuries. or by certain public



was provided to the ERS through legislative appropriations each January 1 and July 1. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

Early Retirement Programs

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70-2010 also established that early retirement benefits will be provided to eligible employees that have completed between 15 and 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees’ monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the General Fund) and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447-1951 or age 65 for members under Act No. 1-1990, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to ERS. The General Fund will be required to continue making its required employer contributions. ERS will be responsible for benefit payments afterward.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211-2015), establishing a voluntary program to provide pre-retirement benefits to eligible employees, as defined. Act 106-2017 repealed Act No. 211-2015, while creating an incentives, opportunities, and retraining program for public workers.



13. PENSION PLAN (Continued)

New Defined Contribution Plan

The Commonwealth, through Act No. 106-2017, created a “New Defined Contribution Plan” that consisted of a trust fund, not subject to the provisions of Act No. 219-2012, known as

“The Trusts Act”, that will maintain an individual account for each participant of the Retirement Systems that becomes a participant of the plan.

The following employees will participate in the New Defined Contribution Plan:

- All active participants of the Retirement Systems as of July 1, 2017; except for members of TRS and JRS that will keep vesting benefits under the provisions of Act No. 91-2004, as amended and Act No. 12-1954, as amended.
- New hires entering the public service workforce after July,1 2017.
- Any business or public corporation with employees not participating in the Retirement Systems as of July 1, 2017, can, through an approved resolution by its board of directors or governing body, join the New Defined Contribution Plan. The Retirement Systems Board is responsible of establishing the eligibility requirements and procedures to be followed to join the New Defined Contribution Plan

Enrollment in the New Defined Contribution Plan is optional for the Governor, secretaries and chiefs of agencies and public corporations; assistants and advisors of the Governor; members of commissions and boards appointed by the Governor; members of the Legislature; and employees and officials of the Legislature, the Office of Legislative Services, the Superintendence of the Capitol Building and the Office of the Comptroller of Puerto Rico. Also, enrollment will be optional for employees of departments, divisions, bureaus, offices, dependencies, public corporations, and instrumentalities of the Commonwealth of Puerto Rico working and living outside the territorial limits of Puerto Rico.

Contributions by members consist, as a minimum, of an 8.5% of their compensation directly deposited by the DOT in the individual member accounts under the New Defined Contribution Plan created pursuant to Act No. 106-2017. Also, as of that date, System’s participants shall make no individual contributions or payments to the accumulated pension benefits payment account or additional contributions to ERS.



13. PENSION PLAN (Continued)

Total Pension Liability

The House of Representative's total pension liability as of June 30, 2021, was measured as the proportionate share of the Central Government's total pension liability. It was measured as of June 30, 2020, and was determined by an actuarial valuation with beginning of year census data as of July 1, 2019, that was updated to roll forward the total pension liability to June 30, 2020, assuming no gains or losses. As of June 30, 2021, the House of Representative's used the proportional share of 0.2403%.

Proportion - June 30, 2021	0.2403%
Proportion - June 30, 2020	<u>0.2384%</u>
Change - Increase (Decrease)	<u>0.0019%</u>

June 30, 2022

Total Government Pensión Liability	Proportional Share (0.2403%)
\$28,069,797,731	\$65,321,846

Actuarial Information

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

1) Discount Rate

The discount rate for June 30, 2021, was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher.



13. PENSION PLAN (Continued)

Actuarial Methods and Assumptions (Continued)

2) Mortality

The mortality tables used in the June 30, 2021; actuarial valuation was as follows:

a) Pre-retirement Mortality

For general employees do not cover under Act 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For member cover under Act 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basic. As generational tables, they reflect mortality improvement both before and after measurement date.

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

b) Post-Retirement Health Mortality

Rates which vary by gender are assumed for health retirees and beneficiaries based on study of Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The Pub-2010 health retiree rate, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. For prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement health retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted be 110% for males and

120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.



