# COMMONWEALTH OF PUERTO RICO
# AUTONOMOUS MUNICIPALITY OF CAGUAS

## BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

## FISCAL YEAR ENDED JUNE 30, 2021

**[WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE]**


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Pages

# PART I

# FINANCIAL

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*"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"*

## INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and**
**Members of the Municipal Legislature**
**Autonomous Municipality of Caguas**
**of the Commonwealth of Puerto Rico**

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and Other Postemployment Benefits Plan***

We were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows of resources, liabilities, and expenses relations to pension and other postemployment benefits of the governmental activities and the related disclosures in the accompanying notes. As discussed in Notes 19 and 20, the Puerto Rico Government Employees' Retirement System (PRGERS) has not issued audited financial statements as of and for the fiscal years ended June 30, 2021 nor has provided to the **Municipality** the required information to record transactions related to pension and other postemployment benefits as of and for the Fiscal Year ended June 30, 2021. Amounts reported in the government-wide financial statements as deferred outflows of resources, deferred inflows of resources, total pension liability, and total other postemployment benefits liability were derived from the application of the proportional share included in the audited Schedules of Employer Allocations, and Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer, published by the PRERS, for the Fiscal Year ended June 30, 2019. Accordingly, the **Municipality** did not record the current pension expense, changes in deferred outflows/inflows of resources, total pension liability, total other postemployment benefits liability, and additional disclosures, and supplementary information required by generally accepted accounting principles for pension and other postemployment benefits as of and for the Fiscal Year ended June 30, 2021. The amounts by which this situation would affect the presented liabilities, deferred outflows of resources, deferred inflows of resources, net position, and expenses has not been determined.

***Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and Other Postemployment Benefits Plan***

In our opinion, except for the possible effects of the matter described above in the "*Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan and Other Postemployment Benefits Plan"* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality** as of June 30, 2021 and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico**, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-21, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 129-130, and employees' retirement systems information and employees' other postemployment benefits information, on pages 131-133 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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 **Municipality**, 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality**'s basic financial statements. The accompanying Financial Data Schedules – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 135 through 137, and 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 139 through 143, is presented for purposes of additional analysis and is not required parts of the basic financial statements. The Financial Data Schedules – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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 Financial Data Schedules – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022, on our consideration of the **Municipality**'s 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered **Municipality**'s internal control over financial reporting and compliance.

CPA DM, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 28, 2022

Stamp No. E491007 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

The information in this section is not covered by the Independent Auditor's Report but is presented as required supplementary information for the benefit of the readers of the basic financial statements.

As management of the Autonomous Municipality of Caguas (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with the basic financial statements.

## *Financial Highlights*

- The net position of the Municipality shows that governmental assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $100,840,581.

- The government's total assets and deferred outflows of resources, in the Governmental-wide Statement of Net Position increased by $34,834,623 and government's liabilities and deferred inflows of resources increased by $21,396,503.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $23,547,095 after a total and combined net increase of $6,694,954.

- The Municipality's total general and special long-term debts net decreased by $12,789,700 during the current fiscal year.

- Prior period adjustment to net position of $76,153,357 was the result of the changes in Total Pension and Total OPEB liabilities balances reported from the ERS actuarial report on June 30, 2019; and an adjustment to capital asset balances.

- Net Capital Assets from Governmental Activities as of June 30, 2021, was $369,691,957, presenting a net decrease of $7,265,874 with respect with prior year balance, as restated. This net decrease is the result of additions of $7,376,768, distributed in all categories; depreciation expense for the year of $14,394,621 and net loss on dispositions of $248,021.

- Net increase in Current Assets and Current Liabilities, was due to a change in the deadline to file and pay the Volume of Business Taxes for the prior fiscal year. Due to COVID-19 pandemic, the due date to file and pay this tax, was changed instead of April 2020, was moved to July 2020. This presented an increase in cash and unearned revenues in General Fund on June 30, 2021, of approximately $14 million. In addition, funds received from the American Rescue Plan Act (ARPA) of approximately $22.9 million, were recognized as Cash and Unearned Revenue in the Social and Welfare Activities Fund.

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and required supplementary information (see Figure 1). The basic financial statements present two different views of the Municipality through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Municipality.

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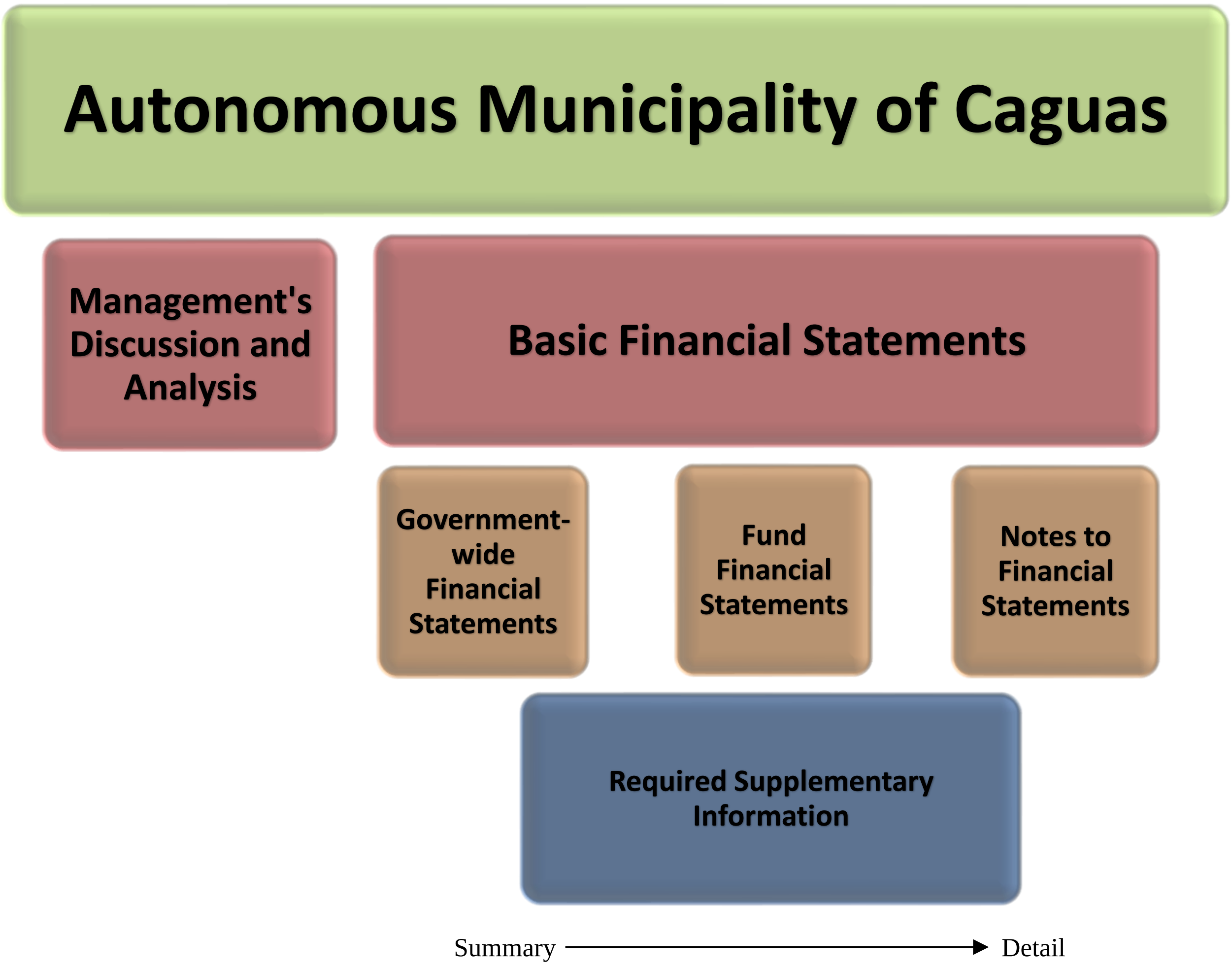
**Required Components of Annual Financial Report**
**Figure 1**




**Basic Financial Statements**

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both, short and long-term information about the Municipality's financial status.

The next statements are the **Governmental Fund Financial Statements**. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more details than the Government-wide Financial Statements.

**Government-wide Financial Statements (GWFS)**

The GWFS are designed to provide the reader with a broad overview of the Municipality's finances. The GWFS provide short and long-term information about the Municipality's financial status as a whole.

The *Statement of Net Position* presents information on all the Municipality's assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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The *Statement of Activities* presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit, if any). This is intended to summarize and simplify the reader's analysis of the revenues and costs of the Municipality's activities and the degree to which activities are subsidized by general revenues.

The governmental activities include most of the Municipality's basic services such as public safety, culture and recreation and general administration. Property taxes, volume of business taxes and state and federal grant funds finance most of these activities.

The government-wide financial statements are included from pages 22 through 24 of this report.

***New Significant Accounting Standards Implemented***

The Governmental Accounting Standards Board issued the following statements that are effective during fiscal year 2020-2021:

- Statement No. 84, *Fiduciary Activities* – This statement has no effect on the basic financial statements of the Municipality.

- Implementation Guide No. 2019-2, *Fiduciary Activities* – This guide has no effect on the basic financial statements of the Municipality.

- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement has been implemented by the Municipality.

- Statement No. 90, *Majority Equity Interests* – This statement has no effect on the basic financial statements of the Municipality.

- Statement No. 98, *The Annual Comprehensive Financial Report* – This statement has no effect on the basic financial statements of the Municipality.

The effective dates of the following pronouncements are for fiscal year 2021-2022 and thereafter:

- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 91, *Conduit Debt Obligations*

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- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arragement*
- Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*
- Statement No. 97*, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62*
- Statement No. 101, *Compensated Absences*
- Implementation Guide No. 2019-3, *Leases*.
- Implementation Guide No. 2020-1, *Implementation Guidance Update—2020*.
- Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in *each* pronouncement as originally issued.

**Governmental Fund Financial Statements (GFFS)**

The GFFS provide a more detailed look at the Municipality's most significant activities. 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 Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Municipality's budget ordinance.

Governmental funds are used to account for those functions reported as governmental activities in the GWFS. Most of the Municipality's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash inflows and outflows, and what monies are left at year-end that will be available for spending in the next fiscal year.

Governmental funds are reported using an accounting method called modified accrual basis of accounting. This method is also known as current financial resources focus. Thus, the GFFS give the readers a detailed short-term view that helps them determine if there are more or less financial resources available to finance the Municipality's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliations that are part of the GFFS.

The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The Municipality's annual budget is a legally adopted document that incorporates input from the citizens of the Municipality, the management of the Municipality, and the decisions of the Municipal Legislature about which services to provide and how to pay for them. It also authorizes the Municipality to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the Municipality complied with the budget ordinance and whether the Municipality succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Municipal Legislature; 2) the final budget as amended by the Municipal Legislature; 3) the actual resources, charges to appropriations, and the final relationship between revenues and appropriations; and 4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements are included from pages 25 through 28 of this report.

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**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29 through 127 of this report.

**Required Supplementary Information – Budgetary Information** – Provides additional information to better understand the financial position of the Municipality and contains the Schedule of Revenues and Expenditures – Budget and Actual – General Fund, are presented immediately following the notes to the financial statements and can be found on pages 129-130 of this report.

**Required Supplementary Information – Pension Plan and OPEB Plan Information** – The required supplementary information reported are related to the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68,* after fiscal year 2018, for pension liability reporting. After approval of Act No. 106-2017, the Fiduciary Fund of the Puerto Rico Government Employees Retirement System (PRGERS) was liquidated and a new define contribution plan was created and the GASB Statement No. 73 is effective as June 30, 2019. The required supplementary information is presented immediately following the notes to the financial statements. PRGERS has issued the required information for the fiscal year 2019-2020. We were unable to present the required supplementary information under GASB No. 73 for the fiscal year 2020-2021.

The required supplementary information reported related to the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, after fiscal year 2018, for other Postemployment benefits liability reporting. The required supplementary information is presented immediately following the notes to the financial statements. PRGERS has not issued or made available the required information for the fiscal year 2020-2021. We were unable to present the required supplementary information under GASB No. 75.

These information for Pension Plan and OPEB Plan can be found on pages 131 through 133 of this report

## *FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE*

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The total assets and deferred outflows of the Municipality exceeded its liabilities and deferred inflows by $100,840,581 as of June 30, 2021. The Municipality's net position increased by $13,438,120, as restated, for the fiscal year ended June 30, 2021.

One of the largest portions of the net position, $259,908,592, reflects the Municipality's investment in capital assets (e.g. land, buildings, infrastructure, and equipment); less any related debt still outstanding that was issued to acquire or contract those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net position $43,778,519 represents resources that are subject to external restrictions on how they may be used. Within this portion are $24,741,923 held by the Municipality in Escrow and Deposits Accounts for repayment of long-term debt, $7,057,148 restricted for Head Start program purposes, $2,583,352 for construction projects and $9,396,096 restricted, mainly, to provide housing services to the citizens.

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An Unrestricted Net Position (Deficit) of ($202,846,530) was presented as of June 30, 2021. This balance was negatively affected primarily to by the recognition of Total Pension Liability, as required by GASB Statements No. 73, for the amount ($120,792,619). Also, Total Other Post Employment Benefit (OPEB) Liability, as required by GASB Statement No. 75, was presented in the amount of ($5,016,612). Other long-term debts, such as compensated absences ($14,471,874), the outstanding balance of the Community Disaster Loan ($5,000,000), and Puerto Rico Retirement System Administration ($6,925,754), also affected the net position.

**The Municipality's Net Position (as restated)**
**Figure 2**

| | Governmental Activities | | | |
|---|---|---|---|---|
| | 2021 | 2020 | Dollar Change | Percentage Change |
| Current and Other Assets | $ 105,597,484 | $ 62,275,766 | $ 43,321,718 | 69.56% |
| Capital Assets | 369,691,957 | 376,957,831 | (7,265,874) | -1.93% |
| Housing Units Held for Sale | 55,848 | 154,848 | (99,000) | -63.93% |
| Idle Units Held for Future Use | 102,567 | 102,567 | - | 0.00% |
| Restricted Cash | | 1,131,721 | (1,131,721) | -100.00% |
| Loan Receivable, Net | 866,284 | 865,472 | 812 | 0.09% |
| Note Receivable, Net | 153,495 | 144,807 | 8,688 | 6.00% |
| Total Assets | 476,467,635 | 441,633,012 | 34,834,623 | -90.20% |
| Deferred Outflows of Resources | 4,343,568 | 4,343,568 | - | 0.00% |
| Current Liabilities | 78,961,668 | 43,455,450 | 35,506,218 | 81.71% |
| Other Liabilities | 287,518,050 | 301,627,765 | (14,109,715) | -4.68% |
| Total Liabilities | 366,479,718 | 345,083,215 | 21,396,503 | 77.03% |
| Deferred Inflows of Resources | 13,490,904 | 13,490,904 | - | 0.00% |
| Net Position: | | | | |
| Net Invested of Capital Assets | 259,908,592 | 260,151,497 | (242,905) | -0.09% |
| Restricted | 43,778,519 | 43,192,816 | 585,703 | 1.36% |
| Unrestricted (Deficit) | (202,846,530) | (215,941,852) | 13,095,322 | -6.06% |
| Total Net Position | $ 100,840,581 | $ 87,402,461 | $ 13,438,120 | -4.80% |

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**The Municipality's Changes in Net Position (as restated)**
**Figure 3**

| | Governmental Activities 2021 | Governmental Activities 2020 | Dollar Change | Percentage Change |
|---|---|---|---|---|
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services | $ 2,276,836 | $ 2,655,387 | $ (378,551) | -14.26% |
| Operating Grants and Contributions | 42,116,179 | 40,697,508 | 1,418,671 | 3.49% |
| Capital Grants and Contributions | 1,723,025 | 175,702 | 1,547,323 | 880.65% |
| General Revenues: | | | | |
| Property Taxes | 50,419,877 | 43,469,734 | 6,950,143 | 15.99% |
| Volume of Business Taxes | 25,614,699 | 24,902,492 | 712,207 | 2.86% |
| Sales and Usage Taxes | 26,364,488 | 22,126,314 | 4,238,174 | 19.15% |
| Intergovernmental | 3,964,134 | 7,543,764 | (3,579,630) | -47.45% |
| Construction Excise Taxes | 3,428,800 | 3,514,419 | (85,619) | -2.44% |
| Interest and Investment Income | 106,230 | 322,441 | (216,211) | -67.05% |
| Gain on Sale of Capital Assets | 9,715 | 312,000 | (302,285) | -96.89% |
| Other | 3,730,257 | 2,730,683 | 999,574 | 36.61% |
| Total Revenues | 159,754,240 | 148,450,444 | 11,303,796 | 7.61% |
| Expenses: | | | | |
| General Government | 40,535,068 | 42,599,702 | (2,064,634) | -4.85% |
| Public Safety | 5,969,980 | 7,383,598 | (1,413,618) | -19.15% |
| Public Works | 20,417,294 | 19,276,117 | 1,141,177 | 5.92% |
| Cultural and Recreation | 7,485,598 | 7,905,543 | (419,945) | -5.31% |
| Health and Welfare | 5,098,261 | 3,526,195 | 1,572,066 | 44.58% |
| Economic and Social Development | 6,867,576 | 7,017,179 | (149,603) | -2.13% |
| Housing | 11,053,913 | 10,763,257 | 290,656 | 2.70% |
| Sanitation and Environmental | 16,137,970 | 13,259,928 | 2,878,042 | 21.70% |
| Education | 24,513,439 | 21,555,553 | 2,957,886 | 13.72% |
| Interest | 8,237,021 | 9,628,480 | (1,391,459) | -14.45% |
| Total Expenses | 146,316,120 | 142,915,552 | 3,400,568 | 2.38% |
| Net Change in Net Position | 13,438,120 | 5,534,892 | 7,903,228 | 142.79% |
| Net Position, Beginning of Year, as Restated | 87,402,461 | 81,867,569 | 5,534,892 | 6.76% |
| Net Position, Ending | $100,840,581 | $ 87,402,461 | $ 13,438,120 | 149.55% |

continue

**Governmental Activities** – Governmental activities increased the Municipality's net position by $13,438,120. Key elements of this change in net position are the following:

**Revenues:**

Total overall revenues decreased by 7.61% over prior year. The following categories had the mayor changes from prior year:

- Property Taxes increased by 15.99% - the increase was due to collections made from the Municipal Revenues Collection Center, recognized in the General and Debt Service Fund.

- Sales and Usage Taxes increased by 19.15% - the increase was due to collections made from the Municipality, recognized in the General and Debt Service Fund. This increase was expected because of all the funds provided for the COVID-19 to the citizens.

- Capital Grants and Contributions increased by 880.65% because of the federal funds received under the Capitalization Grants for Clean Water State Revolving Fund. These funds were provided for the Improvement of the Villa Nueva Sewer System.

- Other decreases in Gains on Sale are expected, as they are non-recurrent source of revenue.

- A decrease in Intergovernmental Revenue of 47.45% is presented, because the Puerto Rico Power Authority did not provide information related to the Contribution in Lieu of Taxes (CELI), applicable to the Municipality for the fiscal year 2020-2021.

**Expenses:**

Total overall expenses had a net increase of 2.38% over prior year. The following categories had the major changes from prior year:

- Sanitation and Environmental increased 21.70% – the increase was mainly related to funds incurred to prevent the spreading of COVID-19 infection and solid waste disposal services expenses.

- Education increased by 13.72% – the increase was mainly, in expenses of $3.0 million, approximately, for the Head Start Program, which included the purchase of materials to address the COVID-19 crisis.

- Health and Welfare increased 44.58% – the increase was mainly related to funds incurred to prevent the spreading of COVID-19 infection.

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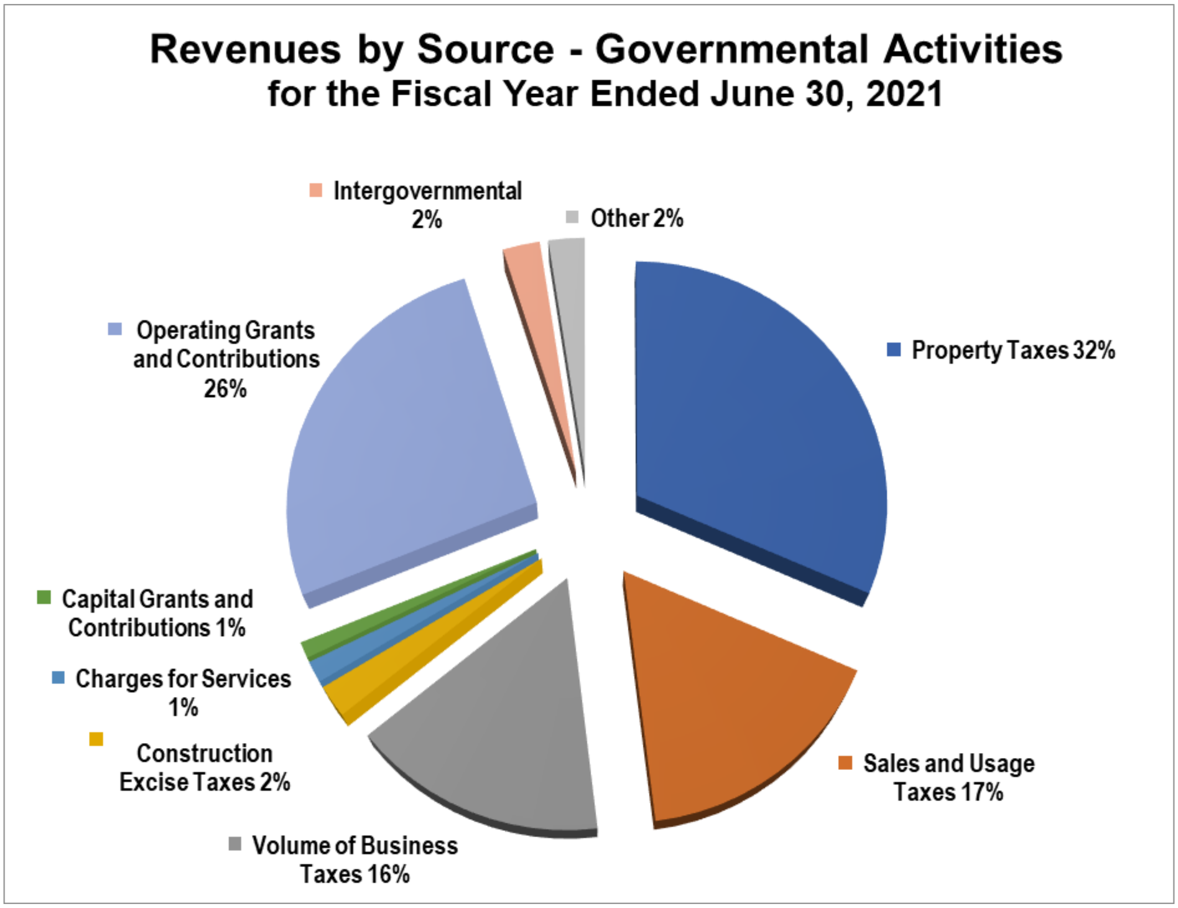
Figure 4




## Financial Analysis of the Municipality's Funds

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

**Governmental Funds** – The focus of The Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Municipality's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

On June 30, 2021, the governmental funds of the Municipality reported a combined fund balance of $23,547,095. This amount represents an increase of $6,694,954 or 39.7% over last year.

The net increase in fund balances during the fiscal year was caused by an increase of revenues from property taxes, sales, federal grants, and a decrease of approximately $3.2 million on intergovernmental revenues since the Puerto Rico Power Authority did not provide information from the contribution of in lieu of taxes, therefore, this amount was not recorded. Overall revenues increased by $14 million or 9.52%. Expenditures presented an increase of $11 million or 7.82% in comparison with prior year. These increases are related for the COVID -19 related expenditures, Head Start program activities and waste disposal expenditures.

continue

Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues increased by $3.4 million. Mainly changes were on Property taxes and Sales and Usage taxes revenues, which increased by $1.8 million and $2.7 million, respectively. In addition, an increase in Federal Grants of $1.1 million related to FEMA funds; and finally, an increase in fund's transfers in from debt service fund by $889 thousand.

The expenditures increased by approximately $5.2 million, in comparison from prior year. The categories with the major increase were Sanitation and Environmental function increased by $4.6 million for waste disposals and Public Works for buildings' maintenance for $ 1.3 million. A decrease in fund's transfers out to other funds by $607 thousand, was reported.

Capital Projects Fund – Expenditures from this fund, decreased by approximately $2 million. A decrease in expenditures was presented in almost every function reported in the fund. Debt service expenditures decreased because the Section 108's loan guarantee, was repaid in full last year. Transfer from Debt Service Fund increased for its excess of equity to finance Capital Projects fund expenditures.

Debt Service Fund –The fund's revenues increased by $7.6 million from Property and Sales and Usage taxes revenues. Debt service expenditures decreased by $431 thousand from loan refinance plan and debt service principal payment requirements. An increase in transfer out of $1.6 million was reported, as equity transfer to General Fund and Capital Projects Fund.

Social and Welfare Activities Funds – Revenues decreased by $791 thousand, mainly due to an increase in federal funds by $1.5 million and decrease of $2.1 million from state assignments for COVID-19 pandemic relief. The expenditures increased by $4 million related to COVID-19 safety measures. Expenditures related to COVID-19, includes housing, payroll, solid waste, and COVID-19 safety services. During the year the Municipality received cash of $21.3 million from the American Rescue Plan Act (ARPA). The ARPA funds were set up to speed up the country's recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession.

