COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAGUAS

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2022

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

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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 Audit of the Financial Statements

Qualified and Unmodified Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements as listed in the Table of Contents.

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 in the "*Basis for Qualified and Unmodified Opinions"* section of our report, the accompanying 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, 2022 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 on Each Major Fund, and Aggregate Remaining Fund Information

In our opinion, the accompanying 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 **Municipality**, as of June 30, 2022, 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.

Basis for Qualified and Unmodified Opinions

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

Matter Giving to 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 related 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 Year ended June 30, 2022 for the municipalities, and nor has provided to the **Municipality** the required audited information to record transactions related to pension and other postemployment benefits as of and for the Fiscal Year ended June 30, 2022. 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 information provided in the Actuarial Financial Reporting Valuation issued on January 17, 2023 for the PRGERS. Accordingly, the **Municipality** 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, 2022 have not been audited. 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 6-22, Schedule of Revenues and Expenditures – Budget and Actual – General Fund information on pages 126-127, and employees' retirement systems information and employees' other postemployment benefits information, on pages 128-130 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to Management's Discussion and Analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information and employees' other postemployment benefits information applicable to the **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 132 through 135, 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 137 through 141, is presented for purposes of additional analysis and is not required parts of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 basic financial statements as a whole.

Report Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, 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 D M, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
March 29, 2023

Stamp No. E508709 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, 2022. 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 $135,127,110.

- The government's total assets and deferred outflows of resources, in the Governmental-wide Statement of Net Position increased by $57,059,414 and government's liabilities and deferred inflows of resources increased by $22,938,089.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $41,535,343 after a total and combined net increase of $17,988,248.

- The Municipality's total general and special long-term debts net decreased by $7,859,977 during the current fiscal year. In addition, during fiscal year 2022, the Municipality received a letter from the US Congress indicating the condonation of the Community Disaster Loan Program (CDL), for principal and interests accrued as of September 30, 2021. Instead of a loan, in accordance with the letter, represents an award to the Municipality, during fiscal year 2022.

- Net Capital Assets from Governmental Activities as of June 30, 2022 was $372,587,788 presenting a net increase of $176,666 with respect with prior year balance, as restated. Restatement was made to reflect the implementation of Governmental Accounting Standards Board Statement No. 87, Leases (GASB 87) in fiscal year 2022, in the amount of $2,719,165, related to "Right-To-Use" capital assets. The net increase is the result of additions of $16,171,319 distributed in all categories; depreciation and amortization expense for the year of $15,555,030 and net loss on dispositions of $439,623.

- Net increase in Current Assets, was due to an increase, mainly, in cash during the year ended June 30, 2022, of approximately $59 million. Net increase in current liabilities of $42 million was mainly on unearned revenue on the cash received from Funds received from the American Rescue Plan Act (ARPA) which are presented in the Social and Welfare Activities Fund.

- The Municipality implemented the provisions of GASB 87 in fiscal year 2022. This standard improves accounting and financial reporting for leases by governments. Adoption of GASB 87 resulted in the recognition of a lease receivable and deferred inflow related to leases of approximately $3.8 million and $3.5 million, respectively. There was no effect on net position previously reported as of July 1, 2021.

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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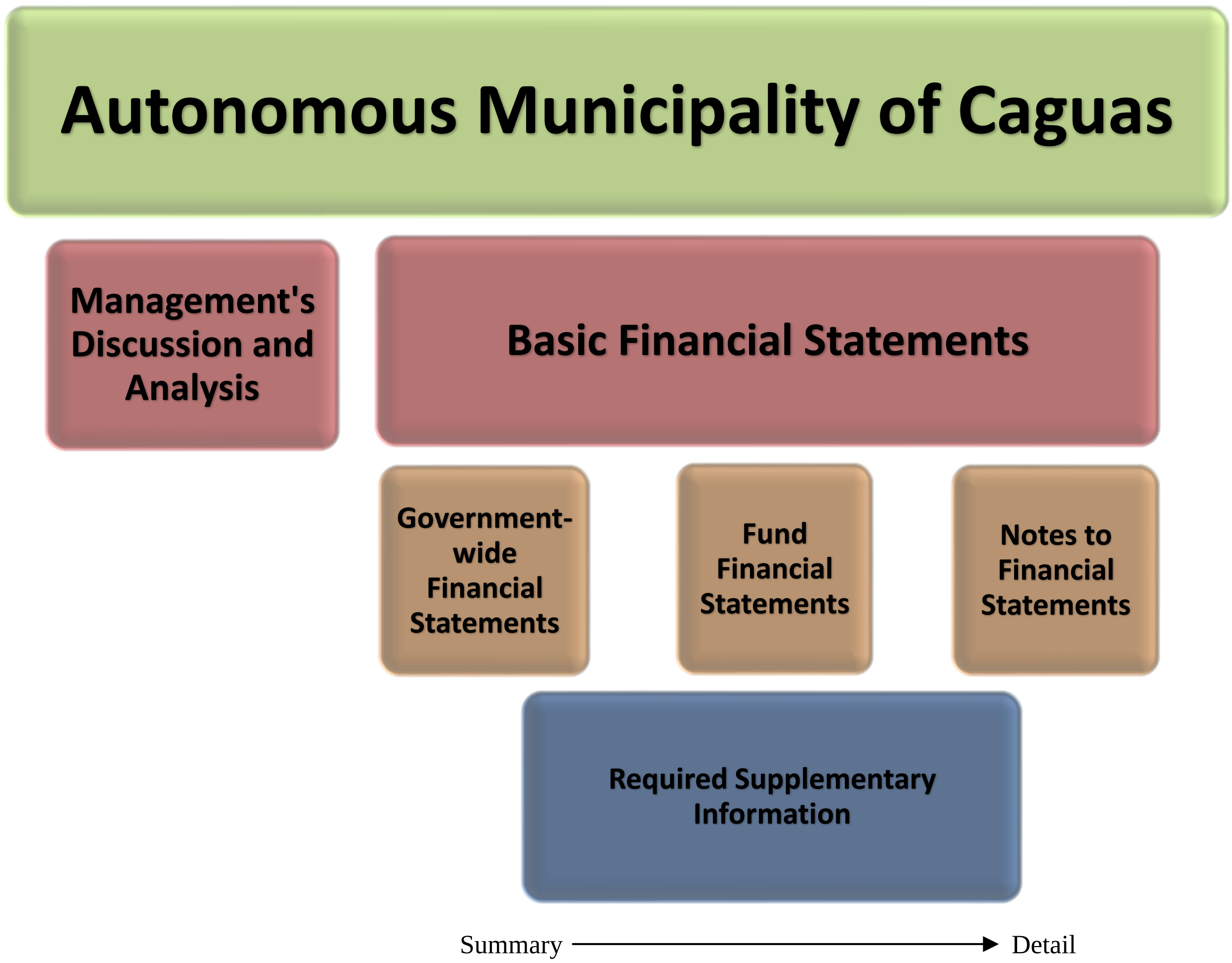
Required Components of Annual Financial Report
Figure 1



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 23 through 25 of this report.

New Significant Accounting Standards Implemented

The Governmental Accounting Standards Board issued the following statements that are effective during fiscal year 2021-2022:

- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 97*, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

The effective dates of the following pronouncements are for fiscal year 2022-2023 and thereafter:

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arragement*
- Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*
- 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*

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.

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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 26 through 29 of this report.

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 30 through 124 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 126-127 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 2021-2022, although, this information was not audited.

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 issued the required information for the fiscal year 2021-2022, although, this information was not audited.

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These information for Pension Plan and OPEB Plan can be found on pages 128 through 130 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 $135,127,110 as of June 30, 2022. The Municipality's net position increased by $34,121,325, for the fiscal year ended June 30, 2022.

One of the largest portions of the net position, $268,470,722, 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 $50,259,637 represents resources that are subject to external restrictions on how they may be used. Within this portion are $33,464,361 held by the Municipality in Escrow and Deposits Accounts for repayment of long-term debt, $7,431,031 restricted for Head Start program purposes, $4,033,590 for construction projects and $5,330,655 restricted, mainly, to provide housing services to the citizens.

An Unrestricted Net Position (Deficit) of ($183,603,249) was presented as of June 30, 2022. This balance was negatively affected primarily to by the recognition of Total Pension Liability, as required by GASB Statements No. 73, for the amount ($141,632,359). Also, Total Other Post Employment Benefit (OPEB) Liability, as required by GASB Statement No. 75, was presented in the amount of ($4,914,295). Other long-term debts, such as compensated absences ($13,856,500), the outstanding balance of leases ($4,131,928), and Puerto Rico Retirement System Administration ($1,609,339), also affected the net position.