13. PENSION PLAN (Continued)

Actuarial Methods and Assumptions (Continued)

2) Mortality

c) Post-Retirement Disability Mortality

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP 2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

3) Other Assumptions

- a. Actuarial cost method: Entry age normal
- b. Inflation rate: Not applicable
- c. Salaries increase: 3.00% per year.

No compensation increase is assumed until July 2021 as a result of Act 3-2017, for four-year extension of Act 66-2014, and the current general economy.

Sensitivity of Total Pension Liability to Change in Discount Rate

The following presents the House of Representative's proportionate share of the Total Pension Liability as of June 30, 2021, calculated using the discount rate of 2.16%, as well as what the House of Representative's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	At 1% Decrease 1.16%	At current Discount Rate 2.16%	At 1% Increase 3.16%
Total Pension Liability	<u>\$ 75,773,341</u>	<u>\$ 65,321,846</u>	<u>\$57,375,222</u>

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

The share of the pension income and the total pension liability recognized by the House of Representatives for the year ended June 30, 2022, were \$159,275 and \$65,321,846, respectively.



13. PENSION PLAN (Continued)

Deferred Outflows/Inflows of Resources

As of June 30, 2022, the House of Representatives reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,982,157	\$ 1,946,077
Differences between actual and expected experience	-	-
Changes in assumptions	9,644,482	771,880
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	727,821
Net differences between projected and actual earnings on plan investments	777,266 <u>(2,743,543)</u>	- <u>-</u>
Total	<u>\$ 10,660,362</u>	<u>\$ 3,445,778</u>

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 13 the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws.

The Commonwealth provides postemployment healthcare benefits through the defined benefit plan Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement Plan (ERS-OPEB)



14. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Plan Description

ERS–OPEB is an unfunded single employer defined benefit other postemployment (OPEB) plan sponsored by the Commonwealth that is administered on a pay-as-you go basis. Accordingly, there are no assets accumulated in a qualifying trust for this plan that meet the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions. The OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS–OPEB covers substantially all full-time employees of (1) the Primary Government and (2) those component units of the Commonwealth not having their own postemployment benefit plans. ERS–OPEB Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS–OPEB members retired after June 30, 2013.

Funding Policy – The contribution requirement of the ERS-OPEB Plan is established by Act No. 95-1963. The OPEB benefit consists of a maximum of \$100 per month per retiree or disabled member. The OPEB Plan is financed by the Commonwealth and its public corporations on a pay-as-you-go basis. The funding of the OPEB benefits are provided through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made for the healthcare benefits throughout the year. There is no contribution requirement for plan members during active employment.

15. LEASE COMMITMENTS

The House of Representatives leases some Representatives' District office facilities through various operating lease agreements, with the latest expiring on December 31, 2022. Rent expenses under such lease agreements for the fiscal year ended June 30, 2022 and 2021 amounted to \$304,290 and \$201,773, respectively.

16. CONTINGENCIES

The House of Representatives is a defendant in several other lawsuits arising out of the normal course of business. It is managements' opinion, based on the advice of the legal counsel, that the maximum liabilities in the event of unfavorable judgments in the outstanding cases will not have a material adverse effect on the House of Representatives financial condition or changes in it. The House of Representatives is a defendant in various lawsuits alleging political discrimination and other issues. According to our legal counsels none of the current cases will represent any disbursements for fiscal years 21 and 22.



16. CONTINGENCIES (Continued)

The House of Representatives received a notification of debt from the Puerto Rico Department of Labor and Human Resources in the amount of \$7,500 related to unemployment payment. The House does not recognize this debt and is in the process of appealing it with the Department of Labor and Human Resources. The amount is not included in the Financial Statements as of June 30, 2022.

17. UNCERTAINTY AND LIQUIDITY RISK

As discussed in Note 19 to the Basic Financial Statements, the House of Representatives' principal source of revenue is legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth). The funds of the House of Representatives are under the custody of the Secretary of the Treasury of the Commonwealth until transferred to the House of Representatives during the year.