Health and Human Services Fund – Revenues and expenditures from the HHS fund increased by approximately $4.3 million, from federal grants appropriations. An increase in expenditures of $3.6 million, approximately, is related to the education function and from the Disaster Recovery Funds from Head Start Program, which were assigned to major improvements, and construction of a building for the Head Start Program.

Other Governmental Funds – Revenues decreased by $200 thousand, mainly due to HOME program. Expenditures related to HOME program decreased by $530 thousand.

**General Fund Budgetary Highlights**: During the fiscal year 2021 the Municipality's budget was changed, according to the latest results and ordinances and resolutions approved by the Mayor and the Municipal Legislature. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants and from appropriation from prior year fund balance; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities.

continue

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2021 was $79,831,810 which is less than the prior year appropriations by $2,720,672.

- Actual budgetary transactions generated an excess of resources over appropriations of $7,306,594 due to the following:

  - Actual revenues were more than budgeted amounts by $7,138,590. This was the result of a combination of a positives variance in Sales and Usage, Property Taxes, Volume of Business Taxes and other revenues.

  - Actual appropriations resulted in an economy of $168,004. All functions presented economies.

**Figure 5**

| | Original | Increases | Final |
|---|---|---|---|
| **Resources:** | | | |
| Property Taxes | $ 28,364,168 | $ - | $ 28,364,168 |
| Volume of Business Taxes | 22,920,000 | - | 22,920,000 |
| Sales and Usage Taxes | 15,225,000 | - | 15,225,000 |
| Construction Excise Taxes | 7,200,000 | - | 7,200,000 |
| Intergovernmental Revenues | 4,356,422 | - | 4,356,422 |
| Interest | 110,000 | - | 110,000 |
| Rent and Other Resources | 700,000 | - | 700,000 |
| Fines and Penalties | 956,220 | - | 956,220 |
| Amounts available for appropriation | 79,831,810 | - | 79,831,810 |
| **Expenditures charged to appropriations:** | | | |
| General Government | $ 37,617,233 | $ 4,058,181 | $ 41,675,414 |
| Public Safety | 7,222,349 | (2,484,342) | 4,738,007 |
| Public Works | 8,331,624 | (388,940) | 7,942,684 |
| Culture and Recreation | 3,904,182 | (408,625) | 3,495,557 |
| Health and Welfare | 1,925,762 | (109,171) | 1,816,591 |
| Economic and Social Development | 3,243,971 | (84,351) | 3,159,620 |
| Housing | 745,549 | (24,279) | 721,270 |
| Sanitation and Environmental | 15,264,807 | (441,273) | 14,823,534 |
| Education | 1,576,333 | (117,200) | 1,459,133 |
| Total charges to appropriations | 79,831,810 | - | 79,831,810 |
| **Excess of resources over appropriations** | $ - | $ - | $ - |

continue



Unaudited

## Capital Asset and Debt Administration

**Capital Assets** – The Municipality's capital assets for its governmental activities as of June 30, 2021, total $369,691,957 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles. New construction in progress began during the year for $3,889,823, for a total investment during the year of $7,083,458. Depreciation expense for the fiscal year was $14,394,621, and additions to equipment and other capital assets were $3,486,945. Retirements of capital assets during year were mainly in equipment and vehicles ($1,038,241), causing a loss on disposition of $48,021.

**The Municipality's Capital Assets**
**(Net of Depreciation)**
**Figure 6**

| | Total | | | |
|---|---|---|---|---|
| | 2021 | 2020 | Dollar Change | Percentage Change |
| Capital assets not being depreciated | | | | |
| Land and improvements | $ 93,785,549 | $ 93,410,025 | $ 375,524 | 0.40% |
| Construction in progress | 7,083,458 | 6,484,046 | 599,412 | 9.24% |
| Works of art and historical treasures | 2,661,429 | 2,660,429 | 1,000 | 0.04% |
| Total not being depreciated | 103,530,436 | 102,554,500 | 975,936 | 9.68% |
| Capital assets net of depreciation | | | | |
| Facilities and improvements | 48,304,336 | 49,252,487 | (948,151) | -1.93% |
| Buildings and improvements | 55,755,348 | 56,413,347 | (657,999) | -1.17% |
| Infrastructure | 154,536,350 | 161,612,322 | (7,075,972) | -4.38% |
| Equipment and vehicles | 7,565,487 | 7,125,175 | 440,312 | 6.18% |
| Total net of depreciation | 266,161,521 | 274,403,331 | (8,241,810) | -1.29% |
| Total capital assets net of depreciation | $369,691,957 | $376,957,831 | $(7,265,874) | 8.39% |

Additional information on the Municipality's capital assets can be found on Note 11 of the Basic Financial Statements on pages 76-77.

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2021 are as follows:

| Project | Amount |
|---|---|
| Francisco Pancho Pereira | $ 396,000 |
| Villa Nueva Sewer Improvement | 1,281,408 |
| Improvement to the Yldelfonso Sola Morales Stadium | 1,540,254 |
| "Centro Multigeneracional Head Start" | 296,385 |
| Improvements to the Idamaris Gardens Court | 108,062 |
| Improvements to the Marketplace | 351,845 |
| | $ 3,973,954 |

continue

**Deferred Outflows / Inflows of Resources**

***Deferred Outflows of Resources***

Deferred outflows of resources are new to the Municipality's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being a Municipality asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 73 and GASB Statement No. 75 for pension liability reporting. GASB 73 and 75 require that pension benefits payments made during the fiscal year to the retirement system be reported as deferred outflows of resources. Consequently, most the deferred outflows of resources reported are comprised of current year contributions to the retirement system. We were unable to present the applicable amounts under GASB Statement 73 and 75 at June 30,2021, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

***Deferred Inflows of Resources***

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the Municipality as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Notes 13 and 18 to the financial statements on pages 77-78 and 84-85, respectively of this report.

**Long-Term Debts** – As of June 30, 2021, the Municipality had total bonded debt outstanding of Special and General Obligations of $153,081,392 all of which is debt backed by the full faith and credit of the Municipality.

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continue

**The Municipality's Outstanding Debts**
**Long-Term Debts**
**Figure 7**

| | Governmental Activities 2021 | Governmental Activities 2020 | Dollar Change | Percentage Change |
|---|---|---|---|---|
| General Obligations Bonds | $ 110,862,132 | $ 118,848,832 | $ (7,986,700) | -6.72% |
| Special Obligations Bonds | 42,219,260 | 47,022,260 | (4,803,000) | -10.21% |
| Federal Loans | 5,000,000 | 5,000,000 | - | 0.00% |
| Net Pension Liability | 120,792,619 | 120,792,619 | - | 0.00% |
| Net OPEB Liability | 5,016,612 | 5,016,612 | - | 0.00% |
| PR Health Insurance Administration (ASES) | - | 1,541,509 | (1,541,509) | -100.00% |
| Law No. 142-MRCC | 1,125,855 | 1,191,409 | (65,554) | -5.50% |
| PR Retirement System Administration | 6,925,754 | 6,948,342 | (22,588) | -0.33% |
| Claims and Judgments | 129,868 | 129,868 | - | 0.00% |
| Christmas Bonus | 825,603 | 831,646 | (6,043) | -0.73% |
| Retainage Liability | 290,262 | 384,522 | (94,260) | -24.51% |
| Compensated Absences | 14,471,873 | 14,164,187 | 307,686 | 2.17% |
| Total | $ 307,659,838 | $ 321,871,806 | $ (14,211,968) | -145.83% |

The Municipality's debt related to General, Special and Federal obligations decreased by $12,789,700 (16.9%) during the fiscal year 2021.

Additional information on the Municipality's long-term debts can be found on Note 16 of the Basic Financial Statements on pages 78 through 83.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a municipal government can issue to 10 percent of the total assessed value of taxable property located within the municipality's jurisdiction. On March 2009, the Government of Puerto Rico enacted the Special Act, Declaring a State of Fiscal Emergency and Establishing an Integrated Fiscal Stabilizing Plan to Save the Credit of Puerto Rico (Public Law 7). Among other things, this Law introduced a new way to view the Real Property valuation (see Note 26 on page 117 of the accompanying financial statements).

Also, the Municipality has a sales tax redemption fund, composed of .2% of the .5% of the municipal sales tax rate portion of 1.5%, to support the debt service fund capacity. This fund, in addition to other variables, is used to calculate the Municipality's borrowing capacity, along with the property tax redemption fund, within a specific timeframe. On February 1, 2014 was enacted Act Nos. 18 and 19 that change the composition of the sales and usage taxes (see Note 3).

continue

## Summary of Local Economy

The Municipality of Caguas was founded in 1775. Caguas has the fifth largest population of Puerto Rico with boundaries that encompass an area of approximately 59.07 square miles, and according to the 2021 Puerto Rico Community Survey the population of Caguas was 126,756. It was estimated by the US Census that the population of Puerto Rico had an overall decrease of over 300 citizens during the last 16 months ended in July 2021. Notwithstanding, it was also estimated that from the largest municipalities, Caguas had the lowest decrease of .003%. The Municipality's jurisdiction is bounded on the North by the Municipalities of San Juan and Trujillo Alto, on the South by the Municipalities of Cayey and San Lorenzo, on the East, by the Municipalities of Gurabo and San Lorenzo, and on the West by the Municipalities of Aguas Buenas and Cidra.

As per the Caribbean Business's Year 200 Book of List of 200 Firm Locally Owned sixteen (16) out of the 200-mayor local enterprises. Among these are Steel and Pipes, Inc. Laboratorio Clinic Borinquen, Inc. Mech- Tech Collage, Inc., Farmacia Ruiz Belvis, Aireko Companies, Plaza Food Systems, Grupo HIMMA San Pablo, Drogueria Betances and Caguas Expressway Motors. Also, in Caguas are locate two (2) out of ten (10) major Corporations women owned. They are Mentor Technical Group Corp and Laboratorio Clinico Borinquen, Inc.Mech -Tech college is within the first thirty (30) Corporations with the fastest grow in Puerto Rico. Grupo HIMA-San Pablo, it is within the first fifteen (15) enterprises with most employees in Puerto Rico; 4,262 full time employees. Located in Caguas there is Data Access, which is within the first ten (10) biggest Telecommunications enterprises in Puerto Rico. Also, Cortelco Systems PR, Inc which is within the first eleven (11) Information Technology consulting business. Finally, within Caguas; one (1) the first ten (10) major commercial centers management business, Kimco Realty Corp.; two (2) out of seven (7) construction material supplier Corporations, Steel and Pipes, Inc. and Servimetal LLC; one (1) of the seven (7) electrical contractors and mechanics in Puerto Rico, Aireko Energy Solutions, LLC; one (1) out of the biggest six(6) electrical suppliers in Puerto Rico, Warren -ECM A Sonepar, Co. and oen (1) of the biggest (7) real estate enterprises in Puerto Rico Jeannette Soto Realty CSP.

The Municipality's economy has an industry composition somewhat like the rest of the island's largest Municipalities. In the 1960's textile manufacturing and agriculture made up the largest amount of the local economy, but by the mid-seventies the manufacturing share of employment had declined to a lower percentage. Caguas is among the first five cities with the largest population in Puerto Rico, it has a per capita income $27,363 lower than Puerto Rico's $ 29,821 by 9%.

## Major Industries and Services (including Government)

**Government Services:** The governmental service is the largest source of employment in the Municipality, accounting for the largest quantity of employment. The Municipal government sector remains stable in relation to the past year. Government sector includes a diversity of employment areas such as education, electric power service, water supply, police, public works, culture and recreation, health, legal service, and others.

**Health Services:** As a major regional medical center, the medical services industry is one of the largest employers in the area. It includes the privately-owned hospitals, HIMA-San Pablo and Hospital Menonita, formerly San Juan Bautista. These facilities provide primary, secondary and tertiary health services to the residents of Caguas and adjacent small towns, and are responsible for establishing and developing strategies and programs designed to promote health, prevent diseases and early detection and diagnosis of health problems. They promote adequate health treatment and rehabilitation services as well.

continue

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of comprehensive health insurance coverage for qualifying low-income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. Caguas participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

**Trade (Retail and Wholesale):** The trade sector is the strongest growing sector in the area. Many major national chains such as Wal-Mart, Costco, and Home Depot have expanded into the area, helping maintain relatively stable levels of consumer spending.

**Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)**

Attention was directed to Note 26 to the basic financial statements on pages 117-126 of this report, related to the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increase revenues and reduce substantially expenses, including subsidies to the municipalities of Puerto Rico.

Going forward from this baseline, with the New Fiscal Plan approved by the Oversight Board on May 9, 2019 (Sixth Fiscal Plan), there must be a reduction of 20% in each successive year, holding appropriations constant at roughly 45-50% of current levels starting in FY 2022 before ultimately phasing out all subsidies in FY 2024.

**Economic and Budget Highlights for the Fiscal Year Ending June 30, 2022**

**Governmental Activities:** The general fund budget for fiscal year 2021-2022 will be $90.9 million, representing an increase of $11.1 million when compared with fiscal year ended June 30, 2021. These $90.9 are composed of $82 million from taxes, $4.9 from governmental grants and $4 million from charges from services.

Special revenues funds budget will be $183.5 million. These are composed of $159.2 of federal grants, $19.2 of local revenues, $3.1 of intergovernmental revenues. For the repayment of long- term debt, budget will be expected to be $17.3 million. These resources will come from property and sales and usage taxes revenues.

**Requests for Information**

This report is designed to provide an overview of the Municipality's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

| | GOVERNMENTAL ACTIVITIES |
|---|---|
| **ASSETS:** | |
| Current Assets: | |
| Cash and Investments | $ 52,674,091 |
| Cash with Fiscal Agent | 29,710,983 |
| Receivables (Net): | |
| Sales and Usage Taxes | 2,286,800 |
| Volume of Business Taxes | 152,844 |
| Due from Government Units | 539,696 |
| Federal Grants | 18,692,023 |
| Construction Excise Taxes | 123,877 |
| Other | 276,077 |
| Restricted Cash | 1,141,093 |
| Total Current Assets | 105,597,484 |
| Non-Current Assets: | |
| Loans Receivables, Net | 866,284 |
| Notes Receivables, Net | 153,495 |
| Land, Improvement and Construction in Progress | 103,530,436 |
| Other Capital Assets [Net of Accumulated Depreciation] | 266,161,521 |
| Housing Units Held for Sale | 55,848 |
| Idle Units Held for Future Use | 102,567 |
| Total Non-Current Assets | 370,870,151 |
| **TOTAL ASSETS** | **476,467,635** |
| **DEFERRED OUTFLOWS OF RESOURCES:** | |
| Pension Related | 4,343,568 |
| **TOTAL OUTFLOWS OF RESOURCES** | **4,343,568** |

continue

| | GOVERNMENTAL ACTIVITIES |
|---|---|
| **LIABILITIES:** | |
| Current Liabilities: | |
| Accounts Payable | 10,189,360 |
| Accrued Expense | 825,603 |
| Accrued Interest | 3,126,586 |
| Bonds Payable | 14,032,700 |
| Advance Deposits | 201,000 |
| Unearned Revenues | 42,035,632 |
| Accrued Compensated Absences | 4,019,430 |
| Claims and Judgments | 18,718 |
| Due to Governmental Entities | 4,512,639 |
| Total Current Liabilities | 78,961,668 |
| Non-Current Liabilities: | |
| Bonds Payable | 139,048,692 |
| Accrued Compensated Absences | 10,452,443 |
| Legal Claims | 111,150 |
| Due to Governmental Entities | 6,806,272 |
| Retainage Payable | 290,262 |
| Community Disaster Loan Program | 5,000,000 |
| Total Pension Liability | 120,792,619 |
| Total OPEB Liability | 5,016,612 |
| Total Non-Current Liabilities | 287,518,050 |
| **TOTAL LIABILITIES** | **366,479,718** |
| **DEFERRED INFLOWS OF RESOURCES:** | |
| Pension Related | 13,490,904 |
| **TOTAL INFLOWS OF RESOURCES** | **13,490,904** |
| **NET POSITION:** | |
| Net Investment in Capital Assets | 259,908,592 |
| Restricted for: | |
| Capital Projects | 2,583,352 |
| Debt Service | 24,741,923 |
| Head Start Program | 7,057,148 |
| Other Purposes | 9,396,096 |
| Unrestricted (Deficit) | (202,846,530) |
| **TOTAL NET POSITION** | **$ 100,840,581** |

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

| Functions/Programs | Expenses | Program Revenues: Charges For Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenues |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| General Government | $ 40,535,068 | $ - | $ 60,904 | $ - | $ (40,474,164) |
| Public Safety | 5,969,980 | 1,618,196 | 3,310,363 | 240,322 | (801,099) |
| Public Works | 20,417,294 | - | - | 1,482,703 | (18,934,591) |
| Culture and Recreation | 7,485,598 | 19,218 | - | - | (7,466,380) |
| Health and Welfare | 5,098,261 | - | 6,700,884 | - | 1,602,623 |
| Economic and Social Development | 6,867,576 | 585,054 | 3,971,082 | - | (2,311,440) |
| Housing | 11,053,913 | - | 10,140,092 | - | (913,821) |
| Sanitation and Environmental | 16,137,970 | 54,368 | 37,813 | - | (16,045,789) |
| Education | 24,513,439 | - | 17,895,041 | - | (6,618,398) |
| Unallocated Interest | 8,237,021 | - | - | - | (8,237,021) |
| **Total Governmental Activities** | **$ 146,316,120** | **$ 2,276,836** | **$ 42,116,179** | **$ 1,723,025** | **(100,200,080)** |

| | |
|---|---|
| **General Revenues:** | |
| Taxes: | |
| Property Taxes, levied for General Purposes | 28,135,985 |
| Property Taxes, levied for Debt Service | 22,283,892 |
| Volume of Business Taxes | 25,614,699 |
| Sales and Usage Taxes | 26,364,488 |
| Construction Excise Taxes | 3,428,800 |
| Intergovernmental | 3,964,134 |
| Interest | 106,230 |
| Gain on Sale of Capital Asset | 9,715 |
| Other General Revenues | 3,730,257 |
| **Total General Revenues** | 113,638,200 |
| **CHANGES IN NET POSITION** | **13,438,120** |
| Net Position – Beginning of Year, As Restated | 87,402,461 |
| **NET POSITION – ENDING OF YEAR** | **$ 100,840,581** |

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

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| | GENERAL FUND | CAPITAL PROJECTS FUND | DEBT SERVICE FUND | HEALTH AND HUMAN SERVICES FUND | SOCIAL AND WELFARE ACTIVITIES FUND | OTHER NON MAJOR FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | |
| Cash and Cash Equivalents | $ 17,318,578 | $ 3,950,114 | $ - | $ 658,434 | $ 28,304,359 | $ 2,442,606 | $ 52,674,091 |
| Cash with Fiscal Agent | - | 1,822,912 | 27,868,509 | - | - | 19,562 | 29,710,983 |
| Receivables: | | | | | | | |
| Sales and Usage Taxes | 2,286,800 | - | - | - | - | - | 2,286,800 |
| Volume of Business Taxes | 152,844 | - | - | - | - | - | 152,844 |
| Due from Governmental Units | 462,016 | 77,680 | - | - | - | - | 539,696 |
| Federal Grants | 1,642,190 | 2,352,440 | - | 11,390,639 | 106,685 | 3,200,069 | 18,692,023 |
| Construction Excise Taxes | 123,877 | - | - | - | - | - | 123,877 |
| Due from Other Funds | 9,872,649 | - | - | - | - | - | 9,872,649 |
| Others | 276,077 | - | - | - | - | - | 276,077 |
| Loans Receivable | - | - | - | - | 94,767 | 771,517 | 866,284 |
| Restricted Cash | - | 1,141,091 | - | - | - | 2 | 1,141,093 |
| **Total Assets** | **$ 32,135,031** | **$ 9,344,237** | **$ 27,868,509** | **$ 12,049,073** | **$ 28,505,811** | **$ 6,433,756** | **$ 116,336,417** |
| **LIABILITIES:** | | | | | | | |
| Account Payable | $ 7,509,557 | $ 653,074 | $ - | $ 1,136,804 | $ 725,971 | $ 163,954 | $ 10,189,360 |
| Bond Payable | - | - | 9,687,977 | - | - | - | 9,687,977 |
| Interest on Bonds Payable | - | - | 3,126,586 | - | - | - | 3,126,586 |
| Due to Governmental Entities | 3,267,302 | - | - | - | - | - | 3,267,302 |
| Due to Other Funds | - | 831,937 | - | 2,919,470 | 4,706,577 | 1,414,665 | 9,872,649 |
| Advance Deposits | 200,000 | - | - | - | - | 1,000 | 201,000 |
| Unearned Revenues | 19,009,382 | - | - | - | 22,901,499 | 124,751 | 42,035,632 |
| **Total Liabilities** | **29,986,241** | **1,485,011** | **12,814,563** | **4,056,274** | **28,334,047** | **1,704,370** | **78,380,506** |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | | | | |
| Unavailable Revenues: | | | | | | | |
| Commonwealth of Puerto Rico | 358,948 | - | - | - | - | - | 358,948 |
| Federal Grants | - | 1,776,420 | - | 9,381,584 | - | 2,891,864 | 14,049,868 |
| **Total Deferred Inflows of Resources** | **358,948** | **1,776,420** | **-** | **9,381,584** | **-** | **2,891,864** | **14,408,816** |
| **FUND BALANCES:** | | | | | | | |
| Restricted | 413,715 | 3,447,439 | 15,053,946 | 14,512 | 1,330,064 | 2,395,561 | 22,655,237 |
| Committed | - | - | - | - | - | 25,944 | 25,944 |
| Assigned | 1,376,127 | 2,635,367 | - | - | - | - | 4,011,494 |
| Unassigned (Deficit) | - | - | - | (1,403,297) | (1,158,300) | (583,983) | (3,145,580) |
| **Total Fund Balances** | **1,789,842** | **6,082,806** | **15,053,946** | **(1,388,785)** | **171,764** | **1,837,522** | **23,547,095** |
| **Total Liabilities, Deferred Inflows of Resources and Fund Balances** | **$ 32,135,031** | **$ 9,344,237** | **$ 27,868,509** | **$ 12,049,073** | **$ 28,505,811** | **$ 6,433,756** | **$ 116,336,417** |

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
## JUNE 30, 2021

| | | |
|---|---|---|
| **Total Fund Balances – Government Funds (Page 25)** | | **$ 23,547,095** |
| Amount reported for Governmental Activities in the Statement of Net Position (Page 23) 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: | | |
| Non Depreciable Capital Assets | $ 103,530,436 | |
| Depreciable Capital Assets | 699,661,976 | |
| Accumulated Depreciation | (433,500,455) | |
| Total Capital Assets | | 369,691,957 |
| Other assets held for sell of idle property held for future use are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are: | | |
| Housing Units Held for Sale | 55,848 | |
| Idle Units Held for Future Use | 102,567 | |
| Total Other Assets | | 158,415 |
| Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period. | | 4,343,568 |
| Notes Receivables from sale of capital assets in Governmental Activities are not recorded in the funds in the current period. | | 153,495 |
| Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds: | | |
| Federal Grants | 14,049,868 | |
| MRCC – Property Taxes | 358,948 | |
| Total Unavailable Revenues | | 14,408,816 |
| Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds. | | (13,490,904) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| General and Special Obligation Bonds | (143,393,415) | |
| Total Pension Liability | (120,792,619) | |
| Total OPEB Liabilty | (5,016,612) | |
| Compensated Absences | (14,471,873) | |
| Community Disaster Loan | (5,000,000) | |
| Puerto Rico Retirement System Administration | (6,925,754) | |
| Claims and Judgments | (129,868) | |
| Christmas Bonus | (825,603) | |
| Retainage Liability | (290,262) | |
| Law No. 142 | (1,125,855) | |
| Total Long-Term Liabilities | | (297,971,861) |
| **Total Net Position of Governmental Activities (Page 23)** | | **$ 100,840,581** |