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The Municipality's Net Position (as Restated)
Figure 2

	Governmental Activities			
	2022	**2021**	**Dollar Change**	**Percentage Change**
Current and Other Assets	$ 164,058,810	$ 104,456,391	$ 59,602,419	57.06%
Capital Assets	372,587,788	372,411,122	176,666	0.05%
Housing Units Held for Sale	55,848	55,848	-	0.00%
Idle Units Held for Future Use	102,567	102,567	-	0.00%
Restricted Cash	1,150,965	1,141,093	9,872	0.87%
Loan Receivable, Net	1,276,776	866,284	410,492	47.39%
Note Receivable, Net	162,705	153,495	9,210	6.00%
Total Assets	539,395,459	479,186,800	60,208,659	111.36%
Deferred Outflows of Resources	24,288,530	27,437,775	(3,149,245)	-11.48%
Current Liabilities	120,972,314	78,961,668	42,010,646	53.20%
Other Liabilities	292,413,957	315,093,490	(22,679,533)	-7.20%
Total Liabilities	413,386,271	394,055,158	19,331,113	46.01%
Deferred Inflows of Resources	15,170,608	11,563,632	3,606,976	31.19%
Net Position:				
Net Invested of Capital Assets	268,470,722	259,908,592	8,562,130	3.29%
Restricted	50,259,637	43,778,519	6,481,118	14.80%
Unrestricted (Deficit)	(183,603,249)	(202,681,326)	19,078,077	-9.41%
Total Net Position	$ 135,127,110	$ 101,005,785	$ 34,121,325	8.69%

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

	Governmental Activities			
	2022	2021	Dollar Change	Percentage Change
Revenues:				
Program Revenues:				
Charges for Services	$ 1,975,531	$ 2,276,836	$ (301,305)	-13.23%
Operating Grants and Contributions	56,578,128	42,116,179	14,461,949	34.34%
Capital Grants and Contributions	1,948,258	1,723,025	225,233	13.07%
General Revenues:				
Property Taxes	52,981,343	50,419,877	2,561,466	5.08%
Volume of Business Taxes	26,534,694	25,614,699	919,995	3.59%
Sales and Usage Taxes	29,363,880	26,364,488	2,999,392	11.38%
Intergovernmental	4,766,319	3,964,134	802,185	20.24%
Construction Excise Taxes	4,881,792	3,428,800	1,452,992	42.38%
Interest and Investment Income	173,344	106,230	67,114	63.18%
Gain on Sale of Capital Assets	-	9,715	(9,715)	-100.00%
Special Item - Debt Adjustment Retirement	4,137,050	-	4,137,050	100.00%
Special Item - Loan Condonation CDL	5,000,000	-	5,000,000	100.00%
Other	2,959,044	3,730,257	(771,213)	-20.67%
Total Revenues	191,299,383	159,754,240	31,545,143	19.75%
Expenses:				
General Government	45,363,527	48,273,092	(2,909,565)	-6.03%
Public Safety	7,722,513	5,969,980	1,752,533	29.36%
Public Works	24,196,812	20,417,294	3,779,518	18.51%
Cultural and Recreation	7,515,279	7,485,598	29,681	0.40%
Health and Welfare	7,472,024	5,098,261	2,373,763	46.56%
Economic and Social Development	7,189,618	6,867,576	322,042	4.69%
Housing	10,327,837	11,053,913	(726,076)	-6.57%
Sanitation and Environmental	15,799,900	16,137,970	(338,070)	-2.09%
Education	24,236,363	24,513,439	(277,076)	-1.13%
Interest	7,354,185	8,237,021	(882,836)	-10.72%
Total Expenses	157,178,058	154,054,144	3,123,914	2.03%
Net Change in Net Position	34,121,325	5,700,096	28,421,229	498.61%
Net Position, Beginning of Year, as Restated	101,005,785	95,305,689	5,700,096	5.98%
Net Position, Ending	$135,127,110	$ 101,005,785	$ 34,121,325	504.59%

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Governmental Activities – Governmental activities increased the Municipality's net position by $34,121,325. Key elements of this change in net position are the following:

Revenues:

Total overall revenues increased by 19.75 % over prior year. The following categories had the mayor changes from prior year:

- Sales and Usage Taxes increased by 11.3% - the increase was due to collections made from the Municipality, recognized in the General and Debt Service Fund.

- Construction Excise Taxes- increased by 42.4%.

- Property Taxes- increased by 5%.

- Operating Grants and Contributions increased by 34.3% because of the federal funds received under the COVID-19 funds.

- The condonation of the CDL program was presented as revenue for the amount of $5,000,000, as described previously. In addition, a debt related to the "Aportación Adicional Uniforme", previously recognized by the Municipality as long term debt, was adjusted by PRGERS, and notified to the Municipality during fiscal year 2022. This debt was cancelled because of the effect of the "Pay-As-You-Go" system implemented on previous year.

Expenses:

Total overall expenses had a net increase of 7.6% over prior year. The following categories had the major changes from prior year:

- Public Works increased 18.5% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for the improvement and repair of municipal streets.

- Public Safety increased 29% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for payroll and professional services.

- General Government increased 12% – the increase was mainly related to expenses on pension, utilities charges and health and other insurance charges.

- Health and Welfare increased 46.5% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for allowable activities financed by federal awards.

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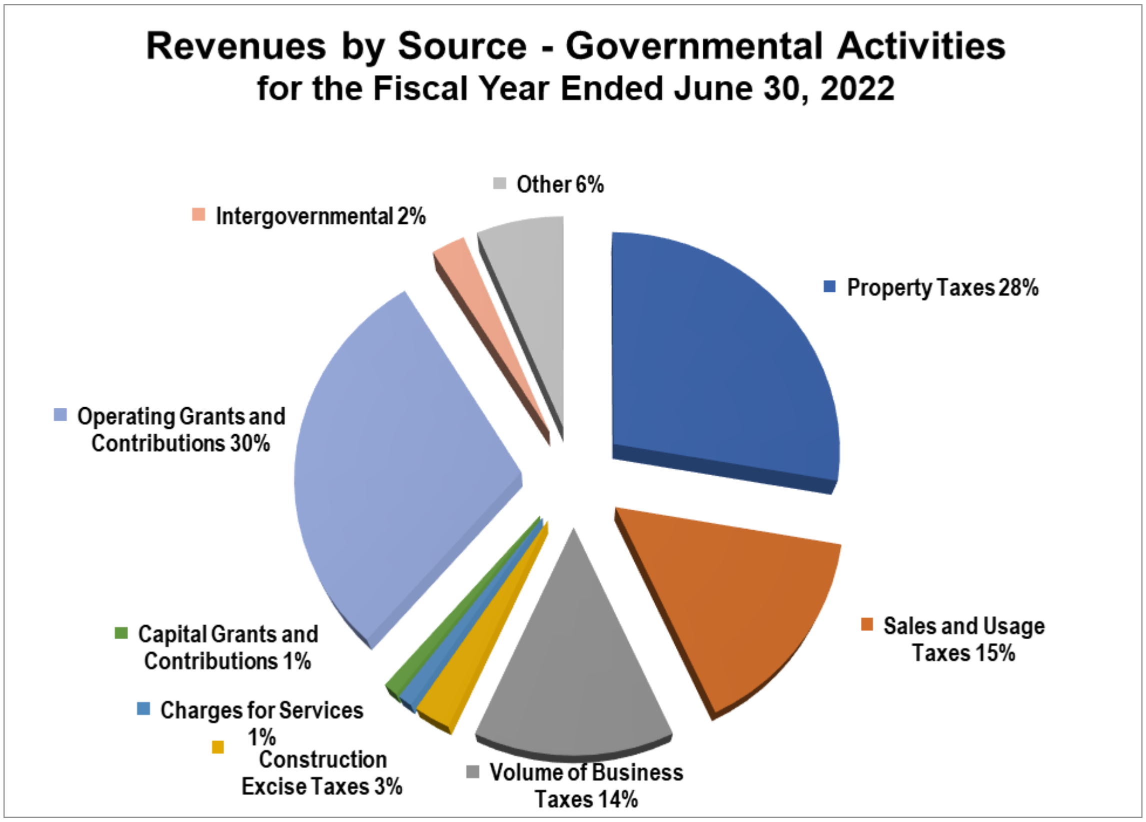
Figure 4



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, 2022, the governmental funds of the Municipality reported a combined fund balance of $41,535,343. This amount represents an increase of $17,988,248 or 76% over last year.