Considering that the House of Representatives is financially dependent on the Commonwealth, the limitations of the Commonwealth to meet its obligations on a timely manner may impact the House of Representatives' operations in the near future.

18. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2022, the House of Representatives entered into the following related party or intergovernmental transactions:

- B. The Puerto Rico Electric Power Authority (PREPA) – electric power company and government-owned corporation of Puerto Rico responsible for electricity generation, power transmission, and power distribution in Puerto Rico. The House of Representatives incurred expenditures regarding the services provided by the PREPA amounting to \$2,345.
- C. The Puerto Rico Aqueducts and Sewers Authority (PRASA) – Water company and government-owned corporation of Puerto Rico responsible for water quality, water management, and water supply in Puerto Rico. The House of Representatives no incurred in this expenditures for this year.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA

Proceedings

For many years the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico (Law 53) to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value

Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

Notwithstanding the circumstances existing on June 30, 2022, based on subsequent events that remediated the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Commonwealth's ability to continue as a going concern as of the date of these basic financial statements.

On June 30, 2016, as a result of the current fiscal crisis that affects the Commonwealth, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), was established under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, including review and approval of certain governmental functions. During the fiscal years subsequent to June 30, 2016, the Commonwealth, and other governmental entities such as COFINA, PRHTA, ERS, PREPA, PBA, GDB, PRIFA, and PRCCDA initiated PROMESA proceedings at the request of the Governor to restructure or adjust their existing debt. On March 15, 2022, the Commonwealth Plan of Adjustment became effective, thereby significantly reducing the Commonwealth's debt levels.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA

Proceedings (Continued)

a) PROMESA and Puerto Rico Legislation

i. PROMESA

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below:

(a) Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may "(1) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (2) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board."



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

a) PROMESA and Puerto Rico Legislation (Continued)

(b) Title II – Fiscal Plan and Budget Certification Process and Compliance

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. “Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets.” Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature. In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. Please refer to the language of PROMESA for a complete description of the Oversight Board’s powers related to fiscal plan and budgetary compliance. In addition, the United States Court of Appeals for the First Circuit has issued certain rulings regarding the interpretation of the Oversight Board’s powers under PROMESA sections 204(a) and 108(a) that apply administrative law principles to statutes passed by the Commonwealth and certified as not significantly inconsistent with a Board-certified fiscal plan.

(c) Title III – In-Court Restructuring Process

Title III of PROMESA establishes an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA, subject to the prerequisites therein. In a Title III case, the Oversight Board acts as the debtor’s representative and is authorized to take any actions necessary to prosecute the Title III case. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file and modify a plan of adjustment prior to confirmation. Title III plans of adjustment have been confirmed and are currently effective for the Commonwealth, ERS, PBA, and COFINA.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

a) PROMESA and Puerto Rico Legislation

(d) Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to “Liability Claims,” relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government’s small business HUBZone program in Puerto Rico. Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV Stay) from June 30, 2016 (the date of PROMESA’s enactment) through February 15, 2017, of all “Liability Claim” litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. A “Liability Claim” is defined as any right to payment or equitable remedy for breach of performance related to “a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]” for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the United States District Court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016. Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017, regarding: (i) the conditions that led to Puerto Rico’s current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018. Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017, a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two-years. The GAO published its initial report on October 2, 2017. On June 30, 2022, the GAO published its latest biannual report on the public debt of the U.S. territories.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

a) PROMESA and Puerto Rico Legislation

(e) Title V – Infrastructure Revitalization

Title V of PROMESA establishes the position of Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for “critical projects” as identified by the Revitalization Coordinator.