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

| | GENERAL FUND | CAPITAL PROJECTS FUND | DEBT SERVICE FUND | HEALTH AND HUMAN SERVICES FUND | SOCIAL AND WELFARE ACTIVITIES FUND | OTHER NON MAJOR FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|---|---|---|
| **REVENUES:** | | | | | | | |
| Property Taxes | $ 29,055,422 | $ - | $ 22,283,892 | $ - | $ - | $ - | $ 51,339,314 |
| Volume of Business Taxes | 25,614,699 | - | - | - | - | - | 25,614,699 |
| Sales and Usage Taxes | 21,495,133 | - | 4,869,355 | - | - | - | 26,364,488 |
| Construction Excise Taxes | 3,428,800 | - | - | - | - | - | 3,428,800 |
| Federal Grants | 2,797,442 | 1,721,696 | - | 22,240,269 | 7,123,754 | 9,539,161 | 43,422,322 |
| Fines and Penalties | 1,618,196 | - | - | - | - | - | 1,618,196 |
| Intergovernmental | 4,336,117 | 92,680 | - | - | 48,050 | 169,330 | 4,646,177 |
| Interest | 44,978 | 9,827 | - | 81 | 1,915 | 40,741 | 97,542 |
| Rent and Other Services | 597,936 | 15,115 | - | - | - | - | 613,051 |
| Solid Waste Disposal | 39,253 | - | - | - | - | - | 39,253 |
| Other General Revenues | 3,350,772 | - | - | - | 441,518 | 407,598 | 4,199,888 |
| **Total Revenues** | **92,378,748** | **1,839,318** | **27,153,247** | **22,240,350** | **7,615,237** | **10,156,830** | **161,383,730** |
| **EXPENDITURES:** | | | | | | | |
| Current: | | | | | | | |
| General Government | 36,761,098 | 649,639 | 105,000 | - | 3,740,948 | 42,101 | 41,298,786 |
| Public Safety | 5,094,654 | 10,000 | - | - | 829,824 | 25,120 | 5,959,598 |
| Public Works | 9,748,349 | 2,726,461 | - | - | 450,100 | 52,346 | 12,977,256 |
| Culture and Recreation | 3,747,067 | 102,155 | - | - | 14,000 | - | 3,863,222 |
| Health and Welfare | 2,242,731 | 174,545 | - | 381,455 | 1,831,106 | 167,913 | 4,797,750 |
| Education | 1,747,015 | 148,453 | - | 20,284,045 | 861,432 | 26,866 | 23,067,811 |
| Sanitation and Environmental | 15,894,816 | 112,384 | - | - | 1,371 | 490 | 16,009,061 |
| Economic and Social Development | 4,831,649 | 941,117 | - | - | 151,251 | 140,307 | 6,064,324 |
| Housing | 676,658 | 137,120 | - | - | 695,662 | 9,252,663 | 10,762,103 |
| Capital Outlay | 3,099,229 | 596,720 | - | 1,487,467 | 2,124,063 | 163,549 | 7,471,028 |
| Debt Service: | | | | | | | |
| Principal | 65,554 | - | 14,429,977 | - | - | - | 14,495,531 |
| Interest and Other Charges | 72,720 | - | 8,164,301 | - | - | - | 8,237,021 |
| **Total Expenditures** | **83,981,540** | **5,598,594** | **22,699,278** | **22,152,967** | **10,699,757** | **9,871,355** | **155,003,491** |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | **8,397,208** | **(3,759,276)** | **4,453,969** | **87,383** | **(3,084,520)** | **285,475** | **6,380,239** |
| **OTHER FINANCING SOURCES (USES):** | | | | | | | |
| Refunding Bonds Issued | - | - | 27,100,277 | - | - | - | 27,100,277 |
| Payment to Refunded Bonds | - | - | (26,995,277) | - | - | - | (26,995,277) |
| Transfers – In | 1,772,826 | 2,498,032 | 5,847,437 | - | - | - | 10,118,295 |
| Transfers – Out | (6,156,580) | - | (3,961,715) | - | - | - | (10,118,295) |
| **Total Other Financing Sources (Uses)** | **(4,383,754)** | **2,498,032** | **1,990,722** | **-** | **-** | **-** | **105,000** |
| **SPECIAL ITEMS:** | | | | | | | |
| Sales of Other Assets | - | 209,715 | - | - | - | - | 209,715 |
| **Total Special Items** | **-** | **209,715** | **-** | **-** | **-** | **-** | **209,715** |
| **Net Change in Fund Balances** | **4,013,454** | **(1,051,529)** | **6,444,691** | **87,383** | **(3,084,520)** | **285,475** | **6,694,954** |
| Fund Balances – Beginning, As Restated | (2,223,612) | 7,134,335 | 8,609,255 | (1,476,168) | 3,256,284 | 1,552,047 | 16,852,141 |
| **FUND BALANCES – ENDING** | **$ 1,789,842** | **$ 6,082,806** | **$ 15,053,946** | **$ (1,388,785)** | **$ 171,764** | **$ 1,837,522** | **$ 23,547,095** |

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

| | | |
|---|---|---|
| **Net Change in Fund Balances – Government Funds (Page 27)** | | **$ 6,694,954** |
| Amount reported for Governmental Activities in the Statement of Activities (Page 24) are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of 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: | | |
| Capital Outlays | $ 7,471,028 | |
| Depreciation Expense | (14,394,621) | |
| Excess of Capital Outlays over Depreciation Expense | | (6,923,593) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| Federal Grants | (728,456) | |
| MRCC – Property Taxes Liquidation | (919,437) | |
| Total Revenues | | (1,647,893) |
| Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset. | | (337,306) |
| Notes receivables classified as long term, because the due date is not current, are recorded in the Statement of Net Position. In the current period the change in note receivables was | | 8,688 |
| Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were | | 14,495,531 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of: | | |
| Decrease in Christmas Bonus | 6,043 | |
| Decrease in PR Health Insurance Administration (ASES) | 1,541,509 | |
| Decrease in Puerto Rico Retirement System Administration | 22,588 | |
| Increase in Retainage Liability | (114,715) | |
| Increase in Compensated Absences | (307,686) | |
| Total Additional Expenses | | 1,147,739 |
| **Change in Net Position of Governmental Activities (Page 24)** | | **$ 13,438,120** |

The accompanying *Notes to the Basic 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 Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

### A. Organization

The Municipality was founded in 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under Act No. 107 of August 14, 2020, known as “Municipal Code of Puerto Rico”. The governmental system of the Municipality is composed of the executive and legislative bodies. It is governed by a Mayor and a 16-member Municipal Legislature elected for a four-year term.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both Federal and State taxes.

### B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization’s governing body, and the Municipality’s ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. Second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34,* 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.

continue

## 1. FINANCIAL REPORTING ENTITY – continuation

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separates from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components 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 respective financial position of the Governmental Activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2021, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended. The Governmental Accounting Standards Boards (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Identifies GASB Statements and Interpretations as sources of accounting and financial reporting guidance in Category A of the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. As presented in those documents, standards of governmental accounting and financial reporting, interpretations, and glossary definitions are approved by the GASB and are authoritative as Category A guidance.

Statement No. 76 also identifies GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants cleared by the GASB as sources of accounting and financial reporting guidance in Category B of the hierarchy of GAAP for state and local governments. As presented in those documents, questions and responses, questions and answers, and glossary definitions are cleared for issuance by the GASB and are authoritative as Category B guidance.

The more significant of the Municipality's accounting policies are described below.

### A. Basic Financial Statement Presentation

The accompanying basic financial statements of the Municipality present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2021, the respective changes in financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2021, in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include both government-wide (based on the Municipality 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 type.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial information of the Municipality is presented in this report as follows:

***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 Municipality's 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 Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's 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 Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Municipality's Governmental Activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

***Governmental Funds Financial Statements (GFFS)***

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds. 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 Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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 Municipality reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Municipality. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds, if any. It also includes the Community Development Block Grants (CDBG) which is awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Health and Human Services Fund – This fund is used to account for the revenue and expenditures of the Head Start Program and the Elderly Center of the Municipality as well as other related welfare services.

Social and Welfare Activities Fund – This fund started as a major fund during this year. It is used to account for the resources to improve the quality of life in the communities, including funds to mitigate the impact of COVID-19.

The Municipality 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 Municipality 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 and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

*Balance Sheet* – Report's information on June 30, 2021 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 Balances* – Report's information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2021.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each difference.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

During the course of operations, the Municipality has activity 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 Municipality reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures, and Changes in Fund Balance*] in funds, 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 Information***

The basic financial statements are followed by a section of required supplementary information. This section includes a *Schedule of Revenues and Expenditures – Budget and Actual – General Fund – Non-GAAP Budgetary Basis*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

***Required Supplementary Information – Employees Retirement System***

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Municipality's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. After approval of Act No. 106-2017, because the plan is unfunded, a change to a "Pay-As-You-Go" basis resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. Also, required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability has changed to Total Pension Liability for unfunded Plan. Accordingly, the RSI is now in accordance with GASB No. 73.

***Required Supplementary Information – Other Postemployment Benefits (OPEB)***

The contribution requirement of ERS Medical Insurance Plan Contribution (MIPC) is established by Act No. 95-1963. There are no member or employer contributions on behalf of the MIPC. This benefit is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico. Since this benefit is not funded in advance, the Annual Required Contribution (ARC) for this benefit has been calculated based on an assumed investment return rate of 3.10% based on the asset allocation on the Commonwealth's general assets that are used to pay this benefit.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made. As of June 30, 2021, the PRGERS has not issued, or made available information in order to properly adjust or disclose any deferred outflow/inflow of resources, and Total OPEB Liability after implementation, applicable to the Municipality.

### 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*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

#### 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 these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. On June 30, 2021, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met. However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2021, which are recorded as governmental fund liabilities of June 30, 2021 which is the date when resources were available in the debt service fund. Proceeds of general long-term debts and 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.

All capital assets and unmatured long-term liabilities are recorded only in the government wide statement of net position. The measurement focusses and the basis of accounting used in the accompanying government-wide financial statements differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental funds financial statements. Therefore, the Municipality presents reconciliations, as detailed in the accompanying Table of Contents, to better identify the relationship between these statements.

### C. Stewardship, Compliance, and Accountability

#### Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund*:

**Original Budget**

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Act No. 154 of December 19, 2013 amended Sections 7.002 and 7.003 of Act. 81 of 1991, as amended, known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991" for the purpose of establishing the budget of each municipality shall not exceed income certified in the external audit report or "single audit" for the previous fiscal year in revenue from Volume of Business Taxes, Sales and Usage Taxes (SUT), and Licenses and Permits; and that in these cases, the estimated revenue mechanism cannot be used to support the operating budget of a municipality. Also, the Act establish that municipalities reflecting a surplus in the current budget should be used to repay debt, and that by exception may establish an Emergency Fund, and enter up to thirty percent (30%) of the surplus to that fund. In addition, the municipalities that have not accumulated deficits may be used the surplus to increase the Emergency Fund.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Schedule of Revenues and Expenditures Budget and Actual – General Fund*, is presented on the budgetary basis to enhance comparability.

**Final Budget**

The final budgetary data presented in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also, the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

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

#### 1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The Municipality's cash are composed of demand deposits and cash equivalents in commercial banks, demand deposits in the Fiscal Agency and Financial Advisory Authority (FAFAA) (after GDB closed), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follows the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with the amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained and deposited in the Popular Bank of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with Fiscal Agent in the Capital Projects and other governmental funds consists of undisbursed proceeds of certain bonds issued with the private banking, and deposited in different private banks in Puerto Rico, for the acquisition and construction of major capital improvements, and other purposes.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Restricted Cash in governmental funds consists of undisbursed line of credit which are maintained in a cash custodian account by the FAFAA (after GDB closed) with Popular Bank of Puerto Rico. The final use of this cash account should be determined by FAFAA.

### 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" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "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 at June 30, 2021. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2021. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

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

### 3) Inventories

The Municipality used the purchase method to account for the purchases of office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

### 4) Capital Assets

Capital assets acquired or constructed, whether owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds' financial statements.

Capital assets include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of $40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the acquisition value at the date of donation. Equipment and other with a cost of $100 or more are recorded at cost or estimated historical cost.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The cost of normal maintenance and repairs that do not add to the value of the capital asset or extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Finally, major outlays for capital assets and improvements are capitalized as the projects are constructed.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental funds within the capital outlays and included as additions in the roll-forward activity of the capital assets in the GWFS. However, in the *Statement of Activities*, the cost of those assets is allocated over the estimated useful lives and reported as a depreciation expense. As a result, fund balance decreases by the capital outlays balance – the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| CAPITAL ASSETS | YEARS |
|---|---|
| Facilities and Improvements | 10-40 |
| Buildings and Improvements | 10-50 |
| Infrastructure | 10-50 |
| Equipment and Vehicles | 5-20 |
| Work of Art (Inexhaustible) | N/A |

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works function.

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. On June 30, 2021, all Work of Art are considered inexhaustible.

As per GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, impaired capital assets that will no longer be used by the Municipality, 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 Municipality 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 units' approach. For impairment losses recoverable through disaster assistance programs sponsored by higher levels of government (such as the Federal Emergency Management Agency), the loss is reported separately from the grant awarded for recovery purposes. Any impairment adjustment to the carrying value of a capital asset would be treated as a proportionate reduction of both the reported value of the asset and its accumulated depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset.

The Municipality is prevented legally from entering obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred. In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**5) Housing Units Held for Sale**

Capital assets that have been identified to be for sale are presented as part of the noncurrent assets.

**6) Idle Units Held for Future Use**

Capital assets that have been temporarily idled and held for future use are presented as part of the noncurrent assets.

**7) Unearned Revenues**

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, it arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

**8) 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 Municipality recognizes deferred outflows and inflows of resources.

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 Municipality 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 GASB No. 73 and GASB No. 75.

- Various types of revenues earned but not available within 60 days of fiscal year end.

Notes 13 and 18 provides details on deferred outflows of resources and deferred inflows of resources.

The Municipality has items, which arise only 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 two sources: Liquidation from Municipal Revenue Collection Center (MRCC), and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### 9) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bond's payable is reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts, if any, as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

### 10) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 8 of February 6, 2017, the Municipality's employees are granted 24 days of vacations and 12 days of sick leave annually. New employee accumulates retroactively after the first 3 months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's 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, 2021. 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 represents 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 in accrued upon the employee's separation from employment.

### 11) Reduction of Working Day

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### 12) 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 Noncurrent Liabilities includes 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.

### 13) Fair Value

The Municipality follows the provisions of GASB Statement No. 72, *Fair Value Measurements and Application.* The fair value measurements made in the accompanying financial statements assume that transactions take place in the Municipality's principal market, or the Municipality's most advantageous market in the absence of a principal market. Fair values have been measured assuming that general market participants would act in their economic best interest.

To determine fair value measurements, fair values have not been adjusted for transaction costs and the Municipality has considered the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards.

The Municipality has used valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair values. The techniques applied are consistent with one or more of the following approaches: (1) the market approach, (2) the cost approach, or (3) the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current ( discounted) amount. Valuation techniques have been applied consistently, though a change may be appropriate in certain circumstances.

The fair value measurements applied by management takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, the Municipality uses the fair value of that asset to measure the fair value of the liability. The Municipality's financial instruments consist of cash and cash equivalents, accounts and loans receivable, other assets, accounts payable and accrued liabilities, bonds and notes payable and other long-term obligations.

The three levels of the fair value hierarchy are described as follows:

***Level 1 -*** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

***Level 2 -*** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

***Level 3 -*** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Based on the criteria set forth above, the Municipality has classified its financial instruments as Level 2 instruments as of June 30, 2021.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Municipality's valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The observability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2021, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments on June 30, 2021. There have been no changes in valuation methods.

- For cash in commercial banks and deposits with governmental bank, accounts and loans receivable, other assets and accounts payable and accrued liabilities, their respective estimated fair values approximate their carrying amounts recorded in the accompanying financial statements. The cost or contract value (net realizable value of assets and estimated settlement amounts of liabilities) was used to determine their respective fair values of these assets and liabilities due to their short-term nature and maturity periods.

- For bonds payable, notes payable and other Jong-term obligations, the estimated fair values also approximate carrying amounts. These obligations have been incurred at the prevailing market interest rates and terms for these types of instruments, accordingly, the Municipality determined their fair values using valuation models that use observable market quotes.

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument is significant and can materially impact the changes in net position and fund balances of the Municipality. The valuations are based on information available on June 30, 2021 and are based on expectations and assumptions that have been deemed reasonable by management.

Estimates developed using alternate are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risk.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable or reflective of future fair values. Furthermore, while management believes that the Municipality's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, the difference between the estimated fair values and carrying values of the Municipality's financial instruments were not considered significant by the Municipality on June 30, 2021.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### 14) Accounting for Pension Costs

As further disclosed in Note 19, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

Act No. 106-2017 impacts the benefits provided to ERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not become ERS members.

- Effective July 1, 2017, current ERS members will no longer make any contributions to ERS. Prospectively, active members will participate in a separate defined contribution plan.

In addition, Act No. 106-2017 provides that ERS will be funded on a "Pay-As-You-Go" basis. This funding change resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose. The following contributions are eliminated by Act No. 106-2017:

- Act No. 116-2011 employer contributions – was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25 of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later.

- Act No. 32-2013 Additional Uniform Contribution.

- Act No. 3-2013 Supplemental Contributions – was $2,000 for each pensioner who was previously benefitting as an Act No, 447-1951 and Act No. 1-1990 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to $1,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

As ERS is a multiple employer plan and the benefits are no longer funded by a pension trust, GASB No. 73 applies to the pension benefits provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers, like Municipality, also participate in ERS.

Also, the Municipality participates in a contributory defined contribution plan named "Programa Head Start Municipio Autónomo de Caguas Money Purchase Plan".

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**15) Other Postemployment Benefits**

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

In addition to the pension benefits described in Note 19, 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. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and Municipality funds (see Note 20).

**16) 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 are categorized as follow:

- *Net Investment in Capital Assets* – These consists 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 and any related unamortized debt issuance costs. 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.

  For Governmental Activities, Net Investment in Capital Assets is comprised of the following:

| | |
|---|---|
| Capital Assets, Net of Accumulated Depreciation | $369,691,957 |
| Outstanding Balance on Related Debt | (112,133,160) |
| Unspent Capital Debt Proceeds | 2,350,245 |
| Net Investment in Capital Assets | $259,908,592 |

- *Restricted Net Position* – These 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* – These 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.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

**Net Position Flow Assumption**

Sometimes the Municipality 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 fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's 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 Municipality 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 (a) not spendable in form; or (b) legally or contractually required to be maintained intact.

- *Restricted* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed* – amounts that can only be used for specific purposes determined by formal action of the Municipality's highest level of decision-making authority (Municipal Legislature) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- *Assigned* – amounts that are constrained by the Municipality's 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 Municipality's 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.

**Fund Balance Flow Assumption**

Sometimes the Municipality 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 Municipality's 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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

### Restrictions of Fund Balance

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 Municipality has implemented the provisions of the 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 Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature 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. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that the Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

### Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB No. 54 fund balance targets on June 30, 2021.

### Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

### E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

*Intra-Entity Transactions* – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year, there are no intra-entity transactions.

### F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2021 amounted to $2,044,835, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), 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 AACA.

The Municipality obtains workers compensation insurance though 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 Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2021 amounted to $1,203,346.

The Municipality 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 work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

### G. Use of Estimates

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

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### H. 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.

### I. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2021, that are determined to be significant and material that should be considered for financial statement purposes. Within this process, management consults with its legal counsel and performs monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures.

### J. New Governmental Accounting Standards Board (GASB) Statements

#### I. 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, 2021:

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2020-2021).

GASB No. 84 does not have any impact on the Municipality's basic financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specifies in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debts.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resources flows.

The requirements of this Statement are effective for reporting periods beginning after June15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2020-2021).

GASB No. 88 has been implemented on the Municipality's basic financial statements.

GASB Statement No. 90, *Majority Equity Interest—An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows or resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 *(FY 2019-2020)*. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2020-2021).

GASB No. 90 does not have any impact on the Municipality's basic financial statements.

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

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2019. The Municipality is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year (FY 2021-2022 or after).

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**DEFINITION OF A LEASE**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this Statement.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### LEASE TERM

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option

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

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

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

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

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

### SHORT-TERM LEASES

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

### LESSEE ACCOUNTING

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

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### LESSSOR ACCOUNTING

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

### CONTRACTS WITH MULTIPLE COMPONENTS AND CONTRACT COMBINATIONS

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable.

If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

### LEASE MODIFICATIONS AND TERMINATIONS

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

### SUBLEASES AND LEASEBACK TRANSACTIONS

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease. A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 *(FY 2020-2021)*. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional eighteen months (FY 2021-2022).

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 *(FY 2020-2021)*. Earlier application is encouraged. The requirement of this Statement should be applied prospectively. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

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.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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.
- 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 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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (FY 2021-2022). Early application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2022-2023).

<u>GASB Statement No. 92, *Omnibus 2020*</u>. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The requirements related to the effective date of Statement No. 87 and Implementation Guide No. 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. As per GASB Statement No. 95 the effective date is postponed by additional 18 months (FY 2021-2022).
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The applicability of Statements 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 No. 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits are effective for fiscal years beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).
- Terminology used to refer to derivative instruments are effective for reporting periods beginning after June 15, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement No. 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2020. As per GASB Statement No. 95 the effective date was postponed by additional one year (December 31, 2021). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. As per GASB Statement No. 95 the effective date was postponed by additional one year (FY 2021-2022).

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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 also should 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.

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.

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.

<u>GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*</u>. 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.

A 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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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 a 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 a 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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires a government to disclose descriptive information abouts 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 period thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstance that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement No. 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67 or paragraph 3 of Statement No. 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (FY 2021-2022). Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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

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

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

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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
- 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. This Statement also addresses corrections of errors in previously issued financial statements.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

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

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

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

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

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

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

**RECOGNITION AND MEASUREMENT**

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

**NOTES TO FINANCIAL STATEMENTS**

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

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

Implementation Guide No. 2020-1, *Implementation Guidance Update—2020*

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.5, 4.18, and 5.3 for reporting periods beginning after June 15, 2021 (FY 2021-2022)
Questions 4.6–4.17 for fiscal years beginning after December 15, 2021 (FY 2022-2023), and all reporting periods thereafter
Questions 4.19–4.21 for reporting periods beginning after December 15, 2021 (FY 2022-2023)
Questions 5.1, 5.2, 5.4, and 5.5 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
The provisions of paragraph 6 are effective immediately.

Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022 (FY 2022-2023)
Questions 4.4–4.21 for fiscal years beginning after June 15, 2022 (FY 2022-2023), and all reporting periods thereafter
Question 4.22 for fiscal years beginning after June 15, 2021 (FY 2021-2022)
Question 5.1 for reporting periods beginning after June 15, 2023 (FY 2023-2024).

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.

The Municipality has not yet determined the effect these statements will have on the Municipality's basic financial statements.

## 3. ANNUAL REVENUES

### A. Property Taxes

The Municipal Revenue Collection Center (MRCC) is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are determined based on the market value existing as of 1957 and of personal property at the current value at the date of assessment. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded on June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded on June 30. For fiscal year 2020-2021, this difference was recorded as an unavailable revenue for the amount of $358,948.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first $15,000 of the assessed valuation of owner-occupied residential units. However, the Municipality receives the full amount of the exonerated tax base as of January 1, 1992, except for residential units assessed at less than $3,500 on which a complete exemption is granted. The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Complete exemption from personal property taxes up to an assessment of $50,000 is granted to retailers with an annual volume of net sales under $150,000. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

The effective tax rate for the fiscal year ended June 30, 2021 is 10.33% for real property and 8.33% for personal property of which 1.03% of each class of property belongs to the Commonwealth of Puerto Rico. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. Taxpayers pay 10.33% for real property and 8.33% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows:

1) 6.00% and 4.00% for real and personal property, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the general fund. The basic property tax rate is segregated by MRCC and accounted for an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The equalization fund assures that every municipality receive at least an amount equal to the tax collected to its base year or prior year.

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**3. ANNUAL REVENUES – continuation**

The Commonwealth makes a contribution equivalent to .20% portion of the tax rates to compensate the municipality for a discount granted to the taxpayers. Accordingly, the tax rates imposed to the taxpayer for real and personal property are 10.33% and 8.33%, respectively.

2) 3.5% of each represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Since the collection of property taxes, for all of the Municipalities in Puerto Rico, is a responsibility of the MRCC, it shall report to the Municipality the estimated and actual property taxes collections, as well as the operational expense allocation to each local government. During the fiscal year ended June 30, 2021 the allocated expenses to the Municipality amounted to $1,352,412.

Section 5803(b) of Law No. 80 of the MRCC allows the municipalities to develop and carry on activities and programs to expedite the assessments of new constructions and existing properties not yet assessed. Accordingly, along with a covenant with the MRCC, the Municipality engaged into an initiative, in order to increase the tax base of assessed properties over which the tax rate is applied and to expedite the collection of the taxes receivable in arrears at the MRCC (there is no receivable recorded within the Municipality's general ledger). The Municipality contracted an external consulting firm to assist and expedite these services. Among the different types of services offered, the consulting firm has engaged into the process of assisting the MRCC to assess the new construction and other existing properties. These assessments will become then part of the MRCC tax roll register. This is the subsidiary of all properties assessed for tax purposes.

The new assessed properties are submitted for review and validation by the MRCC which proceeds to assign the assessed valuation and the tax to be imposed. Then, the MRCC determine those new properties that would to be added in the tax roll, either because they are from new construction or because are previous existing properties, with betterments identified but not reported previously. This process is performed either through physical inspections, knowledge of existent activities within the Municipality, and comparing the sales volume taxes returns (in case of commercial properties) with the property taxes returns, among other strategies. The updated information is delivered to the MRCC in order to be included within the tax roll for subsequent taxes levies.

Also, the consulting firm provides support to the Municipality by attending the taxpayers' request for services and by providing follow up on the MRCC taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

Ordinance Number 12A-48 was approved for the purpose of reviewing the tax incentives to the jurisdiction of the Municipality and the special development zone and other traditional urban center and authorizes the creation of a new code of socio-economic development incentives.

**Personal Property**

**Incentive Municipal on Personal Property Taxes – New Business**

- A 75% exemption on municipal taxes on real property for a period of five years.
- The downtown and development designated areas, would enjoy 100% exemption on municipal taxes on personal property for a period of two years, followed by a 90% exemption on municipal taxes on personal property for a period eight year.

continue

**3. ANNUAL REVENUES – continuation**

**Incentive Municipal on Personal Property Taxes – Established Business**

- The exemption only applies to the personal property tax in excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as personal property tax base period.

- The downtown and development designated areas, the personal property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

**Real Property**

**Incentive Municipal on Real Property Taxes – New Business**

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.

- The downtown and development designated areas, would enjoy a 90% exemption on real property for a period of 10 years.

**Incentive Municipal on Real Property Taxes – Established Business**

- The exemption only applies to the real property tax in the excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as real property tax base period.