The net increase in fund balances during the fiscal year was caused, mainly by, an increase of revenues from sales and use taxes, federal grants, and an increase of approximately $2.3 million on intergovernmental revenues from state grants, for different purposes. In addition, during fiscal year, bonds were issued in the amount of $6,818,000 for purchase of equipment and other infrastructure projects. Overall revenues increased by $22 million or 14%, the increase was, mainly, on federal grants received from COVID-19, mainly from ARPA funds. Expenditures presented an increase of $21 million or 14% in comparison with prior year. These increases are related for the COVID-19 and ARPA funds related expenditures, capital outlays and debt service principal expenditures. Increase in debt service expenditures was mainly by the implementation of GASB 87, leases, were property leases expenditures or rent expenditures were recognized as debt service principal and interest, during the year this amount from the implementation of GASB 87 represents $ 1.2 million in debt service principal and interest.

continue

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

General Fund – The general fund revenues increased by $3.6 million. Mainly changes were on Sales and Usage taxes and construction revenues, which increased by $2.5 and $1.5 million, respectively. In addition, an increase in Intergovernmental Grants of $1.4 million mainly related to contribution in lieu of taxes from Puerto Rico Energy Power Authority and state funds from Education department. Also, there were a decrease in transfers from for debt service fund for operational purposes for $1.8 million, which this year was assigned for capital expenditures on the Capital Projects Fund.

The expenditures increased by approximately $6 million, in comparison from prior year. The categories with the major increase were General Government and Capital Outlays functions. General Government increased by $5.8 million for pension benefits charges, insurance and power utility charges. Public safety had a reduction of $1.4 million mainly, on payroll expenditures and Sanitation expenditures an overall decrease of $1 million, mainly by a decrease of $2 million on waste disposal expenditures. Capital Outlays function increased for buildings' improvements for $ 3 million. A decrease in fund's transfers out to other funds by $607 thousand, was reported. GASB 87 application on new leases contracts brought the effect to recognized other financing sources on leases for $ 615 thousand against capital outlays expenditure function on these leased properties.

Capital Projects Fund – Expenditures from this fund, increased by approximately $1.5 million. An increase in expenditures was mainly, an increase of CDBG funds. Transfer from Debt Service Fund increased for its excess of equity to finance Capital Projects fund expenditures. Revenues increased on CDBG funds by $705 thousand and state grants for $936 thousand. And an increase in proceeds from loans issued during the year for the amount of $6.8 million.

Debt Service Fund –The fund's revenues increased by $1 million from Property Taxes and Sales and Usage taxes revenues. Debt service expenditures increased by $1.1 million from loan refinance plan and debt service principal payment requirements. An increase in transfer out of $1.2 million was reported, as equity transfer to Capital Projects Fund.

Health and Human Services Fund –An increase in expenditures of $618 thousand in payroll for childcare expenditures. In addition, a $2.2 million decrease, approximately, is related to the education expenditure's function from the Head Start Program, which such decrease consisted, mainly, in payroll expenditures on temporary employees. GASB 87 application on new leases contracts brought the effect to recognized other financing sources on leases for $ 774 thousand against capital outlays expenditure function on these leased properties.

Social and Welfare Activities Funds – Revenues increased by $9.3 million, mainly due to an increase in federal funds for COVID-19 pandemic relief. Overall expenditures increased by $7.2 million. Expenditures related to COVID-19, included housing, payroll, solid waste, and COVID-19 safety services. The general government function expenditures decreased by $2.2 million on payroll, public safety got an increase in payroll for $2.6 million, public works expenditures increased by $2.4 million, mainly, on constructions projects. Health and welfare function increased by $2.4 million, mainly on payroll and professional services. Other function increases their expenditures by $ $1.3 million mainly on donations, professional services and food for education and welfare purposes. Capital outlays or capitalizable expenditures increased by $700 thousand. GASB 87 application on new leases contracts brought the effect to recognized other financing sources on leases for $369 thousand against capital outlays expenditure function on these leased properties.

During the year the Municipality cash increased by of $39 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.

continue

Other Non-Major Funds – Overall revenues increased by $7.2 million, mainly by $6 million from FEMA and $1 million form Section 8 Program. Overall expenditures increased by $5.5 million mainly on capital outlays or capitalizable expenditures from constructions and therefor public works and general government increased on these construction projects. Debt service principal and interest increased by $ 872 thousand and other financing sources from recognized lease by $ 624 thousand from the GASB 87 application on new leases contracts brought the effect to recognized other financing sources on leases. In addition, proceeds from line of credit increased by $1 million on the use of line of credit. This line of credit is to provide the cash flow to the Municipality to finance the matching requirement for FEMA projects, until the CDBG-DR funds are reimbursed to the Municipality.

General Fund Budgetary Highlights: During the fiscal year 2022 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.

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2022 was $90,979,720 which is more than the prior year appropriations by $11,147,910.

- Actual budgetary transactions generated an excess of resources over appropriations of $568,091 due to the following:

  - Actual revenues were more than budgeted amounts by $730,663. 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 $1,298,754. All functions presented economies.

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continue

Figure 5

	Original	Increases	Final
Resources:			
Property Taxes	$ 28,120,448	$ -	$ 28,120,448
Volume of Business Taxes	26,375,000	-	26,375,000
Sales and Usage Taxes	18,800,000	1,768,828	20,568,828
Construction Excise Taxes	9,310,630	-	9,310,630
Intergovernmental Revenues	4,356,422	-	4,356,422
Interest	110,000	-	110,000
Rent and Other Resources	3,007,220	-	3,007,220
Fines and Penalties	900,000	-	900,000
Amounts available for appropriation	90,979,720	1,768,828	92,748,548
Expenditures charged to appropriations:			
General Government	$ 44,846,423	$ 8,041,408	$ 52,887,831
Public Safety	7,514,082	(3,705,694)	3,808,388
Public Works	10,595,744	571,330	11,167,074
Culture and Recreation	3,944,525	(375,831)	3,568,694
Health and Welfare	1,949,454	(948,467)	1,000,987
Economic and Social Development	3,226,142	(167,062)	3,059,080
Housing	730,897	(34,498)	696,399
Sanitation and Environmental	16,493,516	(1,415,268)	15,078,248
Education	1,678,937	(197,089)	1,481,848
Total charges to appropriations	90,979,720	1,768,828	92,748,548
Excess of resources over appropriations	$ -	$ -	$ -

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continue

Unaudited

Capital Asset and Debt Administration

Capital Assets – The Municipality's capital assets for its governmental activities as of June 30, 2022, total $372,587,788 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles. In addition, as required by GASB 87, related "Right To Use" capital assets were recognized and amortized accordingly. New construction in progress began during the year for $1,752,019, for a total investment during the year of $10,282,046. Depreciation expense for the fiscal year was $14,513,798, and amortization of "Right To Use" assets were $1,041,232. Additions to equipment and other capital assets were $3,271,948. Retirements of capital assets during year were mainly in equipment and vehicles ($1,133,722), causing a loss on disposition of $89,601. In addition, a loss on sale of land was presented in the amount of $97,022.

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

	Total			
	2022	2021	Dollar Change	Percentage Change
Capital Assets not being Depreciated				
Land and Improvements	$ 93,621,527	$ 93,785,549	$ (164,022)	-0.17%
Construction in Progress	17,365,504	7,083,458	10,282,046	145.16%
Works of Art and Historical Treasures	2,667,129	2,661,429	5,700	0.21%
Total Assets not being Depreciated	113,654,160	103,530,436	10,123,724	145.20%
Capital Assets Net of Depreciation / Amortization				
Facilities and Improvements	45,222,534	48,304,336	(3,081,802)	-6.38%
Right to Use Facilities and Improvements	1,599,202	989,525	609,677	61.61%
Buildings and Improvements	53,450,576	55,755,348	(2,304,772)	-4.13%
Right to Use Buildings and Improvements	2,050,881	1,200,177	850,704	70.88%
Infrastructure	147,574,355	154,536,350	(6,961,995)	-4.51%
Equipment and Vehicles	8,624,430	7,565,487	1,058,943	14.00%
Right to Use Equipment and Vehicles	411,650	529,463	(117,813)	-22.25%
Total Net of Depreciation / Amortization	258,933,628	268,880,686	(9,947,058)	109.22%
Total Capital Assets Net of Depreciation / Amortization	$372,587,788	$372,411,122	$ 176,666	254.42%

Additional information on the Municipality's capital assets can be found on Note 11 of the Basic Financial Statements on pages 72-73.

continue

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2022 are as follows:

Project	Amount
Francisco Pancho Pereira	$ 237,600
Villa Nueva Sewer Improvement	929,004
Improvement to the Yldefonso Sola Morales Stadium	6,764,576
Other Improvements to parks and infrastructure	684,966
	$ 8,616,146

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 presented the applicable amounts under GASB Statement 73 and 75 at June 30,2022, with the unaudited information provided by PRGERS, therefore, 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.