(f) Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA establishes an out-of-court process for modifying Puerto Rico’s debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish “pools” of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer’s bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification. The United States District Court for the District of Puerto Rico must enter an order approving the Qualifying Modification and vesting in the issuer all property free and clear of claims in respect of any bonds. The Title VI process was successfully implemented to restructure certain debts of the GDB. The GDB Title VI process is discussed below under Discretely Presented Component Units – GDB, Qualifying Modification and Title VI Approval Process. In addition, the Title VI process was recently utilized to restructure certain debts of PRIFA and PRCCDA, as discussed below under Discretely Presented Component Units – PRIFA Qualifying Modification for Rum Bonds, and Discretely Presented Component Units – PRCCDA Qualifying Modification for PRCCDA Bonds.

(g) Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that “any durable solution for Puerto Rico’s fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between territories of the United States and the rest of the United States.”



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

a) PROMESA and Puerto Rico Legislation

ii. Puerto Rico Legislation

Act No. 101-2020, the Debt Responsibility Act, was enacted to ensure that the Commonwealth does not repeat past mistakes that led to its financial crisis and liquidity shortage by, among other things, establishing a comprehensive cap on all net tax-supported debt and a sublimit on secured and/or securitized debt incurred to pay debt service on the new COFINA bonds. In addition, the Commonwealth Plan of Adjustment and Confirmation Order include provisions requiring the Commonwealth to adhere to the Debt Responsibility Act and a Debt Management Policy [ECF No. 20353, Ex. J] that provides further guardrails for ongoing fiscal responsibility, including maximum limits on the Commonwealth's annual amount of debt service payments. For further information, refer to the Commonwealth Plan of Adjustment, Confirmation Order, and Debt Management Policy, which are available at <https://cases.ra.kroll.com/puertorico/Home-Docket-Info>.

Act No. 53-2021, the Law to End the Bankruptcy of Puerto Rico, was enacted on October 26, 2021, to, among other things, approve the issuance of the New GO Bonds and CVIs (each as defined and discussed below) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan. In addition to approving the Commonwealth's restructuring transactions, Act 53 conditioned the effectiveness of the Government's approval on the preservation of all accrued pension benefits owed to current public pension participants, which required the elimination of the proposed pension cuts, as discussed in part (b) below.

b) PROMESA Title III Cases

i. Commonwealth Title III Case

On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in Title III Court. The deadline by which all creditors were required to file their proofs of claim against the Commonwealth was June 29, 2018. Approximately 118,397 claims were filed against the Commonwealth in the total aggregate asserted amount of approximately \$33.3 trillion. Of this amount, approximately 86,598 claims in the total aggregate asserted amount of approximately \$33.1 trillion have been withdrawn or expunged by an omnibus objection order entered by the Title III Court. As a result, approximately 8,932 claims in the total aggregate asserted amount of approximately \$139.5 billion remain outstanding (excluding claims pending objection, marked for future objection, or transferred or waiting to be transferred into ACR). The validity of these remaining claims has not yet been determined and such claims remain subject to



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

b) PROMESA Title III Cases (Continued)

the claims reconciliation process described in section (vii) below. Accordingly, the numbers and amounts of claims identified above will change over time as objections are filed and determined by the Title III Court.

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

On October 26, 2021, the Governor signed into law Act 53, which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

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

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

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge’s Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties’ motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers’ associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

b) PROMESA Title III Cases (Continued)

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 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) 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 have been deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

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

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



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

b) PROMESA Title III Cases (Continued)

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

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) claw back debt CVIs (the Claw back CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Claw back CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Claw back CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1- 22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Claw back CVIs.



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

Proceedings (Continued)

b) PROMESA Title III Cases (Continued)

The Commonwealth Plan of Adjustment classifies claims into 69 classes, which will receive the following aggregate recoveries as follows:

- Various categories of Commonwealth Bond Claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA Bond Claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders will receive on account of their CW Guarantee Claims.
- Various categories of claw back creditor claims (Classes 59-63): 23% recovery consisting of the Claw back CVIs.
- ERS Bond Claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio.
- Various categories of General Unsecured Claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