- The downtown and development designated areas, the real property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

**B. Volume of Business Taxes**

The Municipality imposes a volume of business tax pursuant to Act No. 113 of July 10, 1974, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is $5,000 and the minimum tax payable is $25. The date to file the Volume of Business Tax Declaration is April 15 each year. Entities with sales volume of $3.0 million or more must include audited financial statements together with the tax return. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% discount. As a result of the COVID-19 pandemic, the filing date was changed to July 22, 2020. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2021, from prior years.

The following incentives related to Volume of Business Taxes were implemented with Ordinance 12A-48:

continue

**3. ANNUAL REVENUES – continuation**

**Volume of Business Tax Incentive – New Business**

- A 75% exemption for a period of five years or a 40% exemption for a period of 10 years.

**Volume of Business Tax Incentive – Business Established**

- The exemption only applies to the business volume in excess of the average volume during the three years prior to the date of the application, which is referred to as base volume business. The volume of business tax attributable to the base volume business will be subject to regular tax rates.

- In the down town and development designated areas, the volume of business tax basis will be adjusted, reducing such amount by (20%) annually until it is reduced to zero for the fifth taxable year.

Collections of volume of business tax revenues received mainly in April 15, are accounted as unearned revenues, since such collections have a time requirement and should be used starting July 1st of next fiscal year. In the next fiscal year, the unearned revenue is recognized as revenue, net of any credit or refunds payable to taxpayers.

**C. Sales and Usage Taxes**

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in FAFFA, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a “Municipal Development Fund” to finance costs as restricted by the Act;

b. 0.2% will be deposited in a “Municipal Redemption Fund” to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% will be deposited in a “Municipal Improvement Fund” to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth’s Legislature.

Sales and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2021 but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the Municipality and the Municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

continue

**3. ANNUAL REVENUES – continuation**

Through this legislation, a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by FAFAA.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to FAFAA, with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

**D. Construction Excise Taxes**

Ordinance 11-A-54 provides for a procedure for the administration and collection of construction excise tax, within the Municipality jurisdiction.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project. The tax is paid by the taxpayer before the beginning of the construction project, if a permit is required to begin the construction, the taxpayer should file the tax return 30 days after the submission of the permit; otherwise, the file should be made at least 15 days before the construction activity. The activities covered by this tax and the exemption granted are as follows:

1) All construction will pay 6% of construction excise taxes.

2) Construction projects of detached properties (not part of a housing development), with a cost of $90,000 or less will pay 3% of construction excise taxes. If the cost exceeds the $90,000, the applicable rate will be 6% over the $90,000 cost.

3) All construction projects carried out whose owner is a bona-fide farmer, certified by the Department of Agriculture, have full exemption to the construction excise taxes.

4) Major repairs and improvements of detached properties occupied by their owner, for which cost don't exceed $15,000, have full exemption to the construction excise taxes. If related costs exceed $15,000, the excess over this amount will be subject to a 3% of construction excise tax.

5) All improvements made to commercial or private property in the down town, as well of major improvements to buildings, parks, prayer centers or studies of philosophic or human nature have full exemption to the construction excise taxes.

6) All construction projects carried out by not-for-profit organization or educational institutions have full exemption to the construction excise taxes.

continue

## 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 of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). The Municipality 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. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit.

Under the laws and regulations of the Government, public funds deposited by the Municipality 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 Government's Secretary of the Treasury, but not in the Municipality's name.

Municipality follows the practice of pooling cash. On June 30, 2021, the pool cash account in commercial banks had a balance of $52.7 million of which $17.3 million in the General Fund, $3.9 million in the Capital Projects Fund, $658,434 in Health and Human Services Fund, $28.4 million in Social and Welfare Activities Fund, and $2.4 million in Other Non-Major Funds. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

### Cash in with Fiscal Agent

Cash with Fiscal Agent in Popular Bank of Puerto Rico in the debt service fund consists principally of property tax collections and sales and usage taxes amounting to $27.9 million that are restricted for the payment of the Municipality's debt service, as required by law.

Cash with Fiscal Agent in the Capital Projects Fund of $1.8 million, consists of unspent proceed of bonds in private banks in Puerto Rico, and deposited on those banks, and are restricted to improvement of recreational facilities. The amount in Other Governmental Funds consist principally of unspent proceeds of bonds deposited in the private banking, that are restricted for different purposes.

### Restricted Cash in FAFAA

The Restricted Cash of $1.1 million in Capital Projects Fund consist principally of unspent proceeds of bonds that was restricted for the acquisition, construction or improvement of major capital assets will be used to amortize the original loans. As per GDB Restructuring Support Agreement (RSA), which became effective on April 6, 2018, as amended, the Municipality will be authorized to apply the full amount of deposits of loan held at GDB against the balance of any loan owed by the Municipality to GDB. After the implementation of the amendment to the RSA, on November 29, 2018, FAFAA issued a certification pursuant to Article 501 of Act No. 109-2017, as amended, applying the full cash amount held on GDB, in the amount of $13,957,839, against the loan balances owed by the Municipality to GDB. The balance of $1.1 million in cash account are pending to be applied or returned to the Municipality in accordance with the RSA. The RSA amendment is available on the Electronic Municipal Market Access website.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality on June 30, 2021:

continue

## 4. CASH AND INVESTMENTS – continuation

### 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, 2021, the Municipality has invested only in cash equivalents of $52.7 million consisting of interest-bearing account 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 Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2021. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low on June 30, 2021.

### Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by FAFAA, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by FAFAA. On June 30, 2021, the Municipality has balances deposited in commercial banks amounting to $52.7 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in FAFAA, amounting to $1.1 million are uninsured and uncollateralized. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk.

### Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio on June 30, 2021, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its bank's deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, on June 30, 2021, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

### Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low on June 30, 2021.

## 5. UNEARNED REVENUES

Government-wide *Statement of Net Position* and Governmental Funds Balance Sheet reports *unearned* revenues for resources received before it has a legal claim to them; in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, which corresponded to the follow:

continue

## 5. UNEARNED REVENUES – continuation

| | |
|---|---|
| **Governmental Funds:** | |
| Federal Grants - COVID-19 Section 8 | $ 124,751 |
| Federal Grants - COVID-19 CRF | 1,594,293 |
| Federal Grants - COVID-19 ARP Act | 21,307,206 |
| Volume of Business Taxes | 19,009,382 |
| **Total Unearned Revenues** | $ 42,035,632 |

## 6. LOANS AND OTHER RECEIVABLES

Loan's receivables recorded in non-major governmental funds consists various loans issued to qualified participants for home buying and commercial loans provided with federal funds. This amount is presented net of estimated allowances for uncollectible amounts of $866,284, which were determined based upon past collection experience.

Other receivables in the amount of $276,077 are related to rent and other charges received after year end.

On October 20, 2014, the Municipality signed a Note Receivable for $1,050,000 in exchange for a land, in which an apartment building was constructed. The note is no-interest bearing, and the full payment will be received on October 24, 2054. In order to recognize the amortization of the present value of the note, the percentage used was a 6%, based on bonds issued by the Municipality in 2014.

## 7. INTERGOVERNMENTAL REVENUES, FEDERAL AND STATE GRANTS AND SUBSIDIES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-Public Corporation, Puerto Rico Electric Power Authority (PREPA), and financial assistance received from state governments. Intergovernmental revenues are accounted for through the General Fund because they are not restricted for specific purpose.

Grants and subsidies received from the Commonwealth and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenues and the Capital Project Funds. Federal Financial Awards are recorded in the General Fund, Special Revenue Fund, Capital Projects Funds, and Health and Human Services Fund.

## 8. INTER-FUND TRANSACTIONS

### *A. Due from/to Other Funds*

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2021:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Capital Projects Fund | $ 831,937 |
| | Health and Human Services Fund | 2,919,470 |
| | Social and Welfare Activities Fund | 4,706,577 |
| | Other Governmental Funds | 1,414,665 |
| | | $ 9,872,649 |

continue

## 8. INTER-FUND TRANSACTIONS – continuation

The purpose of each inter-fund balances is the following:

Payables to the general fund:

Capital Projects Fund – includes expenditures mainly of the Capital Loans Funds, Community Development Block grants and other related projects sponsored by the Municipality, which are initially disbursed through the General Fund.

Health and Human Services Funds – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

Social and Welfare Activities Funds – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

Other Governmental Funds – includes expenditures mainly to finance certain public safety, housing and health and welfare projects that involve both the use of federal and municipal funds and which were initially disbursed through the General Fund.

### *B. Transfers In/Out*

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2021:

| Transferred In | Transferred Out | Amount | Purposes |
|---|---|---|---|
| Debt Service Fund | General Fund | $ 5,847,437 | Payment of Interest and Principal of Debt |
| Capital Projects Fund | General Fund | 309,143 | Transfer of Equity |
| General Fund | Debt Service Fund | 1,772,826 | Transfer of Equity |
| Capital Projects Fund | Debt Service Fund | 2,188,889 | Transfer of Equity |
| | | $ 10,118,295 | |

## 9. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2021 for the General Fund, corresponds to the follows:

| | AMOUNT |
|---|---|
| Municipal Revenues Collection Center - Final Liquidation | $ 358,948 |
| Puerto Rico Department of Education | 95,823 |
| Other Agencies | 7,245 |
| Total Due from Governmental Units | $ 462,016 |

The amount of $77,680 presented in the Capital Projects Fund is from the Puerto Rico Department of Public Transportation, for the maintenance of municipal and state roads.

continue

## 10. FEDERAL GRANTS RECEIVABLE

The due from Federal grants for the fiscal year ended June 30, 2021, corresponds to the follows:

| | GENERAL FUND | CAPITAL PROJECTS FUND | HEALTH AND HUMAN SERVICES FUND | SOCIAL AND WELFARE ACTIVITIES FUND | OTHER NON MAJOR FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|---|---|
| Community Development Block Grants/Entitlements Grants | $ - | $ 2,352,440 | $ - | $ - | $ - | $ 2,352,440 |
| Disaster Grants - Public Assistance | 1,642,190 | - | - | - | - | 1,642,190 |
| Head Start Program | - | - | 11,390,639 | - | - | 11,390,639 |
| Home Investment Partnership Program | - | - | - | - | 2,049,404 | 2,049,404 |
| Emergency Solutions Grants Program | - | - | - | - | 1,150,665 | 1,150,665 |
| Child and Adult Care Food Program | - | - | - | 106,685 | - | 106,685 |
| Total Due from Federal Grants | $ 1,642,190 | $ 2,352,440 | $11,390,639 | $ 106,685 | $ 3,200,069 | $ 18,692,023 |

## 11. CAPITAL ASSETS

A summary of the activity of capital assets for governmental activities group follows:

| DESCRIPTION | BALANCE JULY 1, 2020 | RECLASSI-FICATION | INCREASE | DECREASE | BALANCE JUNE 30, 2021 |
|---|---|---|---|---|---|
| Non-Depreciable Capital Assets: | | | | | |
| Land and Improvements | $ 93,410,025 | $ - | $ 424,349 | $ (48,825) | $ 93,785,549 |
| Construction in Progress | 6,484,046 | (3,290,411) | 3,889,823 | - | 7,083,458 |
| Works of Art | 2,660,429 | - | 1,000 | - | 2,661,429 |
| Total Non-Depreciable Capital Assets | 102,554,500 | (3,290,411) | 4,315,172 | (48,825) | 103,530,436 |
| Depreciable Capital Assets: | | | | | |
| Facilities and Improvements | 125,455,799 | 1,731,791 | 393,204 | - | 127,580,794 |
| Buildings and Improvements | 119,782,605 | 1,558,620 | 258,183 | (151,175) | 121,448,233 |
| Infrastructure | 415,893,121 | - | 5,214 | - | 415,898,335 |
| Equipment and Vehicles | 33,367,860 | - | 2,404,995 | (1,038,241) | 34,734,614 |
| Total Depreciable Capital Assets | 694,499,385 | 3,290,411 | 3,061,596 | (1,189,416) | 699,661,976 |
| Less Accumulated Depreciation: | | | | | |
| Facilities and Improvements | (76,203,312) | - | (3,073,146) | - | (79,276,458) |
| Buildings and Improvements | (63,369,258) | - | (2,323,627) | - | (65,692,885) |
| Infraestructure | (254,280,799) | - | (7,081,186) | - | (261,361,985) |
| Equipment and Vehicles | (26,242,685) | - | (1,916,662) | 990,220 | (27,169,127) |
| Total Accumulated Depreciation | (420,096,054) | - | (14,394,621) | 990,220 | (433,500,455) |
| Total Depreciable Capital Assets (Net) | 274,403,331 | 3,290,411 | (11,333,025) | (199,196) | 266,161,521 |
| **CAPITAL ASSETS, NET** | **$376,957,831** | **$ -** | **$ (7,017,853)** | **$ (248,021)** | **$369,691,957** |

continue

## 11. CAPITAL ASSETS – continuation

The Municipality's policy is to transfer construction in progress properly concluded to other classification of capital assets if such capital project is being used. Also, the detail of these amounts is presented in the previous table including the activity of the capital assets.

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

| | AMOUNT |
|---|---|
| **Governmental Activities:** | |
| General Government | $ 654,504 |
| Public Safety | 300,909 |
| Public Works (Mainly Streets) | 7,426,883 |
| Culture and Recreation | 3,648,244 |
| Health and Welfare | 144,428 |
| Economic Development | 810,876 |
| Housing | 142,160 |
| Sanitation and Environmental | 161,081 |
| Education | 1,105,536 |
| Total Depreciation Expenses | $14,394,621 |

## 12. OTHER NON-CURRENT ASSETS

The Municipality reported during this year property held for future sale as other non-current assets. This property was acquired with the intent of selling them to low income families, constituents of the Municipality. As required by GASB No. 72, the Municipality assessed the fair value of this units on June 30, 2021 for $158,415.

The Municipality has the following recurring fair value measurements as of June 30, 2021:

| Units Held for Sale by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Units Held for Sale | $ 158,415 | $ 158,415 | $ - | $ - |

Also, idle units held for future use were reported during this period given that property included in the schedules of construction in process remained with the same balance since prior year and no additions from construction were reported. Funds assigned to those projects were distributed for other purposes. In addition, a reclassification was made from idle units to construction in progress, because during the fiscal year, improvements to the building began.

## 13. 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 Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality 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.

continue

## 13. DEFERRED OUTFLOWS OF RESOURCES – continuation

At the end of the current fiscal year, the Municipality has an item that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows from changes in the Net Pension Liability (Note 19), as follows:

| | |
|---|---|
| **Statement of Net Position:** | |
| Deferred Outflows of Resources | |
| Pension Related | $ 4,343,568 |

## 14. DUE TO GOVERNMENTAL UNITS

The due to governmental units for the fiscal year ended June 30, 2021 for the General Fund, corresponds to the follows:

| | AMOUNT |
|---|---|
| Retirement System Administration | $ 159,651 |
| Puerto Rico Treasury Department | 19,058 |
| Puerto Rico Power Authority | 1,907,997 |
| PR Aqueduct and Sewer System | 1,180,596 |
| Total Due to Governmental Units | $ 3,267,302 |

## 15. DEBT MARGIN

On March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The legal debt margin of the Municipality is equal to 10% of the total property assessment located within the Municipality's jurisdiction.

As discussed on Notes 26 and 27 to the basic financial statements on pages 117 through 127, Puerto Rico fiscal crisis affects all instrumentalities, including municipalities. Actually, the Commonwealth does not have access to the finance market. The municipalities that obtained loans through the Governmental Development Bank (GDB), actually closed, or Commercial Banks with the endorsement of FAFAA. Under the GDB Restructuring Act the GDB transferred most of its loan assets to the GDB Debt Recovery Authority (DRA). The DRA is a new entity created by the GDB Restructuring Act for the purpose of receiving certain GDB assets, facilitate the restructuring of certain of GDB's indebtedness pursuant PROMESA and issuing new bonds. As part of the process, the DRA engaged AmeriNat as its loan servicer. As loan servicer, AmeriNat is now handling all matters relating to municipalities loans portfolio from DRA, including collection and posting of payments, certification of balances to auditors, and addressing any past due situations in the event the municipalities is unable to make scheduled payments.

Therefore, the determination of the Municipality's debt margin depends on the access to the markets, to which it does not have access, and Commercial Banking loans with the approval of FAFAA and the Oversight Board under Section 207 of PROMESA.

## 16. LONG-TERM DEBTS

### A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 17).

continue

## 16. LONG-TERM DEBTS – continuation

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2021:

| Type of Obligation and Purpose | Issue Date | Original Borrowing | Maturity Date | Interest Rate | Balance Amount |
|---|---|---|---|---|---|
| **General Obligation Bonds:** | | | | | |
| **Property Taxes Income:** | | | | | |
| General Construction | 2000 | $10,350,000 | 2026 | 2.70% to 7.81% | $ 3,860,000 |
| General Construction | 2000 | 3,150,000 | 2024 | 2.70% to 7.81% | 980,000 |
| General Construction | 2002 | 9,845,000 | 2026 | 2.70% to 5.60% | 4,140,000 |
| General Construction | 2002 | 125,000 | 2026 | 2.70% to 5.60% | 30,000 |
| General Construction | 2002 | 1,360,000 | 2026 | 2.70% to 5.60% | 545,000 |
| General Construction | 2004 | 9,900,000 | 2028 | 1.61% to 5.31% | 4,540,000 |
| General Construction | 2004 | 1,575,000 | 2028 | 2.36% to 5.31% | 760,000 |
| General Construction | 2005 | 460,000 | 2029 | 2.53% to 5.31% | 235,000 |
| General Construction | 2005 | 370,000 | 2029 | 2.53% to 5.31% | 190,000 |
| General Construction | 2005 | 1,610,000 | 2024 | 4.17% to 5.28% | 465,000 |
| General Construction | 2005 | 1,640,000 | 2030 | 4.50% | 805,000 |
| General Construction | 2005 | 500,000 | 2030 | 4.75% | 249,000 |
| General Construction | 2006 | 11,020,000 | 2025 | 0.32% to 5.00% | 3,935,000 |
| General Construction | 2006 | 11,015,000 | 2025 | 0.52% to 5.00% | 3,940,000 |
| General Construction | 2007 | 8,060,000 | 2031 | 0.45% to 6.32% | 4,750,000 |
| General Construction | 2006 | 2,695,650 | 2031 | 4.75% | 1,458,650 |
| General Construction | 2007 | 7,575,000 | 2026 | 0.36% to 5.54% | 3,170,000 |
| General Construction | 2008 | 624,000 | 2030 | 4.50% | 323,000 |
| Operational Purpose | 2010 | 9,740,000 | 2034 | 4.75% to 7.50% | 332,782 |
| General Construction | 2012 | 18,285,000 | 2036 | 3.47% to 7.50% | 11,702,400 |
| General Construction | 2012 | 815,000 | 2021 | 3.36% to 7.50% | 81,500 |
| General Construction | 2012 | 245,000 | 2036 | 0.37% to 7.50% | 156,800 |
| General Construction | 2012 | 279,900 | 2037 | 4.50% | 215,000 |
| General Construction | 2013 | 3,120,000 | 2030 | 4.25% | 1,882,000 |
| Operational Purpose | 2014 | 9,450,000 | 2038 | 6.00% to 7.50% | 8,155,000 |
| Refinancing | 2017 | 26,855,000 | 2031 | 7.50% | 1,375,000 |
| Purchase of Equipment | 2019 | 900,660 | 2025 | 2.75% | 536,000 |
| Refinancing | 2019 | 4,810,000 | 2028 | 7.25% to 8.00% | 4,080,000 |
| Refinancing | 2019 | 8,555,000 | 2036 | 7.25% to 8.00% | 8,060,000 |
| Refinancing | 2019 | 18,200,000 | 2035 | 7.50% to 8.00% | 17,615,000 |
| Refinancing | 2021 | 22,295,000 | 2031 | 8.00% | 22,295,000 |
| **Subtotal** | | | | | **110,862,132** |

continue

## 16. LONG-TERM DEBTS – continuation

| Type of Obligation and Purpose | Issue Date | Original Borrowing | Maturity Date | Interest Rate | Balance Amount |
|---|---|---|---|---|---|
| **Special Obligations Bonds:** | | | | | |
| **General Revenues:** | | | | | |
| General Construction | 2002 | $ 2,065,000 | 2027 | 3.66% to 6.41% | $ 825,000 |
| General Construction | 2002 | 5,185,000 | 2027 | 3.66% to 6.41% | 2,055,000 |
| General Construction | 2002 | 15,385,000 | 2027 | 3.66% to 6.41% | 6,105,000 |
| General Construction | 2006 | 10,015,000 | 2025 | 5.00% to 5.58% | 2,850,000 |
| General Construction | 2007 | 8,575,000 | 2024 | 1.53% to 6.73% | 685,026 |
| General Construction | 2007 | 10,075,000 | 2026 | 5.84% to 6.07% | 3,790,000 |
| General Construction | 2008 | 3,185,000 | 2032 | 3.89% to 5.82% | 1,930,000 |
| General Construction | 2008 | 7,750,000 | 2024 | 4.16% to 5.72% | 1,920,000 |
| General Construction | 2009 | 6,802,000 | 2033 | 1.53% to 7.50% | 4,718,000 |
| Operational Purpose | 2015 | 3,850,000 | 2030 | 6.00% to 8.00% | 2,705,000 |
| **Subtotal** | | | | | **27,583,026** |
| **Sales & Usage Taxes:** | | | | | |
| General Construction | 2009 | 8,770,000 | 2033 | 1.48% to 7.50% | 6,022,479 |
| General Construction | 2009 | 542,000 | 2033 | 1.48% to 7.50% | 255,266 |
| General Construction | 2010 | 4,710,000 | 2034 | 4.75% to 7.50% | 3,553,212 |
| Operational Purpose | 2020 | 4,805,277 | 2025 | 6.00% to 8.00% | 4,805,277 |
| **Subtotal** | | | | | **14,636,234** |
| **Total Special Obligations Bonds** | | | | | **42,219,260** |
| **Total General and Special Obligations Bonds** | | | | | **$ 153,081,392** |

Principal and interest on the bonds are generally paid from amounts withheld by MRCC from the monthly property tax remittances and deposited in GDB until the payment to the bond holder.

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) created by Congress authorized the Government Development Bank for Puerto Rico (GDB) to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA) under the relevant provisions of Title VI.

The Oversight Board's decision was in response to a Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB's operations and a comprehensive financial restructuring of GDB's obligations. FAFAA noted further that by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation. Accordingly, under the GDB Restructuring Act the GDB transferred most of its loan assets to the GDB Debt Recovery Authority (DRA). The DRA is a new entity created by the GDB Restructuring Act for the purpose of receiving certain GDB assets, facilitate the restructuring of certain of GDB's indebtedness pursuant PROMESA and issuing new bonds.

As part of the process, the DRA engaged AmeriNat as its loan servicer. As loan servicer, AmeriNat is now handling all matters relating to municipalities loans portfolio from DRA, including collection and posting of payments, certification of balances to auditors, and addressing any past due situations in the event the municipalities is unable to make scheduled payments.

continue

## 16. LONG-TERM DEBTS – continuation

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

### Community Disaster Loan

The Community Disaster Loan (CDL) on June 30, 2018 was granted under Section 417 of the Stafford Act and FEMA Regulation 44 CFR §206.367 under major disaster declaration of September 20, 2017 for the Territory of Puerto Rico (FEMA-DR-4339-PR). The Promissory Note is at interest rate of 2.625% (the rate for five-year maturities as determined by the Secretary of Treasury in effect on the date the Promissory Note is executed, adjusted to the nearest 1/8 percent).

The following is a summary of changes in long-term debts of the Municipality for the year ended June 30, 2021:

| DESCRIPTION | BALANCE JULY 1, 2020 | NEW ISSUES | RETIREMENTS AND ADJUSTMENTS | BALANCE JUNE 30, 2021 | AMOUNTS DUE WITHIN ONE YEAR | AMOUNTS DUE AFTER ONE YEAR |
|---|---|---|---|---|---|---|
| **Governmental Funds:** | | | | | | |
| General Obligations Bonds | $ 118,848,832 | $ 22,295,000 | $ (30,281,700) | $ 110,862,132 | $ 8,911,700 | $ 101,950,432 |
| Special Obligations Bonds | 47,022,260 | - | (4,803,000) | 42,219,260 | 5,121,000 | 37,098,260 |
| Community Disaster Loan | 5,000,000 | - | - | 5,000,000 | - | 5,000,000 |
| Net Pension Liability | 120,792,619 | - | - | 120,792,619 | - | 120,792,619 |
| Net OPEB Liability | 5,016,612 | - | - | 5,016,612 | - | 5,016,612 |
| Other Obligations | 25,191,483 | 9,137,297 | (10,559,565) | 23,769,215 | 6,109,088 | 17,660,127 |
| **TOTAL** | **$ 321,871,806** | **$ 31,432,297** | **$ (45,644,265)** | **$ 307,659,838** | **$ 20,141,788** | **$ 287,518,050** |

## B. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2021, are as follows:

| | General Obligation Bonds | | Special Obligation Bonds | | Federal Loans | | Other Obligations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year Ending June 30, | Principal Payment | Interest Payment | Principal Payment | Interest Payment | Principal Payment | Interest Payment | Principal Payment | Interest Payment | Principal | Interest |
| 2022 | $ 8,911,700 | $ 7,608,059 | $ 5,121,000 | $ 2,655,877 | $ - | $ - | $ 1,245,337 | $ 68,601 | $ 15,278,037 | $ 10,332,537 |
| 2023 | 9,513,982 | 7,098,123 | 4,790,026 | 2,508,391 | - | - | 6,094,748 | 64,224 | 20,398,756 | 9,670,738 |
| 2024 | 9,979,200 | 6,483,980 | 5,036,000 | 2,198,366 | - | - | 516,077 | 59,571 | 15,531,277 | 8,741,917 |
| 2025 | 10,574,200 | 5,827,352 | 4,643,000 | 1,869,853 | - | - | 83,648 | 54,626 | 15,300,848 | 7,751,831 |
| 2026 | 10,502,200 | 5,146,960 | 4,182,000 | 1,561,046 | - | - | 88,904 | 49,370 | 14,773,104 | 6,757,376 |
| 2027-2031 | 36,843,650 | 16,972,858 | 11,826,266 | 4,615,195 | - | - | 535,668 | 155,698 | 49,205,584 | 21,743,751 |
| 2032-2036 | 20,771,000 | 5,883,602 | 6,565,691 | 981,232 | - | - | 195,209 | 12,201 | 27,531,900 | 6,877,035 |
| 2037-2041 | 3,766,200 | 327,251 | 55,277 | 2,073 | - | - | - | - | 3,821,477 | 329,324 |
| Unmatured | - | - | - | - | 5,000,000 | - | 140,818,854 | 274,097 | 145,818,854 | 274,097 |
| **TOTAL** | **$ 110,862,132** | **$ 55,348,185** | **$ 42,219,260** | **$ 16,392,033** | **$ 5,000,000** | **$ -** | **$ 149,578,445** | **$ 738,388** | **$ 307,659,837** | **$ 72,478,606** |

continue

## 16. LONG-TERM DEBTS – continuation

### C. Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2021, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

### D. Refunding of Bonds and Notes

On September 11, 2020, the Municipality entered into a Credit Refinancing Agreement with the Governmental Development Bank Debt Recovery Authority (DRA) to refinance $4,805,277 of a special obligation bond 2013, no costs associated with this transaction were incurred. The intent of this transaction was to reduce the interest costs and to repay the loan in a shorter period. No cash was obtained from this refinance.