Deferred inflow of resources was presented as part of the implementation of GASB 87, which represented the amount of $3,540,103.

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 73-74 and 81, respectively of this report.

continue

Long-Term Debts – As of June 30, 2022, the Municipality had total bonded debt outstanding of Special and General Obligations of $145,221,415 all of which is debt backed by the full faith and credit of the Municipality.

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

	Governmental Activities		Dollar	Percentage
	2022	2021	Change	Change
General Obligations Bonds	$ 111,273,432	$ 110,862,132	$ 411,300	0.37%
Special Obligations Bonds	33,947,983	42,219,260	(8,271,277)	-19.59%
Federal Loans	-	5,000,000	(5,000,000)	-100.00%
Total Pension Liability	141,632,359	145,432,662	(3,800,303)	-2.61%
Total OPEB Liability	4,914,295	5,232,844	(318,549)	-6.09%
Leases Liability (Right-To-Use)	4,131,928	2,719,165	1,412,763	51.96%
Line of Credit	240,114	-	240,114	100.00%
Law No. 142-MRCC	1,056,183	1,125,855	(69,672)	-6.19%
PR Retirement System Administration	1,609,339	6,925,754	(5,316,415)	-76.76%
Claims and Judgments	68,718	129,868	(61,150)	-47.09%
Puerto Rico Water and Sewer Authority	1,113,000	-	1,113,000	100.00%
Christmas Bonus	818,147	825,603	(7,456)	-0.90%
Retainage Liability	1,083,932	290,262	793,670	273.43%
Compensated Absences	13,856,500	14,471,873	(615,373)	-4.25%
Total	$ 315,745,930	$ 335,235,278	$ (19,489,348)	262.27%

The Municipality's debt related to General and Special obligations decreased by $7,859,977 (19.14%) during the fiscal year 2022. In addition, during fiscal year 2022, the Municipality received a letter from the US Congress indicating the condonation of the Community Disaster Loan Program (CDL), for principal and interests accrued at September 30, 2021.

Additional information on the Municipality's long-term debts can be found on Note 16 of the Basic Financial Statements on pages 74 through 79.

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 115 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.

The ten (10) major gross income companies located in Caguas are Walmart Puerto Rico, Costco Wholesale, Drogueria Betances, Plaza Warehousing and Realty Corp, SPS Speciality Pharmacy Serv. Inc., Home Depot PR Inc., Walgreens of PR Inc., Calesa Motors Inc, ST Jude Medical PR and Terumo Puerto Rico.

As per the Caribbean Business's seventeen (17) out of the 200-mayor local enterprises. Among these are Laboratorio Clínico Borinquen Inc.; Steel and Pipes Inc.; Mentor Technical Group Corp.; Sachs Chemical Inc.; Mech-Tech College LLC; Servimetal LLC; Farmacia Ruiz Belvis; Aireko Companies; Office Gallery Inc.; Plaza Food Systems; Droguería Betances Inc.; Grupo HIMA-San Pablo Inc.; Caguas Expressway Motors Inc.; G4S Secure Solutions PR Inc.; Escalate Sciences LLC; Huertas College, Bonneville Contracting and Technology Group LLC. Also, in Caguas are locate two (2) out of ten (10) major Corporations women owned. They are Mentor Technical Group Corp and Laboratorio Clínico 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 27 to the basic financial statements on pages 115-124 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 January 17, 2022 (Seven 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 2022-2023 will be $106.9 million, representing an increase of $16 million when compared with fiscal year ended June 30, 2022. These $106.9 are composed of $86 million from taxes, $4.7 from governmental grants, $6.4 million from charges from services and others and $9.8 emergency expenditures.

Special revenues funds budget will be $119 million. These are composed of $93 million of federal grants, $6 of local revenues. For the repayment of long- term debt, budget will be expected to be $20 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	$	96,678,773
Cash with Fiscal Agent		44,922,507
Receivables (Net):		
Sales and Usage Taxes		2,000,683
Volume of Business Taxes		371,328
Due from Government Units		778,801
Federal Grants		15,064,289
Other		430,332
Leases		3,812,097
Restricted Cash		1,150,965
Total Current Assets		165,209,775
Non-Current Assets:		
Loans Receivables, Net		1,276,776
Notes Receivables, Net		162,705
Land, Improvement and Construction in Progress		113,654,160
Other Capital Assets [Net of Accumulated Depreciation/Amortization]		258,933,628
Housing Units Held for Sale		55,848
Idle Units Held for Future Use		102,567
Total Non-Current Assets		374,185,684
TOTAL ASSETS		**539,395,459**
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Related		24,288,530
TOTAL OUTFLOWS OF RESOURCES		**24,288,530**

continue

	GOVERNMENTAL ACTIVITIES
LIABILITIES:	
Current Liabilities:	
Accounts Payable	11,593,844
Accrued Expense	818,147
Accrued Interest	2,823,848
Bonds Payable	15,570,008
Advance Deposits	307,736
Unearned Revenues	78,991,679
Accrued Compensated Absences	3,979,144
Leases	1,082,659
Due to Governmental Entities	5,805,249
Total Current Liabilities	120,972,314
Non-Current Liabilities:	
Bonds Payable	129,651,407
Accrued Compensated Absences	9,877,356
Legal Claims	68,718
Due to Governmental Entities	1,896,507
Retainage Payable	1,083,932
Leases	3,049,269
Line of Credit	240,114
Total Pension Liability	141,632,359
Total OPEB Liability	4,914,295
Total Non-Current Liabilities	292,413,957
TOTAL LIABILITIES	**413,386,271**
DEFERRED INFLOWS OF RESOURCES:	
Lease Related	3,540,103
Pension Related	11,630,505
TOTAL INFLOWS OF RESOURCES	**15,170,608**
NET POSITION:	
Net Investment in Capital Assets	268,470,722
Restricted for:	
Capital Projects	4,033,590
Debt Service	33,464,361
Head Start Program	7,431,031
Other Purposes	5,330,655
Unrestricted (Deficit)	(183,603,249)
TOTAL NET POSITION	**$ 135,127,110**

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

		Program Revenues			
Functions/Programs	**Expenses**	**Charges For Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenues**
Governmental Activities:					
General Government	$ 45,363,527	$ -	$ 29,139	$ -	$ (45,334,388)
Public Safety	7,722,513	1,172,377	2,574,431	339,682	(3,636,023)
Public Works	24,196,812	-	-	1,608,576	(22,588,236)
Culture and Recreation	7,515,279	9,600	-	-	(7,505,679)
Health and Welfare	7,472,024	-	5,027,109	-	(2,444,915)
Economic and Social Development	7,189,618	786,741	21,940,486	-	15,537,609
Housing	10,327,837	-	8,609,673	-	(1,718,164)
Sanitation and Environmental	15,799,900	6,813	474,052	-	(15,319,035)
Education	24,236,363	-	17,923,238	-	(6,313,125)
Unallocated Interest	7,354,185	-	-	-	(7,354,185)
Total Governmental Activities	**$ 157,178,058**	**$ 1,975,531**	**$ 56,578,128**	**$ 1,948,258**	**(96,676,141)**

General Revenues:	
Taxes:	
PropertyTaxes, levied for General Purposes	30,159,589
PropertyTaxes, levied for Debt Service	22,821,754
Volume of Business Taxes	26,534,694
Sales and Usage Taxes	29,363,880
Construction Excise Taxes	4,881,792
Intergovernmental	4,766,319
Interest	173,344
Other General Revenues	2,959,044
Special Item - Debt Adjustment Retirement	4,137,050
Special Item - Loan Condonation CDL	5,000,000
Total General Revenues and Special Items	130,797,466
CHANGES IN NET POSITION	**34,121,325**
Net Position – Beginning of Year, As Restated	101,005,785
NET POSITION – ENDING OF YEAR	**$ 135,127,110**