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

Since the beginning of the Title III of PROMESA, the Commonwealth has accumulated approximately \$16.3 billion in cash through February 2022, principally from the non-payment of debt service and fiscal adjustments made that resulted in fund balance surpluses. On the Effective Date, the available cash was distributed as follows (in thousands):

Available cash	\$ 16,334
Payment of GO/PBA/ERS bonds	(7,557)
Payment to System 2000 Defined Contribution plan participants	(1,377)
Payment to unsecured creditors, fees and other	(1,440)
Reserve for deferred payments to unsecured and other claims	(1,344)
Revolving reconstruction fund and other reserves	<u>(2,452)</u>
Excess - Liquidity retained by the Commonwealth	<u>\$ 2,164</u>

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



19. GOING CONCERN – COMMONWEALTH OF PUERTO RICO, & PROMESA (Continued)

b) PROMESA Title III Cases (Continued)

However, with the agreements realized with PROMESA establishing the Oversight Board about the substantial doubt of the going concern for the Commonwealth of Puerto Rico, the doubt of going concern was eliminated for the year ending of June 30, 2022. For this audited fiscal year of June 30, 2022, for the Commonwealth of Puerto Rico, the doubt of going concern doesn't apply for the financial statements.

20. NEW ACCOUNTING STANDARDS

The GASB has issued the following accounting pronouncements that have an effective date after June 30, 2022:

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

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective and have been implemented, when applicable, during the year ended June 30, 2022:

- Statement No. 87, Leases
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32
- Statement No. 99, Omnibus 2022

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 financing of the right-to-use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and a lease asset at the commencement of the lease term, thereby enhancing the relevance and consistency of information about governments' leasing activities. The House of Representatives implemented GASB No. 87 with material impact on the basic financial statements.



20. NEW ACCOUNTING STANDARDS

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

Statement No. 92, Omnibus 2020, addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including Leases, Intra-Entity Transfers of Assets, Assets Accumulated for Defined Benefit Postemployment Benefits, Fiduciary Activities, Asset Retirement Obligations, Reinsurance Recoveries, Nonrecurring Fair Value Measurements, and Derivative Instruments.

The adoption of Statement No. 92 had no significant impact on the Superintendence current accounting practices nor its financial reporting.

Statement No. 93, Replacement of Interbank Offered Rates, establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. However, Statement No. 99, Omnibus 2022, discussed further below, offers an extension of the use of LIBOR which is effective immediately. Therefore, in accordance with both Statements 93 and 99, since LIBOR continues to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021, the use of LIBOR as the benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt is in force.

The adoption of Statement No. 93 had no impact on the Superintendence current accounting practices nor its financial reporting.

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan.

In Puerto Rico, with the issuance of Act No. 106-2017 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Accordingly, this Statement had no impact on the Superintendence current accounting practices nor its financial reporting.



20. NEW ACCOUNTING STANDARDS (Continued)

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

Statement No. 99, Omnibus 2022, addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including the extension of the use of LIBOR, accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments as well as clarification of provisions in Statement No. 34 and terminology updates related to Statements No. 53 and 63. These requirements are effective upon issuance and had no material impact on the Superintendence financial statements. The Superintendence has not completed the process of evaluating the remaining requirements of this Statement that is effective for subsequent fiscal years, but does not expect it to have an impact on its financials.

GASB No. 99 does not have any impact on the Superintendence financial statements.

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

Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

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



20. NEW ACCOUNTING STANDARDS (Continued)

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

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

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

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

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

Issuers should not report those arrangements as leases, not should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

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



20. NEW ACCOUNTING STANDARDS (Continued)

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

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

As per GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (FY 2022-2023). Early application is encouraged.

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.

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

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



20. NEW ACCOUNTING STANDARDS (Continued)

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

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

PPPS

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement).

The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.



20. NEW ACCOUNTING STANDARDS (Continued)

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

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

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

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



20. NEW ACCOUNTING STANDARDS (Continued)

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

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

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

APAS

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

As per GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after June 15, 2022 (FY 2022-2023). Early application is encouraged.