On June 24, 2021, the Municipality entered into a Credit Refinancing Agreement with the banking corporation of First Bank Puerto Rico to refinance $22,190,000 of different general obligation bonds and notes, and to cover the costs associated with the transaction of $105,000. The intent of this transaction was to reduce the interest costs on these obligations, through reduced interest rates. No cash was obtained from this refinance, and the costs of issuance were added to the new loan, for a total of $22,295,000.

### E. Other Non-Current Liabilities

The following is a summary of changes in other non-current liabilities of the Municipality for the year ended June 30, 2021:

| DESCRIPTION | BALANCE JULY 1, 2020 | NEW ISSUES | RETIREMENTS AND ADJUSTMENTS | BALANCE JUNE 30, 2021 | AMOUNTS DUE WITHIN ONE YEAR | AMOUNTS DUE AFTER ONE YEAR |
|---|---|---|---|---|---|---|
| **Governmental Funds:** | | | | | | |
| Law No. 42-MRCC | $ 1,191,409 | $ - | $ (65,554) | $ 1,125,855 | $ 69,672 | $ 1,056,183 |
| PR Retirement System Administration | 6,948,342 | 1,603,704 | (1,626,292) | 6,925,754 | 1,175,665 | 5,750,089 |
| Claims and Judgments | 129,868 | - | - | 129,868 | 18,718 | 111,150 |
| PR Health Insurance Administration (ASES) | 1,541,509 | - | (1,541,509) | - | - | - |
| Christmas Bonus | 831,646 | 825,603 | (831,646) | 825,603 | 825,603 | - |
| Retainage Liability | 384,522 | 208,921 | (303,181) | 290,262 | - | 290,262 |
| Compensated Absences | 14,164,187 | 6,499,069 | (6,191,383) | 14,471,873 | 4,019,430 | 10,452,443 |
| **TOTAL** | **$ 25,191,483** | **$ 9,137,297** | **$ (10,559,565)** | **$ 23,769,215** | **$ 6,109,088** | **$ 17,660,127** |

**<u>Due to Municipal Revenue Collection Center</u>**

The Act No. 42 dated January 2000 allows the Municipal Revenue Collection Center (MRCC, as per its Spanish acronyms) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation prior to fiscal year 2000. The municipalities agreed to repay MRCC such loans in semi-annual installments plus accrued interest. In connection with Law 42 the Municipality issued a note payable to MRCC in the amount of $1,876,000 payable in 30 years plus interest at a semi-annual rate of 3.0938%.

continue

## 16. LONG-TERM DEBTS – continuation

### PR Retirement System Administration

The GWFS, Statement of Net Position, includes approximately $6.9 million in the governmental activities for the amount notified by the Retirement System Administration to the Municipality, related to the uniform additional contribution, and "Pay-As-You-Go" debt. The General Fund have been used to liquidate the liability for this concept.

### Accrued Legal Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

### Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2021 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2021.

### Retainage Liability

This amount represents the amount retained on construction contracts that should be paid upon termination of the contracted projects.

### Compensated Absences

The GWFS, Statement of Net Position, includes approximately $14.5 million in the governmental activities for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

## 17. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC to the Municipality (See Note 3).

These property taxes are accumulated by the MRCC in costs of the general obligation bonds issued by the Municipality (See Note 16). Payments are made to the GDB from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank of Puerto Rico to make disbursements for purposes set out in this Act.

continue

## 17. DEBT RETIREMENT – continuation

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 10.5% while the municipal SUT is reduced to 1.0%, effective February 1, 2014. Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, it created the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) authorized the GDB Restructuring Act under which the GDB transferred most of its loan assets to the GDB Debt Recovery Authority (DRA). The DRA is a new entity created by the GDB Restructuring Act for the purpose of receiving certain GDB assets, facilitate the restructuring of certain of GDB's indebtedness pursuant PROMESA and issuing new bonds.

As part of the process, the DRA engaged AmeriNat as its loan servicer. As loan servicer, AmeriNat is now handling all matters relating to municipalities loans portfolio from DRA, including collection and posting of payments, certification of balances to auditors, and addressing any past due situations in the event the municipalities is unable to make scheduled payments.

## 18. DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Municipality recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The Municipality has an item that are reportable on the government-wide *Statement of Net Position* that are relates to inflows from changes in the Total Pension Liability and Total OPEB Liability (Notes 19 and 20).

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

continue

## 18. DEFERRED INFLOWS OF RESOURCES – continuation

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:

| **Statement of Net Position:** | |
|---|---|
| Deferred Inflows of Resources | |
| Unamortized Investment in ERS | $ 13,490,904 |

| **Balance Sheet:** | |
|---|---|
| Commonwealth of Puerto Rico | $ 358,948 |
| Federal Grants: | |
| Capital Projects Fund | 1,776,420 |
| Health and Human Services Fund | 9,381,584 |
| Other Governmental Funds | 2,891,864 |
| Total Deferred Inflows of Resources | $ 14,408,816 |

## 19. PENSION PLANS

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2020.

### A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

#### *(1) Description of the Plan*

The Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the ERS was administered by the Board of Trustees of the ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-As-You-Go" ("Pay-Go") system for the payment of pensions. Also pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer make any contributions to ERS, and ERS will be funded on a "Pay-As-You-Go" basis.

As a result of the implementation of the "Pay-Go" system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, *Accounting and Financial Reporting for Pension*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

#### *(2) Pension Benefits*

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

continue

**19. PENSION PLANS – continuation**

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Defined Contribution Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

Al regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

***(a) Service Retirement Eligibility Requirements***

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 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 Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are 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.

| Date of Birth | Attained Age as of June 30, 2013 | Retirement Eligibility Age |
|---|---|---|
| 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.

continue

**19. PENSION PLANS – continuation**

2) *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.

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

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

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

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

**(b) *Compulsory Retirement***

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

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

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

continue

**19. PENSION PLANS – continuation**

1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be 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 Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is 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 to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

   If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

   For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not 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-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, 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 is determined as of June 30, 2013.

continue

**19. PENSION PLANS – continuation**

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is 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 will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, pus 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 includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

***(d) Special Benefits***

*1) Minimum Benefits*

- *Past Ad hoc Increases:* The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- *Minimum Benefit for Members who Retired before July 1, 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). (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013)
- *Coordination Plan Minimum Benefit:* A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007).

*3) Special "Bonus" Benefits*

- *Christmas Bonus:* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. *(Act No. 144-2005, as Amended by Act No. 3-2013)*

continue

**19. PENSION PLANS – continuation**

– *Medication Bonus:* 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. *(Act No. 155-2003, as Amended by Act No. 3-2013)*

***(e) Changes in Plan Provisions since Prior Valuation***

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

***(3) Allocation Methodology***

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences. The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

***(4) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions***

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB No. 73 is now implemented in substitution of GASB No. 68. The Municipality's Total Pension Liability was measured as of June 30, 2020 based on the audited financial information of January 28, 2022 and actuarial valuation as January 25, 2022.

***(a) Total Pension Liability***

Effective July 1, 2014, the Municipality implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the Municipality's accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. The Municipality's Total Pension Liability was measured as of June 30, 2020. The measurement Date is June 30, 2019, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2019 through June 30, 2020.

continue

**19. PENSION PLANS – continuation**

As June 30, 2020, the Municipality's proportional share of the Total Pension Liability used was as follows:

| | |
|---|---|
| Proportion - June 30, 2019 | 0.43457% |
| Proportion - June 30, 2020 | 0.43100% |
| Change - Increase (Decrease) | -0.00357% |

As June 30, 2020, the Municipality reported $7,649,750 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

| Total Pension Liability | June 30, 2020 | |
|---|---|---|
| | Total | Proportional Share (0.43100%) |
| Total Pension Liability | $ 28,026,444,581 | $ 120,792,619 |
| Covered Payroll | $ 2,881,265,970 | $ 21,236,900 |
| Total Pension Liability as a % of Covered Payroll | 972.71% | 568.79% |

### (b) Pension Expense

For the fiscal year ended June 30, 2021, the Municipality recognized pension expense of $6,271,976 of total pension payments of the "Pay-As-You-Go" system.

### (c) Deferred Outflows/Inflow of Resources

As of June 30, 2021, the Municipality 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 |
|---|---|---|
| Differences between actual and expected experience | $ - | $ 9,720,800 |
| Changes in assumptions | 4,343,568 | 3,770,104 |
| Net differences between projected and actual earnings on plan investments | - | - |
| Total | $ 4,343,568 | $ 13,490,904 |

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

continue

**19. PENSION PLANS – continuation**

| Year Ended June. 30, | Amount |
|---|---|
| 2021 | $ (1,306,762) |
| 2022 | (1,306,762) |
| 2023 | (1,306,762) |
| 2024 | (1,306,768) |
| 2025 | (1,306,774) |
| Thereafter | (2,613,510) |
| Total | $ (9,147,336) |

***(d) Actuarial Methods and Assumptions***

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate has decreased from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019. The projected mortality improvement scale was updated from Scale MP-2018 to Scale MP-2019 to reflect the projected mortality improvement scale issued in the valuation year.

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly-used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that , if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by ERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2020 are based on projecting the System obligations determined as of the census data collection date of July 1, 2019 for one year using roll-forward methods, assuming no liability gains or losses.

continue

## 19. PENSION PLANS – continuation

Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2020 is provided below, including any assumptions that differ from those used in the June 30, 2019 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Municipal Bond Rate: 3.50% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.50% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as result of the Act No. 3-2017 four year extension of the Act No. 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

Define Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to "Pay-As-You-Go" funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for Demographic Assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with ERS staff for reasonableness and are documented in this Section.

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality improvement Scale MP-2020 from the 2006 base year, and projected forward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scales MP-2020 from the 2006 base year, and projected forward using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scales AA. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

continue

**19. PENSION PLANS – continuation**

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For members retiring after June 30, 2013 under Act No. 127-1958, a Joint & 100% Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016 but was not provided as of July 1, 2017 for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed (as shown in the following table), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No, 211-1958 and those not married were assumed to have a modified cash refund (as shown in the following table). The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

***Discount Rate***

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation, (see Note 2 E. 12). The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2019 and 2020, was as follow:

| | June 30, 2019 | June 30, 2020 |
|---|---|---|
| Discount Rate | 3.87% | 3.50% |
| 20 Year Tax-Exempt Municipal Bond Yield | 3.87% | 3.50% |

continue

**19. PENSION PLANS – continuation**

***Changes in Total Pension Liability***

| Changes in Total Pension Liability | Increase (Decrease) | |
|---|---|---|
| | Total Pension Liability | Proportional Share |
| Balance as of June 30, 2019 | $ 27,607,417,757 | $ 118,986,634 |
| Changes for the year: | | |
| Service Cost | 71,195,464 | 306,849 |
| Interest on Total Pension Liability | 1,042,438,893 | 4,492,861 |
| Effect of Plan Changes | - | - |
| Effect of Economic/Demographic (Gains) or Losses | (332,236,425) | (1,431,923) |
| Effect of Assumptions Changes or Inputs | 1,136,269,697 | 4,897,267 |
| Benefits Payments | (1,498,640,805) | (6,459,069) |
| **Balance as of June 30, 2020** | **$ 28,026,444,581** | **$ 120,792,619** |

***(e) Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate***

The following presents the Municipality's proportionate share of the Total Pension Liability calculated using the discount rate, as well as what the Municipality's proportionate share of the Total 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:

| | 1% Decrease 2.50% | Current Discount Rate 3.50% | 1% Increase 4.50% |
|---|---|---|---|
| Total Pension Liability | $ 137,692,432 | $ 120,792,619 | $ 107,153,759 |

***Fiscal Plan for Puerto Rico***

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 26) on April 23, 2021. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% in the aggregate to beneficiaries of more to $1,500 of monthly benefits:

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2018 valuation. Also, note that the Fiscal Plan anticipates that ERS will be funded on a "Pay-As-You-Go" basis.

continue

**19. PENSION PLANS – continuation**

***"Pay-As-You-Go" Funding***

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the "Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants" (Act No. 106-2017), which reformed the Commonwealth Retirement Systems. 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. Act No. 106-2017 also established by law the "Pay-Go" mechanism for the payment of accumulated pension benefits and eliminated employers' contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of "Pay-Go" benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the ERS's governance. Under Act No. 106-2017, the ERS' Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The "Pay-Go" funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for "Pay-Go" funding will be. While the ERS can set an expected "Pay-Go" amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a "Pay-Go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.
- And how would the impacts of specific management decisions be handled.

continue

**19. PENSION PLANS – continuation**

There are certainly many more operational details to be considered. "Pay-Go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

**B. Pension Plan of Defined Contributions of the Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan**

Effective January 1, 2002, the Municipality created a retirement plan Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan (the Plan) for all employees of whose salaries were funded with the Head Start Program and which have at least one year of service and are age twenty-one or older. The Plan is part of the Popular Master Defined Contribution Retirement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1081.01 (a) of the Puerto Rico Internal Revenue Code of 2011, as amended. Popular Bank of Puerto Rico serves as the Plan Trustee.

The Municipality is required to contribute three percent (3%) of the employees' annual compensation. The Municipality complied with this required contribution percentage for the current and past two years. Participants may contribute based on after tax contributions amounts representing up to ten percent (10%) of the aggregate compensation paid to the employee, excluding the Christmas Bonus.

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting is based on years of continuous service. On June 30, 2021, the Plan has 400 active participants. The participant vesting schedule on such portion of their accounts is described below:

| Completed years of service | Vested percent |
|---|---|
| Less than 3 years | 0% |
| At least 3 years | 20% |
| At least 4 years | 40% |
| At least 5 years | 60% |
| At least 6 years | 80% |
| At least 7 years | 100% |

The vesting provisions consider years of service before the employer established this Plan.

On termination of service due to death, disability or retirement, a participant or beneficiary may elect to receive a lump-sum amount equal to the value of the participants vested interest in his/her account, or maintain the funds in the Plan. Also, ten years' annuities are allowed under the plan. The normal retirement age is the latter of the date a participant attains his 65th birthday or the fifth anniversary of the first day of the plan year in which he/she commenced participation in the Plan. Early retirement distributions are not permitted. Under the provisions of the Plan, participants are not permitted to withdraw any amount contributed by the employer from the plan, unless separated from employment.

continue

**19. PENSION PLANS – continuation**

Total contributions to the Plan for fiscal year ended December 31, 2020 (the last available financial information) were $470,035 and benefits paid were $147,303. Investment revenues were $40,653 and net appreciation in fair value of investments were $400,181, for a net increase in Plan Assets of $763,566. As of December 31, 2020, the Net Fund Assets of the Plan is $4,208,649.

Additional information on the Plan is provided in its financial statements for the year ended December 31, 2020, a copy of which can be obtained from in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

## 20. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 19 the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

### *Healthcare Benefits*

The Municipality accounts for OPEB under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions* should be made. This statement has substantially revised the accounting requirements previously mandated under GASB Statements No. 43 and 45. The most notable change is that the Annual Required Contribution (ARC) has been eliminated and the Net OPEB Liability will be an item on the employer's financial statement rather than a footnote entity.

GASB Number 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers.

Funding Policy – the contribution requirement of ERS Medical Insurance Plan (MIP), are established by Act No. 95-1963. Its benefit consists of a maximum of $100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIPC. These benefits are financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and municipalities.

### *Christmas Bonus Benefits*

The Christmas Bonus was $200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

continue

## 20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

### *Relationship Between Valuation Date, Measurement Date, and Reporting Date*

The Valuation Date is July 1, 2018. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2019. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year date. This report is for measurement year July 1, 2018 to June 30, 2019 for reporting period ending June 30, 2020.

### *Significant Changes*

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2019 was 97,708 retirees.

### *Deferred Inflows and Outflows*

Because all participants are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year.

### *Total OPEB Liability*

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB No. 75.

| Total OPEB Liability | June 30, 2020 | |
|---|---|---|
| | Total | Proportional Share (0.52054%) |
| Total OPEB Liability | $ 963,731,403 | $ 5,016,612 |
| Covered Payroll | N/A | N/A |
| Total OPEB Liability as a % of Covered Payroll | N/A | N/A |

The Municipality's proportionate share of the Net Pension Liability used was as follows:

| | |
|---|---|
| Proportion - June 30, 2019 | 0.51884% |
| Proportion - June 30, 2020 | 0.52054% |
| Change - Increase (Decrease) | 0.00170% |

### *Discount Rate*

The discount rate on June 30, 2019 and 2020, was as follow:

| | June 30, 2019 | June 30, 2020 |
|---|---|---|
| Discount Rate | 3.87% | 3.50% |
| 20-Year Tax-Exempt Municipal Bond Yield | 3.87% | 3.50% |

continue

## 20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

As of June 30, 2021, the ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2020 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2020 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as of June 30, 2021. As a result, amounts to be reported as Total OPEB Liability, applicable disclosures and required supplementary information have been omitted.

| Changes in Total OPEB Liability | Total OPEB Liability | Proportional Share |
|---|---|---|
| Balance as of June 30, 2019 | $ 975,443,632 | $ 5,077,579 |
| Changes for the year: | | |
| Service Cost | - | - |
| Interest on Total OPEB Liability | 36,209,828 | 188,487 |
| Effect of Plan Changes | - | - |
| Effect of Economic/Demographic (Gains) or Losses | 6,081,663 | 31,658 |
| Effect of Assumptions Changes or Inputs | 26,337,201 | 137,096 |
| Benefits Payments | (80,340,921) | (418,207) |
| **Balance as of June 30, 2020** | **$ 963,731,403** | **$ 5,016,612** |

### *Actuarial Methods and Assumptions*

Actuarial Assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Actuarial Cost Method | Entry Age Normal |
| Inflation | Not Applicable |
| Municipal Bond Index | 3.50%, as per Bond Buyer General Obligation 20-Bond Municipal bond Index |
| Projected Salary Increases | Not Applicable |
| Mortality | Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from the 2006 base year, and projected formward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from 2006 base year, and projected forward using MP-2020 on a generational basis. As generational tables,<br><br>100.0% of deaths while in active service are assumed to be occupational for members covered under under Act No. 127-1958.<br><br>Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.<br><br>Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regardings future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. |

continue

## 20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

***Sensitivity of the Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate***

The following presents the Municipality's proportionate share of the Total OPEB Liability calculated using the discount rate, as well as what the Municipality's proportionate share of the Total OPEB 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:

| | 1% Decrease 2.50% | Current Discount Rate 3.50% | 1% Increase 4.50% |
|---|---|---|---|
| **Total OPEB Liability** | **$ 5,489,419** | **$ 5,016,612** | **$ 4,613,467** |

## 21. COMMITMENTS

**Construction and Improvement Commitments**

| Fund | Encumbered For | Amount | Reported within Fund Balance |
|---|---|---|---|
| Capital Projects Fund | Improvements to City Roads | $ 2,291,720 | Restricted for Infrastructure Improvement |
| | Improvements to "Complejo Deportivo del Este" | 55,148 | Restricted for Sureste Sport Facility Construction |
| | Construction of Borinquen Atravezada Basketball Court | 183,126 | Assigned for Improvements to Facilities and Buildings |
| | Renovations Market Place (Plaza del Mercado) | 41,735 | Assigned for Improvements to Facilities and Buildings |
| | Construction of Idamaris Gardens, Villa del Rey, Turabo Height and Valle Tolima Recreational Facilities | 80,673 | Assigned for Improvements to Facilities and Buildings |
| | Improvements Los Ramos Bridge Bo. Las Carolinas | 191,031 | Assigned for Improvements to Facilities and Infrastructure |
| | Improvements to Public Square Santiago R Palmer | 183,585 | Assigned for Improvements to Facilities and Infrastructure |
| | Total | $ 3,027,018 | |

**Operating Leases**

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lesser. Expenditures for the year ended June 30, 2021 amounted to approximately $1,167,868.

Future operating lease commitments are scheduled as follows:

| Operating Leases Fiscal Year | Amount |
|---|---|
| 2022 | $ 4,556,979 |
| 2023 | 2,509,169 |
| 2024 | 303,458 |
| 2025 | 300,639 |
| 2026 | 227,683 |
| Total | $ 7,897,928 |

continue

## 21. COMMITMENTS – continuation

### Solid Waste Disposal Contract

The Municipality formalized a contract for the recollection and disposal and management of solid waste with a private entity (the Company). The original contract was amended effective July 1, 2014 for the following services and is due on December 31, 2021. Such contract requires the Municipality to pay the Company $11.50 per unit served. The contract provides for a minimum of 45,500 units served. Also, the fee paid to the Company will increase annually by five percent (5.0%) until December 31, 2021. Vegetable material requires the Municipality to pay the Company $9.99 per cubic yard with an annual increase of two-point five percent (2.5%).

In addition, the Municipality is agreed to pay an additional $32.00 per tons of solid waste that the Municipality transports and deposits in the Company's recollection center for processing. The fee is also subject to an annual increase of two-point five percent (2.5%). The Municipality is agreed to pay an additional $25.00 per tons of solid waste that the Municipality transports and deposits directly in landfill facilities by the Municipality. The fee is also subject to an annual increase of two-point five percent (2.5%).

The Municipality received royalty of $2.21 per tons for direct private collection in the recollection facilities. The royalty is also subject to an annual increase of three percent (3%). The Company also should collect recyclable material in 28,561 units for $3.24 per unit. The fee is also subject to an increase to $3.33 in fiscal year 2019, $3.43 in fiscal year 2021, and $3.54 in fiscal year 2021.

Expenditures for the year ended June 30, 2021 for this service under the terms of this contract amounts to approximately $10.6 million.

Future commitments under the terms of this contract are estimated as follows:

**Solid Waste Disposal Contract**

| Fiscal Year | Amount |
|---|---|
| 2022 | $ 2,117,912 |

### Other Commitments

On June 30, 2021, the non-major Special Revenue Funds had a deficit of $583,983 as follows: Housing Funds $5,382, MASS Transit Fund $4,030 and Economic Development Activities Fund $574,571. The deficits resulted from the accrual of expenditures without accruing intergovernmental and federal revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental and federal revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

The Municipality has entered into various agreements to provide professional and consulting services, health services, repairs and maintenance of facilities, marketing and other miscellaneous services to its constituents.

continue

## 21. COMMITMENTS – continuation

### Contributions to Nonprofits Corporations

Act No. 137 of August 9th, 2002 amended Article 17.001 and added Article 17.016 to the 1991 Autonomous Municipalities Law No. 81 of the Commonwealth of Puerto Rico. This amendment authorizes Municipalities "to be part of, participate, support and sponsor nonprofit organizations under the General Law of Corporations of 1995, as amended, and as long as it is organized to promote economic and cultural development or social improvement of a municipality or region of which the municipality is part of and the corporation counts with the participation and engagement of, in addition of the municipalities, the different sectors composed of higher level educational institutions and industrial and commercial enterprises, including associations grouping businesses and industries. Municipalities' participation on the Board of Directors cannot exceed 1/3 of the total members".

Under this Article, the Autonomous Municipality of Caguas, participates in various forms with (1) Corporación de Bellas Artes de Caguas (COBAC); (2) Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS); (3) Corporación de Conservación Etnoecológica Criolla, Inc. (CCECI); (4) Iniciativa Tecnológica Centro-Oriental, Inc. (INTECO); (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO); (6) Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC); (7) Alianza Municipal Servicios Integrados (AMSI); and (8) Corporación Juvenil para el Desarrollo de Comunidades Sostenibles (CJDCS).

On October 8, 2004 representatives of the Municipality and COBAC signed a 15-year lease contract, transferring the operations of the Fine Arts Center (FAC) to COBAC effective July 1, 2004 for a $1,000 annual rental fee payable to the Municipality. In addition, the Municipality is scheduled to make annual contributions for 5 years at par with the commitments that each representative on the Board has agreed to contribute. Subsequently, COBAC would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality's representation on the Board of Directors is 4 out of 17 members, or 24% of the voting power. During this fiscal year, the facilities of the Fine Arts Center was used as center of vaccination for COVID-19 patients. The operational income was from other sources.