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	$ 20,160,195	$ 1,097,562	$ -	$ 345,682	$ 66,593,546	$ 8,481,788	$ 96,678,773
Cash with Fiscal Agent	-	8,614,735	36,288,209	-	-	19,563	44,922,507
Receivables:							
Sales and Usage Taxes	2,000,683	-	-	-	-	-	2,000,683
Volume of Business Taxes	371,328	-	-	-	-	-	371,328
Due from Governmental Units	665,116	113,685	-	-	-	-	778,801
Federal Grants	-	2,565,216	-	9,652,810	73,657	2,772,606	15,064,289
Due from Other Funds	15,562,697	2,057,143	-	-	-	-	17,619,840
Leases	3,812,097	-	-	-	-	-	3,812,097
Others	430,332	-	-	-	-	-	430,332
Loans Receivable	-	-	-	-	467,777	808,999	1,276,776
Restricted Cash	-	1,150,963	-	-	-	2	1,150,965
Total Assets	**$ 43,002,448**	**$ 15,599,304**	**$ 36,288,209**	**$ 9,998,492**	**$ 67,134,980**	**$ 12,082,958**	**$ 184,106,391**
LIABILITIES:							
Account Payable	$ 5,626,958	$ 1,404,299	$ -	$ 436,706	$ 1,889,112	$ 2,236,769	$ 11,593,844
Bond Payable	-	-	11,139,982	-	-	-	11,139,982
Interest on Bonds Payable	-	-	2,823,848	-	-	-	2,823,848
Due to Governmental Entities	3,923,234	-	-	-	-	-	3,923,234
Due to Other Funds	2,057,143	-	-	1,983,291	9,068,424	4,510,982	17,619,840
Advance Deposits	306,736	-	-	-	-	1,000	307,736
Unearned Revenues	21,910,835	228,988	-	194,792	56,653,512	3,552	78,991,679
Total Liabilities	**33,824,906**	**1,633,287**	**13,963,830**	**2,614,789**	**67,611,048**	**6,752,303**	**126,400,163**
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenues:							
Commonwealth of Puerto Rico	610,052	-	-	-	-	-	610,052
Federal Grants	-	2,031,063	-	7,431,031	-	2,558,636	12,020,730
Lease Related	3,540,103	-	-	-	-	-	3,540,103
Total Deferred Inflows of Resources	**4,150,155**	**2,031,063**	**-**	**7,431,031**	**-**	**2,558,636**	**16,170,885**
FUND BALANCES:							
Nonspendable - Loans	-	-	-	-	467,777	751,110	1,218,887
Restricted	986,591	10,117,035	22,324,379	20,992	1,160,014	2,367,580	36,976,591
Committed	-	-	-	-	-	25,887	25,887
Assigned	3,604,762	1,817,919	-	-	-	504,629	5,927,310
Unassigned (Deficit)	436,034	-	-	(68,320)	(2,103,859)	(877,187)	(2,613,332)
Total Fund Balances	**5,027,387**	**11,934,954**	**22,324,379**	**(47,328)**	**(476,068)**	**2,772,019**	**41,535,343**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 43,002,448**	**$ 15,599,304**	**$ 36,288,209**	**$ 9,998,492**	**$ 67,134,980**	**$ 12,082,958**	**$ 184,106,391**

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

Total Fund Balances – Government Funds (Page 26)		**$ 41,535,343**
Amount reported for Governmental Activities in the Statement of Net Position (Page 24) 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	$ 113,654,160	
Depreciable Capital Assets	706,944,992	
Accumulated Depreciation	(448,011,364)	
Total Capital Assets		372,587,788
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.		24,288,530
Notes Receivables from sale of capital assets in Governmental Activities are not recorded in the funds in the current period.		162,705
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	12,020,730	
MRCC – Property Taxes	610,052	
Total Unavailable Revenues		12,630,782
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(11,630,505)
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	(134,081,433)	
Total Pension Liability	(141,632,359)	
Total OPEB Liabilty	(4,914,295)	
Compensated Absences	(13,856,500)	
Line of Credit	(240,114)	
Leases	(4,131,928)	
Puerto Rico Retirement System Administration	(1,609,339)	
Puerto Rico Water and Sewer Authority	(1,113,000)	
Claims and Judgments	(68,718)	
Christmas Bonus	(818,147)	
Retainage Liability	(1,083,932)	
Law No. 142	(1,056,183)	
Total Long-Term Liabilities		(304,605,948)
Total Net Position of Governmental Activities (Page 24)		**$ 135,127,110**

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	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	$ 29,908,485	$ -	$ 22,821,754	$ -	$ -	$ -	$ 52,730,239
Volume of Business Taxes	26,534,694	-	-	-	-	-	26,534,694
Sales and Usage Taxes	23,994,937	-	5,368,943	-	-	-	29,363,880
Construction Excise Taxes	4,881,792	-	-	-	-	-	4,881,792
Federal Grants	339,682	2,427,537	-	22,028,738	16,240,116	16,927,476	57,963,549
Fines and Penalties	1,172,377	-	-	-	-	-	1,172,377
Intergovernmental	5,707,444	1,029,429	-	-	226,000	-	6,962,873
Interest	121,448	11,279	-	140	6,281	24,986	164,134
Rent and Other Services	1,191,762	6,813	-	-	-	11,973	1,210,548
Other General Revenues	2,114,689	-	-	-	394,043	438,339	2,947,071
Total Revenues	**95,967,310**	**3,475,058**	**28,190,697**	**22,028,878**	**16,866,440**	**17,402,774**	**183,931,157**
EXPENDITURES:							
Current:							
General Government	42,492,162	584,886	25,000	-	1,507,203	1,089,973	45,699,224
Public Safety	3,695,805	-	-	-	3,452,756	81,188	7,229,749
Public Works	9,819,660	3,178,516	-	-	2,806,832	1,156,274	16,961,282
Culture and Recreation	3,796,980	188,829	-	-	-	350	3,986,159
Health and Welfare	1,763,414	296,530	-	999,718	4,252,702	65,040	7,377,404
Education	1,888,324	740,678	-	18,117,453	1,586,300	109,780	22,442,535
Sanitation and Environmental	14,968,082	284,752	-	-	473,657	10,581	15,737,072
Economic and Social Development	4,627,942	597,440	-	-	915,430	128,494	6,269,306
Housing	632,150	182,645	-	-	10,578	9,237,596	10,062,969
Capital Outlay	6,332,062	1,079,350	-	1,582,162	2,828,029	3,525,644	15,347,247
Debt Service:							
Principal	280,612	-	16,154,982	643,178	42,267	851,369	17,972,408
Interest and Other Charges	109,483	-	7,097,354	118,867	8,058	20,423	7,354,185
Total Expenditures	**90,406,676**	**7,133,626**	**23,277,336**	**21,461,378**	**17,883,812**	**16,276,712**	**176,439,540**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**5,560,634**	**(3,658,568)**	**4,913,361**	**567,500**	**(1,017,372)**	**1,126,062**	**7,491,617**
OTHER FINANCING SOURCES (USES):							
Refunding Bonds Issued	-	-	2,505,000	-	-	-	2,505,000
Payment to Refunded Bonds	-	-	(2,480,000)	-	-	-	(2,480,000)
Proceed of Bonds	-	6,818,000	-	-	-	-	6,818,000
Leases (As Lessee)	615,811	-	-	773,957	369,540	624,492	2,383,800
Proceed of Line of Credit	-	-	-	-	-	1,016,831	1,016,831
Transfers – In	-	3,537,684	5,869,756	-	-	75,000	9,482,440
Transfers – Out	(5,944,756)	-	(3,537,684)	-	-	-	(9,482,440)
Total Other Financing Sources (Uses)	**(5,328,945)**	**10,355,684**	**2,357,072**	**773,957**	**369,540**	**1,716,323**	**10,243,631**
SPECIAL ITEMS:							
Sales of Other Assets	253,000	-	-	-	-	-	253,000
Total Special Items	**253,000**	**-**	**-**	**-**	**-**	**-**	**253,000**
Net Change in Fund Balances	**484,689**	**6,697,116**	**7,270,433**	**1,341,457**	**(647,832)**	**2,842,385**	**17,988,248**
Fund Balances – Beginning, As Restated	4,542,698	5,237,838	15,053,946	(1,388,785)	171,764	(70,366)	23,547,095
FUND BALANCES – ENDING	**$ 5,027,387**	**$ 11,934,954**	**$ 22,324,379**	**$ (47,328)**	**$ (476,068)**	**$ 2,772,019**	**$ 41,535,343**

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

Net Change in Fund Balances – Government Funds (Page 28)		**$ 17,988,248**
Amount reported for Governmental Activities in the Statement of Activities (Page 25) 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	$ 15,347,247	
Depreciation and Amortization Expense	(15,555,030)	
Excess of Capital Outlays over Depreciation Expense		(207,783)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	(2,029,138)	
CDL Loan Condonation	5,000,000	
MRCC – Property Taxes Liquidation	251,104	
Total Revenues		3,221,966
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.		(439,623)
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		9,210
Proceed of Loan provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(6,843,000)
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		17,972,408
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 Legal Claims	61,150	
Increase in Line of Credit	(1,016,831)	
Increase in Leases (As Lessee)	(2,383,800)	
Decrease in Christmas Bonus	7,456	
Increase in Puerto Rico Water and Sewer System Authority	(1,113,000)	
Decrease in Puerto Rico Retirement System Administration - Condonation	4,137,050	
Decrease in Puerto Rico Retirement System Administration	1,179,365	
Decrease in Total Pension Liability	584,185	
Decrease in Total OPEB Liability	318,549	
Decrease in Retainage Liability	30,402	
Decrease in Compensated Absences	615,373	
Total Additional Expenses		2,419,899
Change in Net Position of Governmental Activities (Page 25)		**$ 34,121,325**

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.