20. NEW ACCOUNTING STANDARDS (Continued)

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

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.

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

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

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, --which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in a subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.



20. NEW ACCOUNTING STANDARDS (Continued)

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

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the state in which they are incurred. If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or no subscription component and allocate the contract price to the different components. If it is not practicable to determine the best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract if 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.



20. NEW ACCOUNTING STANDARDS (Continued)

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

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

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

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government



20. NEW ACCOUNTING STANDARDS (Continued)

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

- Clarification of provisions in Statement No. 34, Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

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

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting— understandability, reliability, relevance, timeliness, consistency, and comparability.



20. NEW ACCOUNTING STANDARDS (Continued)

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

This Statement also addresses corrections of errors in previously issued financial statements. 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 the absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

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



20. NEW ACCOUNTING STANDARDS (Continued)

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

GASB Statement No. 101, Compensated Absences. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

22. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 15, 2023, which is the same date the financial statements were available to be issued.

Promesa

In accordance with the provisions described on Note 18 of the basic financial statements, the Oversight Board approved on April 3, 2023 the Fiscal Plan as prepared by the Oversight Board. Management has evaluated subsequent events through June 13, 2023 which is the same date the financial statements were available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.



REQUIRED SUPPLEMENTARY INFORMATION





HOUSE OF REPRESENTATIVES
OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Budget Amounts		Actual Amounts	Variance
	Original	Final	(Budgetary Basis)	
REVENUES:				
Intergovernmental	\$ 26,805,174	\$ 26,805,174	\$ 26,805,174	\$ -
Special Appropriations	6,669,612	6,669,612	6,669,612	-
Total Revenues	<u>33,474,786</u>	<u>33,474,786</u>	<u>33,474,786</u>	<u>-</u>
EXPENDITURES:				
Current				
General Government - Administrative and Operating Activities	33,169,322	33,169,322	33,526,382	(357,061)
Capital Outlays	305,464	305,464	305,464	-
Total Expenditures	<u>33,474,786</u>	<u>33,474,786</u>	<u>33,831,846</u>	<u>(357,061)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (357,061)</u>	<u>\$ (357,061)</u>

The notes to the required supplementary information are an integral part of this schedule.

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Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 99)	\$ 33,474,786
Difference – Budget to GAAP:	
Non budgetary items – Other Revenues	<u>4,451,475</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 37)	<u>\$ 37,926,261</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 99)	\$ 33,831,846
Difference – Budget to GAAP:	
Non budgetary items – Expenditures of Savings Fund	<u>8,103</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 37)	<u>\$ 33,839,949</u>

BUDGETARY CONTROL

The House of Representatives annual budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents departmental appropriations approved by the Speaker. Transfers between certain appropriations within the budget are within the Speaker's prerogatives. The annual appropriation budget for the fiscal year ended June 30, 2022, was \$33,474,786.

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.

HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

Schedule of Expenditures of Federal Awards
June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF TREASURY				
Direct Program:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	261,225
Pass-through P.R. Fiscal Agency and Financial Advisory Authority (FAFAA):				
COVID-19 Coronavirus Relief Fund (CRF)	21.019	N/AV	-	4,186,664
Total U.S. Department Treasury			-	4,447,889
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 4,447,889

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

Notes to Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the House of Representatives under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the House of Representatives, it is not intended to and does not present the financial position and changes in net assets of the House of Representatives.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COSTS

The House of Representatives elected not to use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2022.

**HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico**

**Notes to Expenditures of Federal Awards
June 30, 2022**

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule are included in the General Fund, Special Revenue, ARPA Fund and the COVID-19 Coronavirus Relief Fund (CRF) in the House of Representatives' fund financial statements. The reconciliation between the expenditures in the fund's financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>FUND</u>	<u>OTHER ASSISTANCE AS ADJUSTED</u>	<u>FEDERAL ASSISTANCE</u>	<u>FINANCIAL STATEMENTS</u>
General Fund	\$ 25,544,488	-	25,544,488
Special Revenue fund	3,847,572	-	3,847,572
America Rescue Plan Fund	-	4,186,664	4,186,664
Coronavirus Relief Fund	-	261,225	261,225
TOTALS	<u>\$ 29,392,060</u>	<u>4,447,889</u>	<u>33,839,949</u>

5. CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS (ASSISTANCE LISTING NO. 21.027)

On March 11, 2021, was signed into Law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides \$350 billion for states, municipalities, counties, tribes, and territories, including \$130.2 billion for local governments split evenly between municipalities and counties. Accordingly, the House of Representatives received a grant under Counties and Non-Entitlements categories to respond to the COVID-19 public health emergency and its economic impacts. Also, the House of Representatives received \$4,378,347 from the assigned fund from AFAFF and expend \$4,186,664. The House of Representatives will incur ARPA expenditures in the following fiscal year.

6. LATENESS OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for the fiscal year ended June 30, 2022, could not be submitted in a timely manner. From 2017 to the present, Puerto Rico has suffered four consecutive emergencies caused by nature and health situations: Hurricane Maria, Earthquakes, COVID-19, and Hurricane Fiona. The **House of Representatives** has carried out emergency work and taken into consideration the waivers issued by the OMB, resulting in delays of the administrative work for the fiscal year 2021-2022.

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

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the House of Representatives of the Commonwealth of Puerto Rico (House of Representatives), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise House of Representatives of Puerto Rico's Basic Financial Statements, and have issued our report thereon dated October 15, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered House of Representatives' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of House of Representatives of Capitol Building's internal control. Accordingly, we do not express an opinion on the effectiveness of House of Representatives' 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.

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

Report on Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the House of Representatives' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, we do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 House of Representatives' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the House of Representatives' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BETANCOURT & CO PSC
San Juan, Puerto Rico
October 15, 2023



Stamp No. E546097 of Puerto Rico Society of Certified Public Accountants has been affixed to the original of report

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Certified Public Accountants

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

To the Members of the House of Representatives
of the Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited House of Representatives of the Commonwealth of Puerto Rico's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of House of Representatives' major Federal programs for the fiscal year ended June 30, 2022. House of Representatives' Major Federal Programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the House of Representatives complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with Auditing Standards Generally Accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of Laws, status, regulations, rules, and provisions of contracts or grant agreements applicable to the House of Representatives' Federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the House of Representatives' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the House of Representatives' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the House of Representatives' internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs, but no finding was noted. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on House of Representatives' response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The House of Representatives' response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be deficiencies.

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

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

Report on Internal Control over Compliance (Continued)

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



BETANCOURT & CO PSC

San Juan, Puerto Rico

October 15, 2023

Stamp No. E546098 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report



HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Section I - Summary of Auditor's Results

Part I : Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
General Fund	Unmodified
Special Revenue Fund	Unmodified
Coronavirus State and Local Fiscal Recovery Fund	Unmodified
COVID-19 Coronavirus Relief Fund (CRF)	Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ___Yes x No
 - Significant deficiency (ies) identified? ___Yes x None reported
- Noncompliance material to financial statement noted? ___Yes x No

Part II : Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___Yes x No
- Significant deficiency (ies) identified? ___Yes x None reported

Type of auditor's report issued on compliance for

major programs: **Unmodified**

Any audit findings disclosed that are required to be

reported in accordance with 2 CFR 200.516(a)? ___Yes x No

HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Section I - Summary of Auditor's Results (Continued)

Audit findings required to be reported under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards:

Yes No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.019	COVID-19 Coronavirus Relief Fund (CRF)
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A
and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

Yes No

HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

Section II. Financial Statement Findings

During our audit, we did not detect findings or questioned cost.

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HOUSE OF REPRESENTATIVES
of the Commonwealth of Puerto Rico

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Section III – Federal Award Findings and Questioned Cost

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

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