On July 1, 2006 representatives of the Municipality and SANOS signed a 5-year lease contract for the facilities where SANOS is currently located for a $1 annual fee payable to the Municipality. More recently, during the fiscal year 2020-2021 the Municipality contributed $15,000 to SANOS for education and drug prevention services.

On April 18, 2007 representatives of the Municipality and CCECI signed a 10-year lease contract for the land and facilities comprising the Caguas Botanical and Cultural Garden for an annual fee of $1,000 effective April 18, 2007. The Municipality agreed to contribute (1) operation funds for $500,000 for each fiscal year 2007-2008 and 2008-2009; $350,000 for fiscal years 2009-2010 and 2010-2011; $350,000 for fiscal year 2011-2012; (2) payment of utilities corresponding to the land and facilities included in the contract; (3) payment of the applicable insurance policies as the owner of the land and facilities; and (4) remaining funds assigned to the development of the Garden in the various dependencies/departments within the Municipality until June 30, 2007. During the fiscal year 2019-2020, the Municipality made contributions to CCECI for a total of $162,300 to cover operating expenses. In addition, in fiscal year 2015-2016, CCECI entered in a loan agreement with BADECO in the amount of $100,000, with an outstanding balance on June 30, 2021 of $29,151.

On September 3, 2003 representatives of the Caguas and other Municipalities signed a contractual agreement with INTECO to contribute funds; property; social, human, physical and technological capital from time to time. After the initial contribution, each Municipality would contribute approximately $1 per person annually according to the most recent Census available. The Municipality of Caguas and INTECO have and will enter into contractual agreements for specific projects from time to time. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. During fiscal year, the Municipality contributed $200,000 to cover operating expenses.

continue

## 21. COMMITMENTS – continuation

On July 1st, 2010, Banco de Desarrollo Centro Oriental, Inc. (BADECO) came to its existence as the only Regional Community Bank in Puerto Rico. BADECO is a nonprofit organization created and funded by the Autonomous Municipality of Caguas (MAC) as a spinoff of what was known for 27 years as the Community Development Bank of Caguas.

Out of this affiliation, BADECO administers for the MAC the loan programs that were not able to be transferred due to their nature of their funding, which came from Federal Government agencies, such as business loan fund granted by the Economic Development Administration (EDA) and the Energy Efficiency Loan fund for home owners granted by the Federal Department of Energy (DOE). BADECO reports to the MAC the programs performance and holds all the documentation regarding such programs. These programs are audited yearly by the MAC and are also open to audit procedures for the funding agencies. During fiscal year 2017-2018, BADECO made a loan in the amount of $86,000 from cash deposit in the Bank, in addition, during fiscal year 2018-2019, another loan was made in the amount of $73,490, in fiscal year 2019-2020 a new loan of $95,857 was made, finally, during fiscal year 2020-2021 a new loan was made in the amount of $9,265. These loans are non-interest bearing, no repayment has been made on these loans.

In addition, during this fiscal year, the amount of $569,295 was transferred for the management of an economic incentive program for companies in the city whose operations have been affected by the declaration of a Covid-19 coronavirus pandemic.

On March 26, 2012 representation of Municipality and Board of Directors signed a contractual agreement where the Municipality authorized Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC) to manage and operate such property. C3TEC is an interactive educational center intended to awaken the curiosity and stimulate interest in Science among children from the elementary level onward. The Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. As part of the agreement, during fiscal year 2020-2021 the Municipality contribution to C3TEC was $343,521 to cover operating expenses.

On September 24, 2013 representatives of the Municipality and of Integral Service Municipal Alliance (AMSI by Spanish acronyms) signed a one-year contract to contribute funds to cover the rent expense of AMSI for its headquarter offices located in the Municipality of Caguas. This entity was organized under the laws of Puerto Rico over 18 years ago, with the intent of providing services related to the search of employment contributing to a strengthened industry and a workforce that grows. During fiscal year 2020-2021, the Municipality contributed $100,000 to AMSI to cover rent expenses.

On July 13, 2015 representatives of the Municipality and the executive director of Youth Corporation for the Development of Sustainable Communities (CJDCS BY Spanish acronyms) signed an eight-year contract to contribute funds to cover operations expenses. CJDCS is a non-profit organization was created to have strategies and projects for the promotion of agriculture and food security in our region. During fiscal year 2020-2021, the Municipality contributed $150,000 to CJDCS to cover operations expenses.

### Housing and Rental Contracts

The Section 8 Housing Choice Voucher Program (HCVP) provides rental assistance to help very low-income families afford decent, safe, and sanitary rental housing. The Municipality as a local Public Housing Agency (PHA) is authorized under Federal and State laws to operate housing programs within an area or jurisdiction. The Municipality, as a PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent [a housing assistance payment (HAP)] on behalf of the family.

continue

**21. COMMITMENTS – continuation**

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR Section 982.1).

The US Department of Housing and Urban Development (HUD) enters into annual contributions contracts (ACCs) with PHAs under which HUD provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR Section 982.151).

During the fiscal year ended June 30, 2021 the Municipality received HAP's assistance payments in the amount of approximately $7.2 million. No significant changes are expected during the subsequent fiscal year.

**Line of Credit**

In May 4, 2021, got approved a Non-Revolving Line of Credit in the aggregate principal amount of $19,206,060 (the "NRLOC") by the Oversight Board, the Debt Transaction consists of the request by the Municipality (i) to be granted from commercial bank to advance funds over an 18-month draw period for eligible projects to remedy the damage suffered as a result of Hurricane María, which are eligible for reimbursement from the Federal Emergency Management Agency ("FEMA"), and (ii) obtain a 7-year amortizing term loan (the "Note") to convert any unpaid, outstanding balance on the NRLOC after draw period ends.

The Note is structured to fully amortize over a fifteen (15) year term with monthly interest-only payments during the draw period followed by non-equal annual principal and interest payments and a balloon payment made at maturity after the seven (7) year Note. The NRLOC and Note will accrue interest at a variable rate equal to the sum of the Prime Rate plus an applicable margin of 0.50% (currently 3.75%) with a minimum interest rate floor of 3.75%. At June 30, 2021, no outstanding balance of the line of credit was reported.

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continue

## 22. COMPONENTS OF FUND BALANCES

| | GENERAL FUND | CAPITAL PROJECTS FUND | DEBT SERVICE FUND | HEALTH & HUMAN SERVICES FUND | SOCIAL AND WELFARE ACTIVITIES FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|---|---|---|
| **Nonexpendable** | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Restricted For:** | | | | | | | |
| Commercial and Residential Loans | - | - | - | - | - | 955,771 | 955,771 |
| COVID-19 Emergency | - | - | - | - | 13,129 | - | 13,129 |
| Debt Repayments | - | - | 15,053,946 | - | - | - | 15,053,946 |
| Drug Prevention Programs | - | - | - | - | 12,377 | - | 12,377 |
| Economic Development Purposes | - | - | - | - | 119,063 | 3,692 | 122,755 |
| Educational Assisted Programs | - | - | - | - | 180,202 | 20,374 | 200,576 |
| Energy Saving Loans | - | - | - | - | 215,198 | - | 215,198 |
| Head Start and Elderly Programs | - | - | - | 14,512 | - | - | 14,512 |
| Housing Assisted Programs | - | - | - | - | - | 1,342,803 | 1,342,803 |
| Improvement to the City Hall Building | - | 12,270 | - | - | - | - | 12,270 |
| Improvements to Facilities and Buildings | 413,715 | 13,258 | - | - | 1,368 | - | 428,341 |
| Infrastructure Improvements | - | 2,816,502 | - | - | 1,050 | 7,158 | 2,824,710 |
| Recreational Activities | - | 22,851 | - | - | - | 50,121 | 72,972 |
| Reforestation Initiatives | - | - | - | - | 243 | 9,897 | 10,140 |
| Safety and Security Programs | - | - | - | - | 156,407 | 5,728 | 162,135 |
| Social Development Purposes | - | - | - | - | 498,531 | 17 | 498,548 |
| Sureste Sport Facility Construction | - | 582,558 | - | - | - | - | 582,558 |
| System 911 | - | - | - | - | 1,694 | - | 1,694 |
| CARES Act Revolving Loan | - | - | - | - | 130,118 | - | 130,118 |
| Transit Improvement Programs | - | - | - | - | 684 | - | 684 |
| **Total Restricted** | **413,715** | **3,447,439** | **15,053,946** | **14,512** | **1,330,064** | **2,395,561** | **22,655,237** |
| **Committed To:** | | | | | | | |
| Economic Development Purposes | - | - | - | - | - | 10,860 | 10,860 |
| Transcriollo Transportation Program | - | - | - | - | - | 15,084 | 15,084 |
| **Total Committed** | **-** | **-** | **-** | **-** | **-** | **25,944** | **25,944** |
| **Assigned To:** | | | | | | | |
| Improvements to Facilities and Buildings | - | 1,728,628 | - | - | - | - | 1,728,628 |
| Improvements to Facilities and Infrastructure | - | 844,968 | - | - | - | - | 844,968 |
| Improvements to Facilities | - | 37,006 | - | - | - | - | 37,006 |
| Infrastructure Improvements | - | 24,765 | - | - | - | - | 24,765 |
| Maintenance and Supplies | 454,376 | - | - | - | - | - | 454,376 |
| Waste Disposal | 116,884 | - | - | - | - | - | 116,884 |
| Professional Services | 804,867 | - | - | - | - | - | 804,867 |
| **Total Assigned** | **1,376,127** | **2,635,367** | **-** | **-** | **-** | **-** | **4,011,494** |
| **Unassigned (Deficit)** | **-** | **-** | **-** | **(1,403,297)** | **(1,158,300)** | **(583,983)** | **(3,145,580)** |
| **Total Fund Balances** | **$ 1,789,842** | **$ 6,082,806** | **$ 15,053,946** | **$ (1,388,785)** | **$ 171,764** | **$ 1,837,522** | **$ 23,547,095** |

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## 23. CONTINGENCIES – continuation

### Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of $129,868 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

The amount presented in the total liabilities of the governmental activities in the statement of net position represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

### Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

## 24. TAX ABATEMENTS

The Municipality provides tax abatements through two programs— the Traditional Urban Center and Special Corridors, and new technology industries; manufacture; service; distribution (local or export); transportation; corporate headquarters, and others. Also, by Resolution 12A-55 the Court of First Instance of Puerto Rico determine the Satellite Television are exempt of Municipal Patents Law.

The Commonwealth of Puerto Rico provides tax abatements in the Municipality through eight programs— the Tax Incentives Act of 1998; Tax Incentives for the Development of Puerto Rico Act; Act to Promote the Export of Services; Green Energy Incentives Act of Puerto Rico; Tax Exemptions for Hospitals; Agricultural Tax Incentives Act of Puerto Rico; Puerto Rico Tourism Development Act of 2010; and Young Entrepreneurs Incentive and Financing Act.

Also, the Internal Revenue Code administered by the Treasury Department, provide full exemption to municipal volume of business taxes for rental of low-income families. In addition, the Puerto Rico Department of Housing administered a law that provides tax abatements in the Municipality for housing projects for elderly person with low incomes.

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## 24. TAX ABATEMENTS – continuation

<table>
<tr><th rowspan="2">Municipality Tax Abatement Disclosure as required by GASB Statement No. 77</th><th colspan="6">Programs Administered by the Department of Economic Development of the Municipality</th></tr>
<tr><th colspan="3">Ordinance No. 12A-48, Serie 2011-2012 Program</th><th colspan="3">Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance of Puerto Rico</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">Review and establish new tax incentives for the jurisdiction of the Municipality and for its special zones of the Traditional Urban Center and Special Corridors.</td><td colspan="3">Resolution 12A-55, Case DPE 2007-3979 (904) Court of First Instance.</td></tr>
<tr><td>2) Tax being abated.</td><td colspan="3">Real Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.</td><td colspan="3">Volume of Business Taxes.</td></tr>
<tr><td>3) Authority under which abatement agreements are entered into.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law.</td></tr>
<tr><td>4) Criteria to be eligible to receive abatement.</td><td colspan="3">The taxpayer will contribute to maintain and improve the economic and labor stability of the industrial or commercial unit to be established, or any other factor or circumstance that reasonably demonstrates that the concession of tax incentives will result in the best socio-economic interests of the Municipality.</td><td colspan="3">Exempt from payment of municipal patent by Satellite Television, as required by the court.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">Through a reduction of annual rate on Personal Property Taxes of 75% during five (5) years, or 100% during two (2) years plus 90% during the next eight (8) years, with some limitations; Real Property Taxes of 75% during five (5) years, or 40% during ten (10) years, with some limitations; Volume of Business Taxes of 75% of total amount during five (5) years, or 40% during ten (10) years, with some limitations; and full exemption on Construction Excise Taxes on new construction and expansions.</td><td colspan="3">This Act provide full exemption of Volume of Business Taxes.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.</td></tr>
<tr><td>7) Provisions for recapturing abated taxes.</td><td colspan="3">N/A</td><td colspan="3">N/A</td></tr>
<tr><td>8) Types of commitments made by the Municipality other than to reduce taxes.</td><td colspan="3">N/A</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="2">9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td></tr>
<tr><td>$2,006,374</td><td>$3,768,835</td><td>$0</td><td>$0</td><td>$21,285</td><td>Not Applicable</td></tr>
</table>

continue

## 24. TAX ABATEMENTS – continuation

<table>
<tr><th rowspan="2">Municipality Tax Abatement Disclosure as required by GASB Statement No. 77</th><th colspan="6">Programs Administered by the Puerto Rico Industrual Development Company</th></tr>
<tr><th colspan="3">Tax Incentives Act of 1998 (Act Number 135 of December 2, 1997 as Amended)</th><th colspan="3">Tax Incentives for the Development of Puerto Rico Act (Act Number 73 of May 28, 2008, as Amended)</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">Stimulate the formation of local capital, promote the development of the air port infrastructure and maritime, promote the export of manufactured articles in Puerto Rico, promote the development of strategic industries, promote the development of small and medium businesses, promote the establishment of regional offices and corporate headquarters and distribution centers in Puerto Rico, promote the creation of jobs and the development of human resources, and promote the development and distribution of technology in Puerto Rico.</td><td colspan="3">Provide an adequate environment and opportunities for the continued development of our local industry; providing an attractive tax proposal that appeals to foreign direct investments and fosters the economic development and social betterment in Puerto Rico.</td></tr>
<tr><td>2) Tax being abated.</td><td colspan="3">Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.</td><td colspan="3">Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.</td></tr>
<tr><td>3) Authority under which abatement agreements are entered into.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.</td></tr>
<tr><td>4) Criteria to be eligible to receive abatement.</td><td colspan="3">Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.</td><td colspan="3">Any industrial unit whose objective is the production of a manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objective the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90%; Volume of Business Taxes of 60% to 100% of total amount; and 60% to 100% of Construction Excite Taxes during the decrete period.</td><td colspan="3">Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% to 100% up to 15 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 15 years, 100% for industries dedicated to generation of energy using renewable sources for the first 5 years and then 60% for 15 years.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts.</td></tr>
<tr><td>7) Provisions for recapturing abated taxes.</td><td colspan="3">N/A</td><td colspan="3">N/A</td></tr>
<tr><td>8) Types of commitments made by the Municipality other than to reduce taxes.</td><td colspan="3">N/A</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="2">9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td></tr>
<tr><td>Not Available</td><td>$337,304</td><td>Not Available</td><td>$0</td><td>$57,410</td><td>Not Available</td></tr>
</table>

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | **Programs Administered by the Puerto Rico Industrual Development Company** | | | | | |
|---|---|---|---|---|---|---|
| | **Act to Promote The Export of Services (Act Number 20 of January 17, 2012 as Amended)** | | | **Green Energy Incentives Act of Puerto Rico (Act Number 83 of July 19, 2010 as Amended)** | | |
| **1) Purpose of Program.** | Provide provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital, thus promoting the economic development and social betterment of Puerto Rico. | | | To achieve the diversification of energy sources and energy technology infrastructure by reducing our dependency on energy sources derived from fossil fuels such as petroleum; reducing and stabilizing our energy costs; controlling electricity price volatility in Puerto Rico; reducing the flight of capital caused by the import of fossil fuels; preserving and improving our environment, natural resources and quality of life; promoting the conservation of energy and social wellbeing through various mechanisms such as setting and achieving goals within a mandatory timetable, and economic and tax incentives to stimulate the generation of electric power through sustainable renewable and alternative renewable energy source. | | |
| **2) Tax being abated.** | Real and Personal Property Taxes, and Volume of Business Taxes. | | | Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | |
| **4) Criteria to be eligible to receive abatement.** | Any entity with an office or bona fide establishment located in Puerto Rico which carries out or may carry out, eligible services that are, in turn, considered services for export or promoter services shall be considered an eligible business. | | | Any business engaged in the production and sale, at a commercial level, of green energy for consumption in Puerto Rico, whether as the owner and direct operator of the production unit or as owner of a production unit operated by another person, in which case, both the owner and the operator shall be deemed to be businesses engaged in an eligible activity for the purposes of this Act; Green energy producer, as defined in Section 1.4, for consumption in Puerto Rico, provided that this is his/her main business; Assembly of green energy generation equipment, including the installation of such equipment at the facilities of the green energy user to be produced by such equipment; Property engaged in the generation of green energy. | | |
| **5) How recipients' taxes are reduced.** | Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% up to 20 years; and Volume of Business Taxes of 60% of total amount for 20 years. | | | Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% for 25 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 25 years. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **$0** | **$217,471** | **Not Available** | **$0** | **$49,546** | **Not Available** |

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | **Programs Administered by the Puerto Rico Industrual Development Company** | | | | | |
|---|---|---|---|---|---|---|
| | **Tax Exemptions for Hospitals (Act Number 168 of June 30, 1968, as Amended)** | | | **Agricultural Tax Incentives Act of Puerto Rico (Act Number 225 of December 1, 1995, as Amended)** | | |
| **1) Purpose of Program.** | To grant incentives to people dedicated to the operation of hospitals and / or homes of health in Puerto Rico and adjacent facilities; and to establish the conditions under the hospitals will enjoy said incentives, as well as to exempt from the payment of contributions bonds, promissory notes or other obligations and fifty (50) percent of the interest on the same, that these entities issue to raise the necessary funds or capital for your purposes. | | | To set the public policy in the agricultural sector and other related economic sectors; establish the requirements to qualify "bona fide" farmers and exempt them from payment of any kind of taxes on personal and real property, municipal volume of business, income, excise taxes and any municipal and/or state tax. | | |
| **2) Tax being abated.** | Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes. | | | Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | |
| **4) Criteria to be eligible to receive abatement.** | Any people dedicated to the operation of hospitals and/or homes of health in Puerto Rico and adjacent facilities, shall be considered an eligible business. | | | Any natural or legal person who during the taxable year for which he claims deductions, exemptions or benefits provided by this law has a current certification issued by the Secretary of Agriculture, in consultation with the Secretary of the Treasury, which certifies that during said year was dedicated to the exploitation of an activity that qualifies as an agricultural business, as said term is defined in subsection (b) of this section, and which derives fifty percent (50%) or more of its gross income from a agricultural business as operator, owner or lessee, as recorded in yourtheir income tax return, shall be considered an eligible business. | | |
| **5) How recipients' taxes are reduced.** | This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes. | | | This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **$0** | **$111,468** | **Not Available** | **$0** | **$7,356** | **Not Available** |

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | Programs Administered by the Puerto Rico Industrual Development Company | | | | | |
|---|---|---|---|---|---|---|
| | Foreign Trade Zones (Act Number 131 of June 17, 1999) | | | Young Entrepreneurs Incentive and Financing Act (Act Number 135 of August 7, 2014, as Amended) | | |
| **1) Purpose of Program.** | To promote the export activity generated by companies located in a Foreign Trade Zone, including the income generated by the products used in the process of manufacturing, mixing or packaging made within the area, established in accordance with the provisions of the Zone Act of Foreign Trade of 1934 (19 USC 81C (a)), by an entity incorporated under the laws of the Government of Puerto Rico or by a company authorized to do business in Puerto Rico. | | | To promote the retention of Puerto Rican talent and foster the return of young professionals who have left the Island. | | |
| **2) Tax being abated.** | Personal Property Taxes and Volume of Business Taxes. | | | Personal Property Taxes and Volume of Business Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | |
| **4) Criteria to be eligible to receive abatement.** | It grants an exemption from the payment of personal property taxes and municipal patents exclusively to the merchandized and the volume of business derived from the export of those companies whose operations are in the Foreign Trade Zones. | | | This Act offers various competitive advantages for young professionals to work and establish themselves in Puerto Rico. Firstly, full income tax exemption is provided for the first forty thousand dollars ($40,000) earned by young persons between the ages of sixteen (16) and (26) on account of wages, rendered services, or self-employment, shall be considered an eligible business. | | |
| **5) How recipients' taxes are reduced.** | Through a reduction of annual rate on Personal Property Taxes of 100%; and Volume of Business Taxes of 100%. | | | This Act provide full exemption of Personal Property Taxes and Volume of Business Taxes for the first $500,000 of volume earned for a period of 3 years. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value and volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **$0** | **$3,436** | **Not Applicable** | **Not Available** | **$7,837** | **Not Available** |

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | **Programs Administered by the Puerto Rico Industrual Development Company** | | |
|---|---|---|---|
| | **Puerto Rico Tourism Development Act of 2010 (Act Number 74 of July 10, 2010, as Amended)** | | |
| **1) Purpose of Program.** | To set the public policy to make Puerto Rico a world-class | | |
| **2) Tax being abated.** | Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | |
| **4) Criteria to be eligible to receive abatement.** | Any hotels, condo hotels, Puerto Rican hostels, agro-housing, guest houses, timeshare rights plans and vacation clubs, hostels that belong to the "Posadas de Puerto Rico" program, those certified as "Bed and Breakfast (B & B)" and any other from time to time are part of programs promoted by the Tourism Company, theme parks, golf courses operated by, or associated with, a hotel that is an exempt business under this Act, the Tourism Development Act of Puerto Rico of 1993 or any another similar law of an analogous nature, or golf courses included within a destination or tourist complex (resort), tourist marinas, facilities in port areas for tourism purposes, agrotourism, nautical tourism (provided, however, that any marina in the Islands Municipalities of Vieques and Culebra will be considered as tourist marine for purposes of this Law), medical tourism and other facilities or activities that, due to the special attraction derived from its usefulness as a source of active, passive or fun entertainment, shall be considered an eligible business. | | |
| **5) How recipients' taxes are reduced.** | Through a reduction of annual rate on Real Property Taxes and Personal Property Taxes of 90% for 10 years; Volume of Business Taxes of 100% to new business for 10 years, and existing business of 90% for 10 years; and Construction Excise Taxes of 100% of total amount of new construction for 10 years. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **$0** | **$101,207** | **Not Available** |

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | Programs Administered by the Puerto Rico Department of Treasury | | | | | |
|---|---|---|---|---|---|---|
| | Section 1101 (a) (6) of Internal Revenue Code of Puerto Rico | | | Insurance Code of Puerto Rico (Act Number 77 of June 19, 1957) | | |
| **1) Purpose of Program.** | Promote low-income families access to rental housing at reasonable prices. | | | Promote to maintain a main office of insurer in Puerto Rico. | | |
| **2) Tax being abated.** | Volume of Business Taxes. | | | Volume of Business Taxes and Personal Property Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law. | | | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law. | | |
| **4) Criteria to be eligible to receive abatement.** | The taxpayer will be a low-income family to be eligible. | | | Maintain a main Office in Puerto Rico. | | |
| **5) How recipients' taxes are reduced.** | This Act provide full exemption of Volume of Business Taxes. | | | This Act provide full exemption of Volume of Business Taxes and Personal Property Taxes. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts. | | | The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business and personal property taxes; the approved percentage is applied to each figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **Not Applicable** | **$14,035** | **Not Applicable** | **Not Applicable** | **$342,638** | **Not Applicable** |

continue

## 24. TAX ABATEMENTS – continuation

| *Municipality Tax Abatement Disclosure as required by GASB Statement No. 77* | **Programs Administered by the Puerto Rico Treasury Department** — **Law on Cooperative Savings and Credit Societies (Act Number 225 of October 28, 2002)** | | |
|---|---|---|---|
| **1) Purpose of Program.** | To facilitate and advance the growth and strengthening of savings and credit cooperatives organized under this Act, to encourage broad and full participation in the financial services markets and to promote the expansion of the philosophy and cooperative principles. | | |
| **2) Tax being abated.** | Real and Personal Property Taxes, Volume of Business Taxes, and Construction Excise Taxes. | | |
| **3) Authority under which abatement agreements are entered into.** | Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act. | | |
| **4) Criteria to be eligible to receive abatement.** | "Cooperative" means any cooperative savings and credit cooperative of first or second degree constituted and organized in accordance with this Act. Those cooperatives whose partners are cooperative entities shall be considered as second degree cooperatives. "Closed cooperatives" means any first-tier savings and credit cooperative whose members are limited to a particular company or group to the exclusion of other groups. "Insured Cooperative" means any cooperative that receives the stock and deposit insurance that the Corporation will provide. "Adequate Condition Cooperative" means that credit and savings cooperative that has an adequate financial and managerial condition, to be determined according to objective and uniform parameters that the Corporation will define through regulations. | | |
| **5) How recipients' taxes are reduced.** | This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes. | | |
| **6) How amount of abatement is determined.** | The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business, total investment on construction; the approved percentage is applied to that figure to determine the abatement amounts. | | |
| **7) Provisions for recapturing abated taxes.** | N/A | | |
| **8) Types of commitments made by the Municipality other than to reduce taxes.** | N/A | | |
| **9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.** | **Property Taxes** | **Volume of Business Taxes** | **Construction Excite Taxes** |
| | **$0** | **$21,368** | **Not Applicable** |

continue

## 24. TAX ABATEMENTS – continuation

<table>
<tr><td rowspan="2">Municipality Tax Abatement Disclosure as required by GASB Statement No. 77</td><td colspan="3">Programs Administered by the Puerto Rico Department of Housing</td></tr>
<tr><td colspan="3">Act Number 165 of August 23, 1996</td></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">Housing Rental Program for the Elderly with Low Income properties.</td></tr>
<tr><td>2) Tax being abated.</td><td colspan="3">Real Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.</td></tr>
<tr><td>3) Authority under which abatement agreements are entered into.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.</td></tr>
<tr><td>4) Criteria to be eligible to receive abatement.</td><td colspan="3">The taxpayer will rent residential property to elderly with low-income to be eligible.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">This Act provide 90% exemption of Real Property Taxes, Volume of Business Taxes, and Construction Excise Taxes.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.</td></tr>
<tr><td>7) Provisions for recapturing abated taxes.</td><td colspan="3">N/A</td></tr>
<tr><td>8) Types of commitments made by the Municipality other than to reduce taxes.</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="2">9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td></tr>
<tr><td>$0</td><td>$26,575</td><td>Not Applicable</td></tr>
</table>

On July 1, 2019, the Commonwealth of Puerto Rico approved the new Puerto Rico Incentive Code, to consolidate the dozens of existing decrees, incentives, subsidies, reimbursements, or tax or financial benefits; promote the environment, the opportunities and the adequate tools to promote the sustainable economic development of Puerto Rico; establish the legal and administrative framework that will govern the request, evaluation, concession or denial of incentives by the Commonwealth of Puerto Rico; promote the effective and continuous measurement of the costs and benefits of the incentives that are granted to maximize the impact of the investment of public funds; give stability, certainty and credibility to the Commonwealth of Puerto Rico in everything related to private investment; and improve Puerto Rico's economic competitiveness.

continue

## 25. NET POSITION / FUND BALANCES RESTATEMENT

For the year ended June 30, 2021, the Municipality adjusted net position and fund balance of General Fund, to reflect prior period adjustment related to a repayment plan with the Retirement System Administration.