C. *Going Concern Evaluation*

On an annual basis, as required by Governmental Accounting Standards Board ("GASB") No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, the Municipality performs an evaluation to determine whether there are conditions or events (known and reasonably knowable), considered in the aggregate, that raise substantial doubt about the Municipality's ability to continue as a going concern within one year for the twelve (12) months beyond the financial statements date, including any currently known information that raise substantial doubt shortly thereafter. Management has concluded that there is no material uncertainty related to the Municipality's ability to continue as a going concern through the date the financial statements were available to be issued.

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, 2022, 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2022, 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, 2022, 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2022 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund 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, 2022.

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.

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 (Unaudited)

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Required Supplementary Information – Employees Retirement System (Unaudited)

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) (Unaudited)

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.

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, 2022, 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2022, 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.

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, 2022, which are recorded as governmental fund liabilities of June 30, 2022 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C. Stewardship, Compliance, and Accountability

Budgetary Information

Act No. 107 of August 14, 2020, Chapter IX—Budget, Article 2.099 (b) (5), (6) and (7), as amended, known as the "Municipal Code of Puerto Rico" for the purpose of establishing the budget of each municipality shall not exceed, but may be less than the certified income in the audited reports or single audit made in compliance with the provisions of Articles 2.105 and 2.107 of this Code, in the items from patent income (Volume of Business Taxes or Municipal License Taxes) and Sales and Use Tax or Municipal Sales and Use Tax and miscellaneous licenses and permits (Licenses and Permits). In these items, the income estimation mechanism may not be used to base the municipality's operational budget, unless the Mayor presents and accredits, in a reliable manner, documents and supplementary information to the budget project, which supports the estimates for the accounts of income mentioned above. This provision shall not apply to the calculations and estimates of those items that are included as income in the municipality's budget and that have not been expressly listed in this Article. Also, in cases where the municipality reflects a surplus in the current budget, the surplus should be used to pay off the accumulated deficit. In cases where the municipality does not have an accumulated deficit, the surpluses may be reserved or used to cover any expense of the Municipality.

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 Municipal Management Office to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Municipal Management Office 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. 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. Up to June 10 of each fiscal year, the Mayor submits to the Municipal Legislature and the Municipal Management Office a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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. Up to June 25, the annual budget is legally enacted through passage of the annual appropriation ordinance by the Municipal Legislature to be effective on July 1.

5. Between July 1 and August 15 of each year, the Municipal Management Office must carry out a detailed examination of the approved budget with the supplementary documents that were used for the preparation of the budget and the evidence of corrective actions. If any other action is deemed necessary for said budget to comply with the provisions of this Code, the Municipal Management Office will notify the Mayor and the Municipal Legislature in writing no later than August 25 of each year.

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 *Budgetary Comparison Schedule*, 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.

   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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Receivables consist of all revenues earned but not collected on June 30, 2022. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2022. 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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
Right-To-Use Assets	2-6
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 amortization expense related to Right-To-Use Assets was determined using the straight-line method over the remaining contract lease term, or the estimated useful lives of the asset, whichever is shorter.

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, 2022, all Work of Art are considered inexhaustible.

The Municipality annually performs an impairment analysis of its capital assets in accordance with 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.
- Deferred inflows of resources in the GWFS related to leases.
- 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, leases, 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, 2022. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and 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, 2022.

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, 2022, 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, 2022. 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, 2022 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, 2022.

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 (see Note 19).

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/Amortization	$ 372,587,788
Outstanding Balance on Related Debt	(108,833,633)
Outstanding Balance on Related Leases Right to Use Debt	(4,131,928)
Unspent Capital Debt Proceeds	8,848,495
Net Investment in Capital Assets	$ 268,470,722

- *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, 2022.

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, 2022 amounted to $2,058,420, 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, 2022 amounted to $1,656,714.

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, 2022, 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, 2022:

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are 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.

The Municipality implemented the GASB No. 87 with material impact on the basic financial statements (see Notes 2. 4), 2. 8), 11, 16, 18, 22 and 26 for more information).

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 Municipality implemented the GASB No. 89 with no material impact on the basic financial statements.

GASB Statement No. 92, *Omnibus 2020*. 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).

The Municipality implemented the GASB No. 92 with any impact on the basic financial statements.

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 Municipality implemented the GASB No. 93 with any impact on the basic financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

The Municipality implemented the GASB No. 94 with any impact on the 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, 2022. The Municipality is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

<u>GASB Statement No. 91, *Conduit Debt Obligations*</u>. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improving required note disclosures.

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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. 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.

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).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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* (FY 2022-2023).

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 4.6–4.17 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)

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 5.1 for reporting periods beginning after June 15, 2023 (FY 2023-2024).

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.

continue

3. ANNUAL REVENUES – continuation

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 2021-2022, this difference was recorded as an unavailable revenue for the amount of $610,052.

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, 2022 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.

   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, 2022 the allocated expenses to the Municipality amounted to $1,377,515.

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.

continue

3. ANNUAL REVENUES – continuation

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.

<u>Personal Property</u>

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.

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.

<u>Real Property</u>

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.

continue

3. ANNUAL REVENUES – continuation

- 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, 2022, from prior years.

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

<u>Volume of Business Tax Incentive – New Business</u>

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

<u>Volume of Business Tax Incentive – Business Established</u>

- 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.

continue

3. ANNUAL REVENUES – continuation

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, 2022 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.

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.

continue

3. ANNUAL REVENUES – continuation

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.

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.

continue

4. CASH AND INVESTMENTS – continuation

Municipality follows the practice of pooling cash. On June 30, 2022, the pool cash account in commercial banks had a balance of $96.7 million of which $20.2 million in the General Fund, $1.1 million in the Capital Projects Fund, $345,682 in Health and Human Services Fund, $66.6 million in Social and Welfare Activities Fund, and $8.5 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 $36.3 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 $8.6 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, or purchase of equipment and vehicles. 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 $1.2 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 $1.2 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, 2022:

Concentration of Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. On June 30, 2022, the Municipality has invested only in cash equivalents of $96.7 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, 2022. 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, 2022.

continue

4. CASH AND INVESTMENTS – continuation

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, 2022, the Municipality has balances deposited in commercial banks amounting to $96.7 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 $1.2 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, 2022, (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, 2022, 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, 2022.

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:

Governmental Funds:	
Federal Grants - COVID-19 Section 8	$ 3,552
Federal Grants - COVID-19 CRF	340,157
Federal Grants - COVID-19 ARP Act	56,542,343
Federal Grants - Child Care Development Block Grant	23,423
Federal Grants - Aging Cluster Program	125,844
Federal Grants - COVID-19 Aging Cluster Program	45,525
Volume of Business Taxes	21,910,835
Total Unearned Revenues	$ 78,991,679

continue

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 $1,276,776, which were determined based upon past collection experience.

Other receivables in the amount of $430,332 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, 2022:

Receivable Fund	Payable Fund	Amount
General Fund	Health and Human Services Fund	$ 1,983,291
General Fund	Social and Welfare Activities Fund	9,068,424
General Fund	Other Governmental Funds	4,510,982
Capital Projects Fund	General Fund	2,057,143
		$ 17,619,840

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

Payables to the General Fund:

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

<u>Other Governmental Funds</u> – 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.

continue

8. INTER-FUND TRANSACTIONS – continuation

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

Payable of General Fund to the Capital Projects Fund includes the pooling of cash balances of the Capital Loans Funds, state grants and other related projects, which are deposited in the operational bank account 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, 2022:

Transferred In	Transferred Out	Amount	Purposes
Debt Service Fund	General Fund	$ 5,869,756	Payment of Interest and Principal of Debt
Other Non-Major Fund	General Fund	75,000	Transfer of Equity
Capital Projects Fund	Debt Service Fund	3,537,684	Transfer of Equity
		$ 9,482,440	

9. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2022 for the General Fund, corresponds to the follows:

	AMOUNT
Municipal Revenues Collection Center - Final Liquidation	$ 610,052
Puerto Rico Department of Transportation	113,685
Puerto Rico Department of Education	49,176
Other Agencies	5,888
Total Due from Governmental Units	$ 778,801

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.

10. FEDERAL GRANTS RECEIVABLE

The due from Federal grants for the fiscal year ended June 30, 2022, 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	$ -	$ 2,565,216	$ -	$ -	$ -	$ 2,565,216
Disaster Grants - Public Assistance	-	-	-	-	-	-
Head Start Program	-	-	8,837,771	-	-	8,837,771
Home Investment Partnership Program	-	-	-	-	2,184,651	2,184,651
Emergency Solutions Grants Program	-	-	-	-	587,955	587,955
Aging Cluster Program	-	-	329,006	-	-	329,006
Child Care Development Block Grants Program	-	-	486,033	-	-	486,033
Child and Adult Care Food Program	-	-	-	73,657	-	73,657
Total Due from Federal Grants	$ -	$ 2,565,216	$ 9,652,810	$ 73,657	$ 2,772,606	$ 15,064,289

continue

11. CAPITAL ASSETS

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

DESCRIPTION	BALANCE JULY 1, 2021	CHANGE IN ACCOUNTING PRINCIPLE	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2022
Non-Depreciable Capital Assets:						
Land and Improvements	$ 93,785,549	$ -	$ -	$ 186,000	$ (350,022)	$ 93,621,527
Construction in Progress	7,083,458	-	(234,225)	10,516,271	-	17,365,504
Works of Art	2,661,429	-	-	5,700	-	2,667,129
Total Non-Depreciable Capital Assets	103,530,436	-	(234,225)	10,707,971	(350,022)	113,654,160
Depreciable Capital Assets:						
Facilities and Improvements	127,580,794	-	139,355	-	-	127,720,149
Right-To-Use - Facilities	-	989,525	-	986,014	-	1,975,539
Buildings and Improvements	121,448,233	-	-	-	-	121,448,233
Right-To-Use - Buildings and Improvements	-	1,200,177	-	1,389,436	-	2,589,613
Infrastructure	415,898,335	-	94,870	-	-	415,993,205
Equipment and Vehicles	34,734,614	-	-	3,079,548	(1,133,722)	36,680,440
Right-To-Use - Equipment and Vehicles	-	529,463	-	8,350	-	537,813
Total Depreciable Capital Assets	699,661,976	2,719,165	234,225	5,463,348	(1,133,722)	706,944,992
Less Accumulated Depreciation/Amortization:						
Facilities and Improvements	(79,276,458)	-	-	(3,221,157)	-	(82,497,615)
Right-To-Use - Facilities	-	-	-	(376,337)	-	(376,337)
Buildings and Improvements	(65,692,885)	-	-	(2,304,772)	-	(67,997,657)
Right-To-Use - Buildings and Improvements	-	-	-	(538,732)	-	(538,732)
Infraestructure	(261,361,985)	-	-	(7,056,865)	-	(268,418,850)
Equipment and Vehicles	(27,169,127)	-	-	(1,931,004)	1,044,121	(28,056,010)
Right-To-Use - Equipment and Vehicles	-	-	-	(126,163)	-	(126,163)
Total Accumulated Depreciation/Amortization	(433,500,455)	-	-	(15,555,030)	1,044,121	(448,011,364)
Total Depreciable Capital Assets (Net)	266,161,521	2,719,165	234,225	(10,091,682)	(89,601)	258,933,628
CAPITAL ASSETS, NET	**$369,691,957**	**$ 2,719,165**	**$ -**	**$ 616,289**	**$ (439,623)**	**$372,587,788**

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

	AMOUNT
Governmental Activities:	
General Government	$ 679,494
Public Safety	357,667
Public Works (Mainly Streets)	7,359,761
Culture and Recreation	3,691,166
Health and Welfare	154,572
Economic Development	881,229
Housing	289,877
Sanitation and Environmental	185,403
Education	1,955,861
Total Depreciation / Amortization Expenses	$ 15,555,030

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, 2022 for $158,415.

The Municipality has the following recurring fair value measurements as of June 30, 2022:

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	$ 24,288,530

14. DUE TO GOVERNMENTAL ENTITIES

The due to governmental entities for the fiscal year ended June 30, 2022 for the General Fund, corresponds to the follows:

	AMOUNT
Retirement System Administration	$ 701,040
Puerto Rico Treasury Department	40,559
Puerto Rico Department of Labor	175,025
LUMA Energy	304,565
Puerto Rico Water and Sewer Authority	2,702,045
Total Due to Governmental Units	$ 3,923,234

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, 2022:

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%	$ 3,315,000
General Construction	2000	3,150,000	2024	2.70% to 7.81%	765,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	3,570,000
General Construction	2002	125,000	2026	2.70% to 5.60%	25,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	470,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	4,065,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	685,000
General Construction	2005	460,000	2029	2.53% to 5.31%	215,000
General Construction	2005	370,000	2029	2.53% to 5.31%	175,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	360,000
General Construction	2005	1,640,000	2030	4.50%	731,000
General Construction	2005	500,000	2030	4.75%	226,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	3,230,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	3,235,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	4,415,000
General Construction	2006	2,695,650	2031	4.75%	1,341,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	2,710,000
General Construction	2008	624,000	2030	4.50%	293,000
Operational Purpose	2010	9,740,000	2034	4.75% to 7.50%	17,782
General Construction	2012	18,285,000	2036	3.47% to 7.50%	10,971,000
General Construction	2012	245,000	2036	0.37% to 7.50%	147,000
General Construction	2012	279,900	2037	4.50%	205,000
General Construction	2013	3,120,000	2030	4.25%	1,710,000
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	7,915,000
Purchase of Equipment	2019	900,660	2025	2.75%	408,000
Refinancing	2019	4,810,000	2028	7.25% to 8.00%	3,680,000
Refinancing	2019	8,555,000	2036	7.25% to 8.00%	7,785,000
Refinancing	2019	18,200,000	2035	7.50% to 8.00%	16,990,000
Refinancing	2021	22,295,000	2031	8.00%	22,295,000
Purchase of Equipment	2022	1,486,000	2028	8.00%	1,486,000
General Construction	2022	5,332,000	2028	8.00%	5,332,000
Refinancing	2022	2,505,000	2030	6.50%	2,505,000
Subtotal					**111,273,432**

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%	$ 710,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	1,765,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	5,240,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	2,190,000
General Construction	2007	8,575,000	2024	1.53% to 6.73%	35,026
General Construction	2007	10,075,000	2026	5.84% to 6.07%	3,125,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	1,800,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	1,315,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	4,462,000
Subtotal					**20,642,026**
Sales & Usage Taxes:					
General Construction	2009	8,770,000	2033	1.48% to 7.50%	5,717,479
General Construction	2009	542,000	2033	1.48% to 7.50%	235,266
General Construction	2010	4,710,000	2034	4.75% to 7.50%	3,398,212
Operational Purpose	2020	4,805,277	2025	6.00% to 8.00%	3,955,000
Subtotal					**13,305,957**
Total Special Obligations Bonds					**33,947,983**
Total General and Special Obligations Bonds					**$ 145,221,415**

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 was 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). On September 30, 2021, the United States Congress passed the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43) and established that the "repayments of the remaining 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". Because of this Act the CDL Loan balance was cancelled and recognized as a grant.

The following is a summary of changes in long-term debts of the Municipality for the year ended June 30, 2022:

DESCRIPTION	BALANCE JULY 1, 2021	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2022	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 110,862,132	$ 6,818,000	$ (6,406,700)	$ 111,273,432	$ 10,299,982	$ 100,973,450
Special Obligations Bonds	42,219,260	25,000	(8,296,277)	33,947,983	5,270,026	28,677,957
Community Disaster Loan	5,000,000	-	(5,000,000)	-	-	-
Leases Liability (Intangible Right-To-Use)	2,719,165	2,383,800	(971,037)	4,131,928	1,082,659	3,049,269
Line of Credit	-	1,016,831	(776,717)	240,114	-	240,114
Total Pension Liability	145,432,662	12,889,837	(16,690,140)	141,632,359	-	141,632,359
Total OPEB Liability	5,232,844	82,651	(401,200)	4,914,295	-	4,914,295
Other Obligations	23,769,215	10,109,426	(14,272,822)	19,605,819	6,679,306	12,926,513
TOTAL	**$ 335,235,278**	**$ 33,325,545**	**$ (52,814,893)**	**$ 315,745,930**	**$ 23,331,973**	**$ 292,413,957**

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, 2022, are as follows:

Year Ending June 30,	General Obligation Bonds Principal Payment	General Obligation Bonds Interest Payment	Special Obligation Bonds Principal Payment	Special Obligation Bonds Interest Payment	Other Obligations Principal Payment	Other Obligations Interest Payment	Total Principal	Total Interest
2023	$ 10,299,982	$ 6,150,935	$ 5,270,026	$ 2,026,910	$ 7,761,965	$ 243,024	$ 23,331,973	$ 8,420,869
2024	11,134,200	6,605,071	5,551,000	1,926,510	2,117,371	184,266	18,802,571	8,715,847
2025	11,779,200	5,889,662	5,188,000	1,557,928	919,904	128,343	17,887,104	7,575,933
2026	11,762,200	5,149,602	4,712,000	1,216,265	648,469	90,180	17,122,669	6,456,047
2027	10,495,200	4,432,507	2,973,000	938,759	524,593	59,651	13,992,793	5,430,917
2028-2032	37,221,650	13,203,860	7,576,266	2,669,000	668,376	181,759	45,466,292	16,054,619
2033-2037	17,111,000	3,613,857	2,677,691	309,027	67,063	2,075	19,855,754	3,924,959
2038-2039	1,470,000	104,650	-	-	-	-	1,470,000	104,650
Unmatured	-	-	-	-	157,816,774	-	157,816,774	-
TOTAL	**$111,273,432**	**$ 45,150,144**	**$33,947,983**	**$ 10,644,399**	**$ 170,524,515**	**$ 889,298**	**$315,745,930**	**$ 56,683,841**

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. On June 30, 2022, 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 Issuance of Debt

On February 23, 2022, by Resolution Number 26 Fiscal Year 2021-2022 from the Municipal Legislative Assembly, 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. Loan payments will be from $ 111,000 to $255,000.