The following schedule reconciles the June 30, 2020 Net Position and Fund Balance, respectively, as previously reported to Beginning Net Position and Fund Balance, respectively, as restated, July 1, 2020:

| | GOVERNMENTAL ACTIVITIES |
|---|---|
| Net Position, as Previously Reported, At June 30, 2020 | $ 11,249,104 |
| Adjustment to Total Pension Liability | 75,588,608 |
| Adjustment to Total OPEB Liability | 499,296 |
| Adjustment to Capital Assets | 65,453 |
| **Beginning Net Position, as Restated, At July 1, 2020** | **$ 87,402,461** |

| | SOCIAL AND WELFARE ACTIVITIES FUND | OTHER NON MAJOR FUNDS |
|---|---|---|
| Fund Balance, as Previously Reported, At June 30, 2020 | $ - | $ 4,808,331 |
| Reclassification for GASB No. 54 | 3,256,284 | (3,256,284) |
| **Beginning Fund Balance, As Restated, At July 1, 2020** | **$ 3,256,284** | **$ 1,552,047** |

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

### PROMESA Overview

*Background*

**Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade.** As of 2018, the economy was $18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth's outstanding debt and pension liabilities had grown to over $120 billion – with more than $70 billion in financial debt and more than $50 billion in pension liabilities – an amount almost twice the size of Puerto Rico's economy.

continue

**26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

Also, before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in *Puerto Rico v. Franklin Cal. Tax-Free Trust, et al.*, 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

***PROMESA***

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

***Oversight Board*****:** The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an instrumentality" of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

**Conditions for Termination of the Oversight Board**

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, and economic prosperity and growth can return to Puerto Rico.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

**An Oversight Board shall terminate upon certification by the Oversight Board that:**

1) **the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and**

2) **for at least 4 consecutive fiscal years—**

   A. **the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and**

   B. **the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting**

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA, that define when the Oversight Board can be dissolved, were incorporated into the federal law to ensure the board disappeared, for good, once Puerto Rico's financial outlook stabilized and better financial management processes have been put in place.

**Progress on Requirement Number 1: Adequate Access to Credit Markets at Reasonable Interest Rates**

***Sustainable Debt Restructuring***

The Oversight Board has and is following a "once and done" approach to the restructurings, to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico's debt, the largest debt restructuring in the history of the municipal bond market. The confirmed PoA reduces the outstanding Commonwealth's debt and other claims by almost 80%, from $33 billion of existing claims to $7.4 billion in new debt. In addition, the Commonwealth's total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from $90 billion to $34 billion, saving Puerto Rico almost $60 billion in debt service payments.

In May 2017, the Puerto Rico Government and the Government Development Bank (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title IV. The RSA, as amended in April 2018, reduced about $5 billion of debt to about $3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring cushioned municipalities by offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by $6 billion, from $18 billion to $12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately $17.5 billion that will now be available to support the financial needs of the Commonwealth.

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification of about $1 billion of outstanding loans under PROMESA's Section 207. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about $380 million over the next 10 years and eliminates approximately $1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provides PRASA with access to $400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA.

The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing $2,600 to the Act 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

Key to the sustainability of any debt restructuring is the growth of the Puerto Rico economy. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of these aim to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, the creation of jobs, and ultimately a better life for the residents of the Island.

***Timely Financial Reporting***

The requirement related to timely financial reporting includes expectations that the Government publish past due audited financials begin issuing audited financial statements on a best practice basis (e.g., issue audited financial statements within six months after the fiscal year ends).

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019-FY2020. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two recent public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (~38 months) to issuance. According to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (ACFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017. Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs.

To achieve timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

As seen in ***Exhibit 8***, the Government is behind on meeting many of these requirements, but with steadfast political will and leadership, the Oversight Board is convinced that these objectives can be reached, past due ACFRs can be issued within the next two years, and a system can be put in place that assures continued timely issuance as expected by the credit markets.

**Progress on Requirement Number 2: Four Years of Budgets Developed with Modified Accrual Accounting Principles and Expenditures which have not Exceeded Revenues**

***Four Years of Developing Budgets in Line with Modified Accrual Accounting Standards***

The Government is expected to develop and implement a budget in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing ACFRs. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending and help Puerto Rico avoid overspending and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the City.

***Four Years of Balanced Budgets According to Accrual Based Accounting Method***

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today.

The key principles that will need to be met for the Government to achieve this requirement are the formulation of an accrual based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund. In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

To fully implement accrual budgeting, the Government would need to adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Government and other covered instrumentalities have unfortunately not yet demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board. As shown in ***Exhibit 8***, rapid progress will be needed across a number of dimensions to meet the key requirements under PROMESA.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

### EXHIBIT 8: PROGRESS TOWARDS ACHIEVING KEY REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD

● Not started ● Some Progress ● Completed

| Category | Details | | Current Progress |
|---|---|---|---|
| Complete Sustainable Debt Restructuring | Exchanged / New Debt | • Exchanged / new bonds trading well in the public markets | Some Progress |
| | Muni bond market / buyers | • Interest from traditional, institutional municipal bond buyers | Not started |
| | Investors | • Evidence investors ready to invest in Puerto Rico again | Not started |
| | Debt Management Policy | • Prepare a written debt management policy as required by the CW PoA<br>• Present the debt management policy to the Oversight Board for approval | Some Progress |
| Timely Financial Reporting | Timeline and Action Plan | • Provide detailed timeline and implementation plan for issuance financial statements | Some Progress |
| | Financial reporting division | • Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units | Some Progress |
| | Multiyear master audit contract | • Secure multi-year contracts with auditors and other essential contractors in conformance with best practices | Not started |
| | Implement monthly closing procedures | • Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings)<br>• Medium-term: Implement ERP system (quarterly closing procedure)<br>• Longer-term: ERP system fully implemented (monthly closing procedures) | Some Progress |
| | Strict monitoring and publish delays | • Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays | Not started |
| Budgets in accordance with modified accrual accounting standards | Modified Accrual Budgeting | • Adopt policies and train employees to book budget and book expenses<br>• Adjusting entries are communicated and coordinated across agencies<br>• Accruals and interagency reconciliations automated | Not started |
| | Revenue / Expenses | • Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes<br>• Detailed resolution certifications and expense system registration | Some Progress |
| | Payroll Systems | • Appropriations for termination of payroll accruals<br>• Integrate systemwide payroll system into a financial reporting system | Some Progress |
| | Accounts Payable | • Maintain government wide monthly accounts payable procedures<br>• Automate process and journal entries | Some Progress |
| | Purchase Orders | • Book encumbrances for entire year when contract is approved<br>• Multi-year contract encumbered at the beginning of subsequent years | Not started |
| | Other Funds | • Consolidate as many special revenue funds into the General fund as possible; better maintained through annual General Fund appropriation procedures<br>• Track and record all expenses and standardize chart of accounts | Not started |
| Implementing a balanced budget | Payroll spending | • Connect time and expense to payroll systems | Some Progress |
| | Closing of books | • Reconcile bank balances and monies held outside of the TSA<br>• Issue consistent systemwide guidance | Not started |
| | Real time spending reports | • Perform quarterly budget to actual review and forecast adjustment by senior leadership<br>• Issue public reporting and strategic guidance to stay within means | Some Progress |
| | Visibility into all funds | • Gain visibility into special revenue funds and federal funds<br>• Require reporting and sweep back unused general fund appropriations | Not started |
| | Financial accounting systems | • Integrate financial systems<br>• Ensure reporting is consistent across all agencies | Not started |

***Fiscal Plans, Budgets, and Other Oversight Board Tools***:

Under PROMESA, covered territorial instrumentalities/entities can be required by the Oversight Board to prepare and submit annual fiscal plans, who then reviews and either rejects or certifies them. The Oversight Board certifies fiscal plans and budgets to achieve PROMESA's goals to provide a method to achieve fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The certification and timely implementation of fiscal plans and balanced budgets are invaluable tools to achieve fiscal responsibility and restore Puerto Rico's access to the capital markets. Among other things, the certified fiscal plans and budget provide for estimates of revenues and expenditures in conformance with agreed accounting standards; funds essential public services; provides adequate funding for public pension systems; provides for the elimination of structural deficits; improves fiscal governance, accountability, and internal controls; and provides for capital expenditures and investments necessary to promote economic growth. Fiscal plans provide a route to direct the economy and finances of the Government of Puerto Rico towards economic growth and fiscal accountability. This is crucial for Puerto Rico to avoid repeating the mistakes of the past.

To ensure that covered entities deliver against fiscal plan measures, the Oversight Board has a variety of potential tools available, including: Setting Budgets; Budget and Fiscal Plan Compliance; Approval and Review of Contracts, Legislation, Executive Orders, Administrative Orders, Rules, and Regulations; Recommendations; Public Hearings; Implementation Tracking with Monthly and Quarterly Reporting; Working Group Meetings; Stakeholder Engagement; Policy Research and Data Analysis; and Publication of Documents.

### Fiscal Plan – 2022

On January 27, 2022, the Oversight Board certified the New Fiscal Plan of the Commonwealth. **The 2022 Fiscal Plan are limited in scope and do not revisit the broad range of forecasts and assumptions included in the 2021 Fiscal Plan.** Specific updates include incorporating new information about the macroeconomic environment, increased federal funding for NAP, incorporating the impact of legislation passed by the Government of Puerto Rico expanding the EITC program, incremental Federal funding under the Infrastructure Investment and Jobs Act, and an increased Medicaid FMAP through early December 2021. The 2022 Fiscal Plan also incorporates terms of the confirmed PoA, detail on the use of funds from the Municipal Revenue Collection Center (CRIM, by its Spanish acronym), and on the status of "Pay-Go" payments. Finally, the Plan includes details on the LUMA transaction and costs related to the mobilization of certain previous PREPA employees to Commonwealth agencies as well as certain budgetary decisions and adjustments that were part of the FY2022 Budget.

The 2022 Fiscal Plan projects that ~$84 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 for a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), funding for the public (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of the Commonwealth's share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend).

Of the total, ~$47 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated $7 billion will come from private and business insurance payouts, and $8 billion is related to other sources of federal funding.

The 2022 Fiscal Plan includes ~$20 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program, of which ~$2.7 billion is estimated to be allocated to offset the Commonwealth and its associated entities' expected FEMA-related cost-share requirements. This portion of CDBG-DR funding will go towards covering part of the ~10% cost-share burden on expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2022 Fiscal Plan allocates $4.2 billion for Puerto Rico's cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to $1.5 billion for Puerto Rico, of which $1 billion is attributable to the Commonwealth.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The IIJA bill allocates around $2.3 billion federal funds to Puerto Rico with the purpose of improving the Island's infrastructure stock over FY2022-2026. These funds will support repairing and rebuilding roads and bridges; improving public transportation options; building a network of electric vehicle chargers; increasing broadband coverage; preparing infrastructure for climate change, cyber-attacks, and extreme weather events; improving water infrastructure; developing airport infrastructure; among other purposes. Incremental funding from the IIJA (accounting for prior Federal infrastructure support) is estimated to be around $1.6 billion. The 2022 Fiscal Plan accounts for the impact of these incremental funds, which have a positive temporary impact on economy and growth due to the temporary nature of the funds.

Although Puerto Rico has a 55% statutory federal medical assistance percentage (FMAP) for most populations, the amount of annual federal funding for non-CHIP Medicaid expenditures received under Section 1108 is capped each year – meaning the Commonwealth is fully responsible for covering costs above this cap. Prior to recent CMS guidance, this cap was set at around $400 million annually. While the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), this growth rate does not keep pace with the Island's projected healthcare expenditure growth.

Historically, the actual cap applied to Puerto Rico's Medicaid program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid program. Under a September 2021 CMS interpretation of Section 1108 of the Social Security Act, Puerto Rico is now permanently expected to receive a higher federal funding allotment cap (starting at $2.943 billion in FFY2022). The growth rate remains pegged to the medical component of CPI-U. Each year, ~$100 million of federal Section 1108 funds are allocated to the Department of Health to cover the eligible federal match on expenditures related to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations. That portion of federal funding is, therefore, considered unavailable for use on other Medicaid expenditures.

The 2022 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that the amount of federal funds expected to become available during any future fiscal year changes, and, depending on the conditions imposed on the federal funds granted, the Oversight Board reserves the right to revise the projected General Fund appropriation for ASES appropriately.

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2022 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.).

For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

### Long-Term Macroeconomic, Revenue, and Expenditure Projections including PoA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico confirmed an amended PoA to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The PoA creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year CBA which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106-2017 Defined Contribution program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106-2017 accounts outside of Government control, and providing $2,600 to the Act No. 106-2017 accounts of active Act No. 1 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

**Risks to the long-term projections in the 2022 Fiscal Plan.** While the 2022 Fiscal Plan projects that ~$14.4 billion in surplus will be generated from FY2022-FY2048, there are several variables that have a material impact on the long-term financial projections. The extent to which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

### Municipal Services Reform

All of Puerto Rico's 78 municipalities are recipients of the Commonwealth municipal appropriation. To incentivize a new operating model between the central and municipal governments as well as municipal operational changes, the Fiscal Economic and Growth Plan published by the Commonwealth in September 2015 called for the elimination of all General Fund based municipal financial transfers, including direct budgetary subsidies, the property tax exoneration fund (included in Act 83-1991) and the municipal equalization fund (included in Act 80-1991). The subsequent Fiscal Plans reduced this appropriation. In FY2018, the total municipal appropriation was $220 million (a reduction of $110 million relative to the prior year). In FY2019, it was reduced to $176 million, and in FY2020, as stipulated in the 2019 Fiscal Plan, it was further reduced to $132 million. This amount remained the same for FY2021 as a planned reduction was paused to provide support to municipalities during the COVID-19 pandemic, but the appropriation will be phased-out and eliminated by FY2025. The transfer in FY2022 will decrease to $88 million. Given this decrease and the eventual phase out of transfers to municipalities, the imperative to execute strategic efforts to increase revenues, maximize investment of federal recovery funds and decrease operational costs to maintain fiscal sustainability is critical.

continue

## 26. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Municipalities are often on the front lines of providing individual and community services and were demonstrably engaged in COVID-19 response and recovery. This recovery is in addition to ongoing efforts to recover from the natural disasters of hurricanes and earthquakes. Through stimulus measures, including the ARP Act and CARES Act, as well as significant disaster relief funds, municipalities will receive substantial, time limited, financial aid to support economic redevelopment. Their siloed operations and limited local capacity to manage relief funding creates obstacles to leveraging funding effectively to promote necessary economic development and fiscal recovery.

Prior to, and in recovery from the pandemic, there has been little meaningful progress on redefining the relationship between the territorial Government and municipalities, almost no decentralization of responsibilities, and no fiscal decentralization. Moreover, municipalities have made little (if any) progress towards implementing the fiscal discipline required to reduce reliance on Commonwealth appropriations and better reflect a declining population in many areas. This lack of fiscal management was further stressed by the COVID-19 pandemic, threatening the ability of municipalities to provide necessary services, such as health, sanitation, public safety, and emergency services to their residents, and forcing them to prioritize expenditures. Based on the lack of progress to date and entrenchment of the municipal governance including municipal legislatures, comprehensive changes including consolidation of services are required as individual municipalities cannot accomplish significant impacts to the municipal cost structure.

## 27. SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

### Covid-19 Pandemic

On March 15, 2020, the Government of Puerto Rico lockdown must of government and private business operations in Puerto Rico in order to avoid the spreading of the COVID-19 infection among the people in Puerto Rico. This situation will have an economic impact over the Municipality, as exceptions and dates for filing taxes were waived for more than 3 months. The economic damages to the Municipality finances could not been estimated at this time. On March 19, 2020, the OMB issued the memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, which provided administrative remedies for entities impacted by COVID-19. Among other remedies, provides for awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 – Audit Requirements, to six (6) months beyond the normal due date, not applicable to this financial statements.

### PROMESA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than $50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs.

continue

## 27. SUBSEQUENT EVENT – continuation

AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of $2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing $2,600 to the Act No. 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

### 2022 Fiscal Plan for Puerto Rico

In accordance with the provisions described on Note 27 of the basic financial statements, the Oversight Board approved on January 27, 2022 the Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. With the New Fiscal Plan, the municipalities will receive the same subsidy of 2020 that will be amortized until fiscal year 2025. The scope of the Fiscal Plan is described in that Note.

### Cancellation of Community Disaster Loan EMN-2018-LF-4339PR15

On September 30, 2021, the United States Congress passed “The Extending Government Funding and Delivering Emergency Assistance Act” (P.L. 117-43). According to P.L. 117-43 Sec. 1601 (a): “Repayments of the remining balances of all loans, as of September 30, 2021, by the Federal Emergency management Agency under section 417 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5184 are hereby cancelled.” The balance of the loan, as of September 30, 2021, was $5,000,000, and pursuant P.L. 117-43, repayment of this remaining balance is cancelled.

On February 23, 2022, the Municipality obtained the approval for the issuance of a general obligation bond with Banco Popular of Puerto Rico, Series of 2022 in the amount of $1,486,000. This bond is for the purchase of vehicles and bond issue costs; principal and variable interest at 5%, payable semi-annually on the 1st day of January and July of each year through 2028.

In addition, on February 23, 2022, the Municipality obtained the approval for the issuance of a general obligation bond with Banco Popular of Puerto Rico, Series of 2022 in the amount of $5,332,000. This bond is for the improvements of roads of the Municipality and bond issue costs; principal and variable interest at 5%, payable semi-annually on the 1st day of January and July of each year through 2028.

Municipality has evaluated subsequent events through June 28, 2022, the date which the financial statements were available to be issued. Except for the subsequent events mentioned above, no additional events were identified that should be disclosed or adjusted in the Financial Statements or its Notes.

## END OF NOTES

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# Required Supplementary Information

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# SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – GENERAL FUND – NON-GAAP BUDGETARY BASIS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | Budget Amounts | | Actual Amounts (Budgetary Basis) | Variance with |
|---|---|---|---|---|
| | Original | Final | (See Notes 1 and 2) | Final Budget |
| Resources (Inflows): | | | | |
| Property Taxes | $ 28,364,168 | $ 28,364,168 | $ 29,741,116 | $ 1,376,948 |
| Volume of Business Taxes | 22,920,000 | 22,920,000 | 25,614,699 | 2,694,699 |
| Sales and Usage Taxes | 15,225,000 | 15,225,000 | 21,498,276 | 6,273,276 |
| Construction Excise Taxes | 7,200,000 | 7,200,000 | 2,854,822 | (4,345,178) |
| Intergovernmental Revenues | 4,356,422 | 4,356,422 | 3,278,440 | (1,077,982) |
| Interest | 110,000 | 110,000 | 9,556 | (100,444) |
| Rent and Other Resources | 700,000 | 700,000 | 1,393,517 | 693,517 |
| Fines and Penalties | 956,220 | 956,220 | 807,148 | (149,072) |
| **Total Resources (Inflows)** | 79,831,810 | 79,831,810 | 85,197,574 | 5,365,764 |
| Charges to Appropriations (Outflows): | | | | |
| General Government | 37,617,233 | 41,675,414 | 41,047,714 | 627,700 |
| Public Safety | 7,222,349 | 4,738,007 | 4,702,602 | 35,405 |
| Public Works | 8,331,624 | 7,942,684 | 7,710,579 | 232,105 |
| Culture and Recreation | 3,904,182 | 3,495,557 | 3,305,757 | 189,800 |
| Health and Welfare | 1,925,762 | 1,816,591 | 1,716,313 | 100,278 |
| Economic and Social Development | 3,243,971 | 3,159,620 | 3,027,342 | 132,278 |
| Housing | 745,549 | 721,270 | 659,328 | 61,942 |
| Sanitation and Environmental | 15,264,807 | 14,823,534 | 14,550,192 | 273,342 |
| Education | 1,576,333 | 1,459,133 | 1,402,471 | 56,662 |
| **Total Charges to Appropriations** | 79,831,810 | 79,831,810 | 78,122,298 | 1,709,512 |
| **Excess of Appropriations Over Resources** | **$ -** | **$ -** | **$ 7,075,276** | **$ 7,075,276** |

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

## 1. RECONCILIATION OF BUDGET/GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2021 is presented below for the general fund.

## 2. 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 129) | $ 85,197,574 |
| Basis of Accounting: | |
| Net Change in Assets and Deferred Inflow of Resources | (353,928) |
| Perspective Difference: | |
| Non Budgetary Items – Revenues of Other Funds and Transfers | 7,535,102 |
| Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 27) | $ 92,378,748 |
| **Uses/Outflows of Resources:** | |
| Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 129) | $ 78,122,298 |
| Difference – Budget to GAAP: | |
| Perspective Difference: | |
| Non Budgetary Items – Expenditures of Other Funds | 11,155,466 |
| Other Items – Non Budgetary | 2,269,864 |
| Timing Difference: | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes | (2,777,872) |
| Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes | 2,930,298 |
| Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (7,718,514) |
| Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 27) | $ 83,981,540 |

**END OF NOTES**

# REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY
## FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Proportion of theTotal Pension Liability * | 0.43100% | 0.43457% | 0.47978% |
| Proportionate Share of the Collective Total Pension Liability | $ 120,792,619 | $ 119,972,258 | $ 154,055,408 |
| Covered - Employee Payroll | N/A | N/A | N/A |
| Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll | N/A | N/A | N/A |

**Notes to Schedule:**

* The amounts presented have a measument date of the previous year end.

* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

**Note:** Fiscal year 2019 was the first year that the Municipality transtitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to ilustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

# REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT BENEFITS LIABILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Proportion of Total Other Post-Employment Benefit Liability * | $ 5,016,612 | $ 5,061,029 | $ 5,515,908 | $ 7,100,340 |
| Proportionate Share of Total Other Post-Employment Benefit | 0.52054% | 0.51884% | 0.51671% | 0.51662% |
| Covered - Employee Payroll | N/A | N/A | N/A | |
| Proportionate Share of Total Other Post-Employment Benefit Liability as Percentage of Covered-Employee Payroll | N/A | N/A | N/A | |

**Notes to Schedule:**

* The amounts presented have a measument date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017.

**Note:** Fiscal year 2018 was the first year that the new requirements of GASB Statement No. 75 were implemented by the Municipality. This schedule is required to ilustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

**1.** The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the Municipality and not Employee's Retirement System of the Government of the Government of Puerto Rico as a whole.

**2.** The data provided in the schedules is based as of the measurement date of the total pension liability and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

**3.** On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "*Pay-As-You-Go*" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

**END OF NOTES**

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# Supplementary Information Required by
# U.S. Department of Housing and Urban Development

| Line Item No. Assets | | Value | | | |
|---|---|---|---|---|---|
| | | 14.HCC HCV CARES Act Funding | 14.879 Mainstream Voucher Program | 14.871 Housing Choice Voucher | TOTAL |
| | **Current Assets - Cash:** | | | | |
| 111 | Cash - Unrestricted | $ - | $ - | $ 1,383,833 | $ 1,383,833 |
| 113 | Cash - Other Restricted | 124,751 | 106,979 | 148,366 | 380,096 |
| **100** | **Total Cash** | **124,751** | **106,979** | **1,532,199** | **1,763,929** |
| | **Receivables:** | | | | |
| 121 | Accounts Receivable - PHA Projects | - | - | 49,729 | 49,729 |
| 128 | Fraud Recovery | - | - | 20,489 | 20,489 |
| 128.1 | Allowance for Doubtful Accounts - Fraud Recovery | - | - | (20,489) | (20,489) |
| **120** | **Total Receivables, Net of Allowancesfor Doubtful Accounts** | **-** | **-** | **49,729** | **49,729** |
| **150** | **Total Current Assets** | **124,751** | **106,979** | **1,581,928** | **1,813,658** |
| | **Fixed Assets:** | | | | |
| 164 | Furniture, Equipment & Machinery - Administration | - | - | 566,731 | 566,731 |
| 166 | Accumulated Depreciation | - | - | (495,281) | (495,281) |
| **160** | **Total Capital Assets, Net of Accumulated Depreciation** | **-** | **-** | **71,450** | **71,450** |
| **190** | **Total Assets** | **124,751** | **106,979** | **1,653,378** | **1,885,108** |
| 200 | Deferred Outflow of Resources | - | - | - | - |
| **290** | **Total Assets and Deferred Outflow of Resources** | **$ 124,751** | **$ 106,979** | **$ 1,653,378** | **$ 1,885,108** |
| **Liabilities and Equity** | | | | | |
| | **Liabilities:** | | | | |
| | **Current Liabilities:** | | | | |
| 312 | Accounts Payable <=90 days | $ - | $ - | $ 8,546 | $ 8,546 |
| 322 | Accrued Compensated Absences - Current Portion | - | - | 53,000 | 53,000 |
| 331 | Accounts Payable - HUD PHA Programs | - | - | 1,687 | 1,687 |
| 332 | Accounts Payable - PHA Projects | - | - | 7,101 | 7,101 |
| 333 | Accounts Payable - Other Government | - | - | 249,982 | 249,982 |
| 342 | Unearned Revenues | 124,751 | - | - | 124,751 |
| **310** | **Total Current Liabilities** | **124,751** | **-** | **320,316** | **445,067** |
| | **Non-current Liabilities:** | | | | |
| 354 | Accrued Compensated Absences - Non-Current | - | - | 157,483 | 157,483 |
| **350** | **Total Non-Current Liabilities** | **-** | **-** | **157,483** | **157,483** |
| **300** | **Total Liabilities** | **124,751** | **-** | **477,799** | **602,550** |
| 400 | Deferred Inflow of Resources | - | - | - | - |
| | **Equity:** | | | | |
| 508.4 | Net Investment in Capital Assets | - | - | 71,450 | 71,450 |
| 511.4 | Restricted Net Position | - | 106,979 | 139,578 | 246,557 |
| 512.4 | Unrestricted Net Position | - | - | 964,551 | 964,551 |
| **513** | **Total Equity / Net Position** | **-** | **106,979** | **1,175,579** | **1,282,558** |
| **600** | **Total Liabilities, Deferred Inflow of Resourses and Equity - Net Assets / Position** | **$ 124,751** | **$ 106,979** | **$ 1,653,378** | **$ 1,885,108** |

continue

| | | Value | | | |
|---|---|---|---|---|---|
| Line Item No. Revenues | | 14.HCC HCV CARES Act Funding | 14.879 Mainstream Voucher Program | 14.871 Housing Choice Voucher | TOTAL |
| 70600 | HUD PHA Operating Grants | $ 274,148 | $ 107,678 | $ 8,168,503 | $ 8,550,329 |
| 71100 | Investment Income - Unrestricted | - | - | 727 | 727 |
| 71400 | Fraud Recovery | - | - | 24,290 | 24,290 |
| 71500 | Other Revenue | - | - | 407,598 | 407,598 |
| **70000** | **Total Revenues** | **274,148** | **107,678** | **8,601,118** | **8,982,944** |
| **Expenses** | **Administrative:** | | | | |
| 91100 | Administrative Salaries | 159,305 | - | 355,228 | 514,533 |
| 91200 | Auditing Fees | - | - | 16,000 | 16,000 |
| 91400 | Advertising and Marketing | - | - | 6,028 | 6,028 |
| 91500 | Employee Benefit Contributions - Administrative | 17,270 | - | 90,438 | 107,708 |
| 91600 | Office Expenses | 86,022 | - | 187,751 | 273,773 |
| 91900 | Other | 2,017 | - | 42,104 | 44,121 |
| **91000** | **Total Operating - Administrative** | **264,614** | **-** | **697,549** | **962,163** |
| **96900** | **Total Operating Expenses** | **264,614** | **-** | **697,549** | **962,163** |
| **97000** | **Excess of Operating Revenue over Operating Expenses** | **9,534** | **107,678** | **7,903,569** | **8,020,781** |
| 97300 | Housing Assitance Payments | - | 699 | 7,188,212 | 7,188,911 |
| 97350 | HAP Portability-In | - | - | 358,346 | 358,346 |
| 97400 | Depreciation Expense | - | - | 33,767 | 33,767 |
| 97500 | Fraud Losses | - | - | - | - |
| **90000** | **Total Expenses** | **264,614** | **699** | **8,277,874** | **8,543,187** |
| 10010 | Operating Transfer In | - | - | - | - |
| 10020 | Operating Transfer Out | - | - | - | - |
| **10010** | **Total Other Financing Sources (Uses)** | **-** | **-** | **-** | **-** |
| **10000** | **Excess (Deficiency) of Total Revenue Over (Under) Total Expenses** | **$ 9,534** | **$ 106,979** | **$ 323,244** | **$ 439,757** |
| | **Memo Account Information:** | | | | |
| *11030 | Beginning Equity | $ - | $ - | $ 842,801 | $ 842,801 |
| *11040 | Prior Period Adjustments, Equity Transfers | $ (9,534) | $ - | $ 9,534 | $ - |
| *11170 | Administrative Fee Equity | $ - | $ - | $ 1,036,001 | $ 1,036,001 |
| *11180 | Housing Assistance Payments Equity | $ - | $ - | $ 139,578 | $ 139,578 |
| *11190 | Unit Months Available | - | 75 | 15,900 | 15,975 |
| *11210 | Number of Unit Months Leased | - | 1 | 15,023 | 15,024 |

See accompanying notes to Financial Data Schedule.

## 1. GENERAL

The accompanying Financial Data Schedules (FDS) includes the Housing Voucher Cluster Programs activities of the Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality). This cluster included the activities for the Section 8 Housing Choice Vouchers Program, COVID-19 Section 8 Housing Choice Vouchers Program, and the Mainstream Voucher Program activities. The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.* Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position or change in net position of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.*

## 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Assets/Position are presented in the Municipality's *Statement of Net Position*. Revenues and Expenses are reported in the *Statement of Activities*.

## END OF NOTES

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# PART II

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

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| ***Federal Grantor/Pass-Through Grantor/Program or Cluster Title*** | ***Assistance Listing Number*** | ***Pass-Through Entity Identifying Number*** | ***Passed Through to Subrecipients*** | ***Total Federal Expenditures*** |
|---|---|---|---|---|
| U.S. Department of Agriculture Program: | | | | |
| Pass-Through the Puerto Rico Department of Education: | | | | |
| Child and Adult Care Food Program | 10.558 | CCC-003 | $ - | $ 672,588 |
| *Total U.S. Department of Agriculture Program* | | | - | 672,588 |
| U.S. Department of Commerce | | | | |
| COVID-19 – Economic Adjustment Assistance | 11.307 | | - | 96,130 |
| *Total US Department of Commerce* | | | - | 96,130 |
| U.S. Department of Housing and Urban Development Programs: | | | | |
| Community Development Block Grants/Entitlements Grants | 14.218 | | - | 1,991,994 |
| COVID-19 – Community Development Block Grant/Entitlements Grant | 14.218 | | - | 102,147 |
| Total Community Development Block Grants/Entitlements Grants | | | - | 2,094,141 |
| Emergency Solutions Grant Program | 14.231 | | 103,311 | 207,848 |
| COVID-19 – Emergency Solutions Grant Program | 14.231 | | 57,840 | 189,191 |
| Total Emergency Solutions Grant Program | | | 161,151 | 397,039 |
| Home Investment Partnership Program (HOME) | 14.239 | | - | 374,430 |
| Housing Voucher Cluster Programs: | | | | |
| Section 8 Housing Choice Vouchers Program | 14.871 | | - | 8,250,588 |
| COVID-19 – Section 8 Housing Choice Vouchers Program | 14.871 | | - | 274,148 |
| Mainstream Voucher Program (MV) | 14.879 | | - | 699 |
| Total Housing Voucher Cluster | | | - | 8,525,435 |
| *Total U.S. Department of Housing and Urban Development Programs* | | | 161,151 | 11,391,045 |
| U.S. Department of Justice Programs: | | | | |
| Public Safety Partnership and Community Policing Grant | 16.710 | | - | 117,240 |
| Pass-Through the Puerto Rico Department of Justice: | | | | |
| Crime Victim Assistance | 16.575 | 2018-V2-CAGUA-02<br>2019-V2-CAGUA-01 | - | 205,802 |
| *Total U.S. Department of Justice Programs* | | | - | 323,042 |

continue

| *Federal Grantor/Pass-Through Grantor/Program or Cluster Title* | *Assistance Listing Number* | *Pass-Through Entity Identifying Number* | *Passed Through to Subrecipients* | *Total Federal Expenditures* |
|---|---|---|---|---|
| U.S. Department of Transportation Programs: | | | | |
| Federal Transit Cluster Programs: | | | | |
| Buses and Bus Facilities Formula and Discretionary Program (Bus Program) | 20.526 | | $ - | $ 396,000 |
| Pass-Through the Puerto Rico Highway and Transportation Authority: | | | | |
| COVID-19 – Federal Transit-Formula Grants (Urbanized Area Formula Program) | 20.507 | | - | 283,632 |
| Total Federal Transit Cluster Programs | | | - | 679,632 |
| Public Transportation Emergency Relief | 20.527 | | - | 43,580 |
| Pass-Through the Puerto Rico Traffic Safety Commission: | | | | |
| State and Community Highway Safety | 20.600 | 2021-000167 | - | 22,625 |
| *Total U.S. Department of Transportation Programs* | | | - | 745,837 |
| U.S. Department of the Treasury: | | | | |
| Pass-Through the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA): | | | | |
| Coronavirus Relief Fund | 21.019 | | - | 5,020,624 |
| Pass-Through the Puerto Rico Health Department: | | | | |
| Coronavirus Relief Fund | 21.019 | | - | 1,131,201 |
| *Total U.S. Department of the Treasury* | | | - | 6,151,825 |
| U.S. Environmental Protection Agency Program: | | | | |
| Pass-Through the Puerto Rico Environmental Quality Board: | | | | |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | C-72-082-08 | - | 1,588,928 |
| *Total U.S. Environmental Protection Agency Program* | | | - | 1,588,928 |
| U.S. Department of Education Programs: | | | | |
| Pass-Through the Puerto Rico Department of Education: | | | | |
| Adult Education – Basic Grants to States | 84.002 | A000710 | - | 26,866 |
| Twenty-First Century Community Learning Centers | 84.287 | 2020-AF0042 | - | 147,866 |
| *Total U.S. Department of Education Programs* | | | - | 174,732 |

continue

| *Federal Grantor/Pass-Through Grantor/Program or Cluster Title* | *Assistance Listing Number* | *Pass-Through Entity Identifying Number* | *Passed Through to Subrecipients* | *Total Federal Expenditures* |
|---|---|---|---|---|
| U.S. Department of Health and Human Services Programs: | | | | |
| Head Start Cluster: | | | | |
| Head Start Program | 93.600 | | $ - | $ 17,138,706 |
| COVID-19 – Head Start Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Program | 93.600 | | - | 745,558 |
| Head Start Disaster Recovery from Hurricanes Harvey, Irma, and Maria | 93.356 | | - | 3,416,816 |
| *Sub-Total Head Start Cluster Programs* | | | - | 21,301,080 |
| Pass-Through Puerto Rico Office of the Ombudsman for the Elderly: | | | | |
| Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers (Cluster) | 93.044 | 180169R1 | - | 63,458 |
| Nutrition Services under Title III-C of the Older Americans Act (Cluster) | 93.045 | 180205R1 | - | 44,823 |
| COVID-19 - Cares Act for Nutrition Services Under Title III-C of the Older Americans Act (Cluster) | 93.045 | 180205R1 | - | 93,990 |
| Nutrition Services Incentive Program (Cluster) | 93.053 | 180206R1 | - | 3,551 |
| *Sub-Total Aging Cluster Programs* | | | - | 205,822 |
| Pass-Through Puerto Rico Department of Familiy: | | | | |
| Child Care and Development Block Grant | 93.575 | G2001PRCCDD | - | 548,599 |
| Family Violence Prevention and Services/State Domestic Violence Coalitions | 93.591 | G2002PRFVPS | - | 87,466 |
| *Total U.S. Department of Health and Human Services Programs* | | | - | 22,142,967 |
| U.S. Corporation for National and Community Service (CNCS): | | | | |
| Pass-Through Puerto Rico Governor's Commission for Volunteerism and Community Service: | | | | |
| AmeriCorps State and National | 94.006 | 19AFHPR001 | - | 34,322 |
| *Total U.S. Corporation for National and Community Service (CNCS)* | | | - | 34,322 |
| U.S. Department of Homeland Security Programs: | | | | |
| Pass-Through the Puerto Rico Office of Disaster and Emergencies Administration: | | | | |
| Disaster Grants – Public Assistance (Presidentially Declared Disasters) | 97.036 | FEMA-DR-4339-PR | - | 2,863,114 |
| Pass-Through the Puerto Rico Office of Public Safety: | | | | |
| Homeland Security Grant Program | 97.067 | EMW-2021-SS-00024-S01 | - | 242,410 |
| *Total U.S. Department of Homeland Security Programs* | | | - | 3,105,524 |
| ***Total Expenditures of Federal Awards*** | | | **$ 161,151** | **$ 46,426,940** |

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

## 1. REPORTING ENTITY

The Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality) was founded in 1775 and operates as a governmental unit of the Commonwealth of Puerto Rico under the Law No. 81 of August 30, 1991, known as the "Autonomous Municipalities Laws of the Commonwealth of Puerto Rico". It is governed by a Mayor and a 16-member Municipal Legislature elected for a four-year term.

## 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activities of the Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality) under programs of the Federal government for the fiscal year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available.

D. The Municipality has elected not to use the 10 percent de minimis indirect cost rate, instead a 5% or 6% of approved budget for the Head Start Program was granted for the Early Head Start-Child Care Partnership grants, for a total of indirect costs appropriated of $221,504. The amount of $221,504 expended as indirect cost was included in the expenditures reported on SEFA for the Head Start Program.

## 4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to federal granting agencies.

## 5. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, 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.

## 6. OUTSTANDING LOANS OF FEDERAL FUNDS

Federal funded loans provided under these programs are included as expenditure on the schedule of expenditure of Federal Awards. Per Uniform Guidance, loans proceed that were received and expended in prior years are not considered federal awards expended (and thus not shown on the schedule of expenditures of federal awards) as those loans do not include continuing compliance requirements other than repayment of the loans. The Municipality is required to identify in the notes to the schedule of expenditures awards the balances outstanding at the end of the period. On June 30, 2021, the Community Disaster Loans Program, CFDA 97.030, had an outstanding loan balance of $5,000,000.

continue

## 7. LATENESS OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2021, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. As further discussed in the Municipality's Notes to the Financial Statements included in its audited financial statements for the same year, the Municipality's activities were affected by the Executive Order issued by the Governor of Puerto Rico.

The Compliance Supplement Addendum released in December of 2020 on page 117 states: "Due to the large size of the COVID-19 programs and the federal government dependency on single audit reports to assist with proper oversight over these funds, we strongly encourage the auditees and auditors to complete and submit their relevant portions of single audit reporting packages for fiscal year ends, subject to the provisions of the extension described herein, as early as possible prior to the normal due dates of the earlier of thirty days after the receipt of the auditor's reports or nine months after the fiscal year end date. In light of the late issuance of audit guidance for the COVID-19 programs contained in this addendum, awarding agencies, in their capacity as cognizant or oversight agencies for audit, must allow recipients and subrecipients that received COVID-19 funding with original due dates from October 1, 2020, through June 30, 2021, an extension for up to three (3) months beyond the normal due date in the completion and submission of the Single Audit reporting package. No further action by awarding agencies is required to enact this extension.

Further, on March 19, 2021, the OMB issued the M-21-20, stated that: "Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR §200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a). (2 CFR § 200.501)".

## 8. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* as follows: General Fund - $2,903,313, Capital Projects Fund – $2,094,141, Health and Human Services Fund – $22,142,967, Social and Welfare Activities Fund – $8,574,628 and Other Governmental Funds $10,202,160.

The amount of $307,520 was included as expenditure in the SEFA, under the program Capitalization Grants for Clean Water State Revolving Funds (66.458) that were incurred during fiscal year 2016. During fiscal year 2020-2021, the Pass-through Entity, Puerto Rico Environmental Quality Board, approved that these expenditures can be claimed as allowed costs for the grant.

The Municipality receives FEMA reimbursement funds from the Central Recovery and Reconstruction Office of Puerto Rico (COR3). COR3 is a division of the Puerto Rico Public Private Authority created through Executive Order 2017-65 to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María. COR3 was authorized by the Governor to receive all disaster recovery grants of FEMA. In Fiscal Year (FY) 2021, FEMA approved $202,211 eligible expenditures that were incurred in prior years. As of June 30, 2021, these expenditures were included in the SEFA.

**END OF NOTES**

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**CPA DIAZ-MARTINEZ, CSP**
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*"ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES"*

## 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 Honorable Mayor and**
**Members of the Municipal Legislature**
**Autonomous Municipality of Caguas of the**
**Commonwealth of 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 **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico** (**Municipality**), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements, and have issued our qualified report thereon dated June 28, 2022. Our report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the amounts reported as deferred outflows/inflows of resources, liability, expenses related notes disclosure with respect to its participation in the employees' retirement pension and postemployment benefits plans.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality**'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality**'s internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality**'s internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Municipality**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 28, 2022

Stamp No. E491008 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.



AICPA

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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

**To the Honorable Mayor and**
**Members of the Municipal Legislature**
**Autonomous Municipality of Caguas of the**
**Commonwealth of Puerto Rico**

## Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico** (**Municipality**)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Municipality**'s major Federal programs for the fiscal year ended June 30, 2021. **Municipality**'s major Federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of **Municipality**'s major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality**'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of **Municipality**'s compliance.

### *Opinion on Each Major Federal Programs*

In our opinion, the **Municipality** 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, 2021.

### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001. Our opinion on each major Federal program is not modified with respect to this matter.

The **Municipality**'s response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The **Municipality**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

Management of **Municipality** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality**'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material 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, we identified certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001, that we consider to be significant deficiency.

The **Municipality**'s response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The **Municipality**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Purpose of this Report***

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

CPA D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
June 28, 2022

Stamp No. E491009 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.

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# PART III

# FINDINGS AND QUESTIONED COSTS

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## SECTION I – SUMMARY OF AUDITORS' RESULTS

**Financial Statements**

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

☒ Unmodified Opinions
- Governmental Fund Financial Statements

☒ Qualified Opinion
- Government-wide Financial Statements

☐ Adverse Opinion ☐ Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major Federal programs:

- Material weakness (es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☒ Yes ☐ None Reported

Type of auditor's report issued on compliance for Major Federal Programs:

☒ Unmodified Opinion
☐ Qualified Opinion
☐ Adverse Opinion ☐ Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ Yes ☐ No

Identification of Major Federal Programs:

| Assistance Listing Number | Name of Federal Program or Cluster |
|---|---|
| 14.871; 14.879 | Housing Voucher Cluster Programs |
| 20.507; 20.526 | Federal Transit Cluster Programs |
| 21.019 | Coronavirus Relief Fund |
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds |
| 97.036 | Disaster Grants – Public Assistance (Presidentially Declared Disasters) |

Dollar threshold used to distinguish between Type A and Type B Programs: $1,392,808

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

continue

## SECTION II – FINANCIAL STATEMENT FINDINGS

**Our audit disclosed no findings that are required to be reported herein under the *Government Auditing Standards*.**

continue

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING REFERENCE NUMBER** **2021-001**

**FEDERAL PROGRAM** **(ALN 97.036) DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)**
**PASS-THROUGH ENTITY: CENTRAL OFFICE OF RECOVERY, RECONSTRUCTION AND RESILIENCY OF PUERTO RICO (COR3)**
**FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)**
**U.S. DEPARTMENT OF HOMELAND SECURITY**

**AWARD NUMBER** **PA-02-PR-4339-PW-05959 (Federal Award Period 05/24/2020-09/20/2022)**

**COMPLIANCE REQUIREMENT** **REPORTING**

**TYPE OF FINDING** **NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

**CRITERIA OR SPECIFIC REQUIREMENT**

Uniform Guidance requirements at §200.302 Financial management requires that the state's and the other Non-Federal Entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. The **Municipality** established the Accounting System (SAP) as it's official accounting system for both state and Federal funds.

As stated in the Public Assistance Program and Policy Guide, Non-Federal Entities must record expenditures on the Schedule of Expenditures of Federal Awards (SEFA) when (1) FEMA has approved the Non-Federal Entity's PW, and (2) the Non-Federal Entity has incurred the eligible expenditures. Federal awards expended in years subsequent to the fiscal year in which the PW is approved are to be recorded on the Non-Federal Entity's SEFA in those subsequent years.

Also, Uniform Guidance §200.510 Financial Statements, (b) states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the SEFA must: (1) list individual Federal Programs by Federal agency; (2) for Federal awards received as a subrecipient, the name of the Pass-Through Entity and identifying number assigned by the Pass-Through Entity must be included; (3) provide total Federal awards expended for each individual Federal program and the Assistance Listing Number (ALN) or other identifying number when the ALN information is not available; (4) Include the total amount provided to subrecipients from each Federal program; (5) for loan or loan guarantee programs identify in the notes to the SEFA the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the SEFA.

**CONDITION**

During our audit procedures of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the **Municipality**, we identified misstatements related to this program reported in the SEFA. Expenditures from the program, incurred in the audit's fiscal year and previously, were not included in the SEFA, as required by FEMA. Adjustments were proposed in order to reconcile the information included.

1. The **Municipality** did not recognize under the program accounting codes on SAP all transactions reported and approved by the Pass-Through Entity. During the audit, additional procedures and reports were needed to provide sufficient audit evidence related to the correct expenditures charged to the program and reported on the SEFA.

2. The financial records used by the **Municipality** were developed and maintained by third-parties (consultants) and the information was not kept by financial staff of the **Municipality**.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**FINDING REFERENCE NUMBER** **2022-001 – continuation**

**QUESTIONED COSTS** None

**CONTEXT**

The **Municipality** failed to identify properly in its records and/or accounting records the Federal grants that they received and expended during the fiscal year.

**EFFECT**

The **Municipality** has not kept proper accounting of the program activities on its accounting system as required by Federal regulations during the fiscal year under audit for this program. The determination of major programs could have been affected by transactions not properly codified in the accounting system.

**CAUSE**

The **Municipality** did not centralize the management and operation of the program at an appropriate level of management. As a result, program activities were managed by different operational units within the **Municipality** and staff was not trained on the program reporting requirements and adequate accounting of program funds/activities.

**IDENTIFICATION AS A REPEAT FINDING**

Not applicable.

**RECOMMENDATION**

We recommend that the **Municipality** provide adequate training on Federal program compliance requirements and reporting to the staff. Also, a formal process must be established for reconciling the official accounting record (SAP) with the Federal program reports.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION**

The construction projects related to the finding began two years before of the obligation of their corresponding PW's. The Office of Recovery and Reconstruction of the Municipality was created last year after such projects were in process or already finished. During this time the office has been in the process of hiring technical and professional personnel to oversee the preparation of accurate costs and accounting records and reports, but the economical and labor situation has affected and postpone this engagement.

The corrective action that we took in this specific case is the designation of Ing. Miguel López, Officer of Federal Funds Affairs and Lucy Ortíz, Auxiliary Director of the Department of Finance to establish communication channels to reconcile the correct costs charged to the programs and then reported to the SEFA. The plan is that they will meet every two weeks, when the team of the Office of Recovery and Reconstruction shows an update of the project's status, to reconcile their corresponding records and reports.

Also, the Internal Auditing Office is in the process of creating a Monitoring and Compliance Unit with the overall responsibility of oversees the use of the funds and verify compliance with the applicable federal laws and regulations. This unit could establish procedures to validate and double checking the accurate reconciliation of such costs and accounting records and reports.

**IMPLEMENTATION DATE** June 30, 2022

**RESPONSIBLE PERSON**

Office of Recovery and Reconstruction: Engineer Juan F. Alicea and Miguel López Navarette; Finance Department: Mrs. Angie L. Frias Báez, Mrs. Luz D. Ortíz; Internal Audit Office: CPA Carlos Espada.

## END OF SCHEDULE

**(1) Audit Findings that have been Fully Corrected:**

**NONE**

**(2) Audit Findings not Corrected or Partially Corrected:**

**NONE**

**(3) Corrective action taken is significantly different from corrective action previously reported:**

**NONE**

**(4) Audit findings is no longer valid:**

## FISCAL YEAR 2018

**Findings Related to the Federal Programs:**

| | | |
|---|---|---|
| **Finding Number** | **2018-001** | **Eligibility**<br>Missing document in the participant's files. |
| **CFDA Number** | 93.575 | |
| **Questioned Cost** | None | |
| **Auditee Comments** | More than two years without Oversight Agency determination. | |

**NONE**

**END OF SCHEDULE**