In addition, on February 23, 2022, by Resolution Number 27, Fiscal Year 2021-2022 from the Municipal Legislative Assembly 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.Loan payments will be from $675,000 to $862,000.

On June 15, 2022, by Resolution Number 49, Fiscal Year 2021-2022 from the Municipal Legislative Assembly, the Municipality obtained the approval for the issuance of a general obligation bond with Banco Popular of Puerto Rico, Series C of 2022 in the amount of $2,505,000. This bond is to refinance a special obligation bond from 2015 for $2,480,000 and bond issue costs; principal and fixed interest at 6.5%, payable semi-annually on the 1st day of January and July of each year through 2030. Loan payments will be from $ 250,000 to $385,000.

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, 2022:

DESCRIPTION	BALANCE JULY 1, 2021	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2022	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 42-MRCC	$ 1,125,855	$ -	$ (69,672)	$ 1,056,183	$ 74,050	$ 982,133
PR Retirement System Administration	6,925,754	-	(5,316,415)	1,609,339	1,171,965	437,374
Claims and Judgments	129,868	-	(61,150)	68,718	-	68,718
Puerto Rico Water and Sewer Authority	-	2,000,572	(887,572)	1,113,000	636,000	477,000
Christmas Bonus	825,603	818,147	(825,603)	818,147	818,147	-
Retainage Liability	290,262	824,072	(30,402)	1,083,932	-	1,083,932
Compensated Absences	14,471,873	6,466,635	(7,082,008)	13,856,500	3,979,144	9,877,356
TOTAL	**$ 23,769,215**	**$ 10,109,426**	**$ (14,272,822)**	**$ 19,605,819**	**$ 6,679,306**	**$ 12,926,513**

continue

16. LONG-TERM DEBTS – continuation

Due to Municipal Revenue Collection Center

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%.

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, 2022 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 $13.9 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.

F. 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%. As of June 30, 2022 the line of credit had a balance of $ 240,114.

continue

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.

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.

continue

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.

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	
Lease Related	$ 3,540,103
Pension Related	11,630,505
Total Deferred Inflows of Resources	$ 15,170,608

Balance Sheet:	
Commonwealth of Puerto Rico	$ 610,052
Lease Related	3,540,103
Federal Grants:	
Capital Projects Fund	2,031,063
Health and Human Services Fund	7,431,031
Other Governmental Funds	2,558,636
Total Deferred Inflows of Resources	$ 16,170,885

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, 2022.

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.

continue

19. PENSION PLANS – continuation

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:

- 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.

continue

19. PENSION PLANS – continuation

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.

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.

continue

19. PENSION PLANS – continuation

(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.

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.

continue

19. PENSION PLANS – continuation

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.

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.

continue

19. PENSION PLANS – continuation

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)*

- *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)*

(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) Total Pension Liabilities and Actuarial Information

The Total Pension Liability of the System was approximately $30.7 billion as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2020 which was rolled forward to June 30, 2021 (measurement date as of June 30, 2021).

(a) Actuarial Methods and Assumptions

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

continue

19. PENSION PLANS – continuation

Discount Rate

The discount rate for June 30, 2022, was 2.16%. this represents the municipal bond return rate as chosen by the Commonwealth. The source is the bond Buyer general Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

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

– *Pre-retirement Mortality*

For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. As generational table, 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 Retiree Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

– *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan' experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

continue

19. PENSION PLANS – continuation

Other Assumptions as of June 30, 2021

Actuarial Cost Method	Entry age normal
Inflation Rate	Not Applicable
Salaries Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

(b) 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, 2021. The measurement Date is June 30, 2021, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2021 through June 30, 2022.

As June 30, 2022, the Municipality's proportional share of the Total Pension Liability used was as follows:

Proportion - June 30, 2021	0.45892%
Proportion - June 30, 2022	0.46124%
Change - Increase (Decrease)	0.00232%

As June 30, 2022, the Municipality reported $141,632,359 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2022	
	Total	Proportional Share (0.46124%)
Total Pension Liability	$ 30,707,025,436	$ 141,632,359
Covered Payroll	$ 2,665,289,397	$ 19,789,168
Total Pension Liability as a % of Covered Payroll	1152.11%	715.71%

(c) Pension Expense

For the fiscal year ended June 30, 2022, the Municipality recognized pension expense of $6,152,826 of total pension payments of the "Pay-As-You-Go" system.

(d) Deferred Outflows/Inflow of Resources

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

continue

19. PENSION PLANS – continuation

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 5,730,250	$ 8,937,573
Changes in assumptions	18,285,965	2,692,932
Subsequent payments made	272,315	-
Total	$ 24,288,530	$ 11,630,505

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:

Year Ended June. 30,	Amount
2023	$ 2,531,605
2024	2,531,605
2025	2,531,605
2026	2,531,605
2027	2,531,603
Thereafter	-
Total	$ 12,658,025

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, 2021 and 2022, was as follow:

	June 30, 2021	June 30, 2022
Discount Rate	2.21%	2.16%
20 Year Tax-Exempt Municipal Bond Yield	2.21%	2.16%

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, 2021	$ 31,690,268,011	$ 146,167,444
Changes for the year:		
Service Cost	87,475,616	403,470
Interest on Total Pension Liability	686,028,956	3,164,224
Effect of Plan Changes	-	-
Effect of Economic/Demographic (Gains) or Losses	(564,138,174)	(2,602,018)
Effect of Assumptions Changes or Inputs	286,895,024	1,323,268
Benefits Payments	(1,479,503,996)	(6,824,029)
Balance as of June 30, 2022	**$ 30,707,025,437**	**$ 141,632,359**

(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 1.16%	Current Discount Rate 2.16%	1% Increase 3.16%
Total Pension Liability	$ 162,794,718	$ 141,632,359	$ 124,634,696

Fiscal Plan for Puerto Rico

The last Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 26) on January 27, 2022. 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, 2021 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, 2022, 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.

(1) Plan Description

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a "Pay-As-You-Go" basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB plan.

Healthcare Benefits

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as Amended by Act NO. 3-2013).

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013 (Act No. 144, as Amended by Act No. 3-2013).

Medication Bonus

The Plan covers an annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act No. 155, as Amended by Act NO. 3-2013).

continue

20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

(2) Allocation Methodology

GASB Statement No. 75 requires that the primary government and the component units that provide OPEB benefits through the same defined benefits OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB 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 OPEB amounts by employer may result in immaterial differences.

(3) Total OPEB Liabilities and Actuarial Information

The Total OPEB Liability was approximately $798.1 million as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2020 which was rolled forward to June 30, 2021 (measurement date as of June 30, 2021).

Actuarial Methods and Assumptions

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

Discount Rate

The discount rate for June 30, 2022, was 2.16%. this represents the municipal bond return rate as chosen by the Commonwealth. The source is the bond Buyer general Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

– *Pre-retirement Mortality*

  For general employees not covered under Act No. 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee rates for males and females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, 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 Mortality*

  Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 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

– *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan' experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using Mortality Improvement Scale MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

– *Post-retirement Beneficiary Mortality*

Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As generational table, it reflects mortality improvements both before and after the measurement date.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2020. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2021. 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, 2020 to June 30, 2021 for reporting period ending June 30, 2022.

Significant Changes

There have been no significant changes between the valuation date and measurement year end.

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, 2022	
	Total	Proportional Share (0.53046%)
Total OPEB Liability	$ 926,426,253	$ 4,914,295
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, 2021	0.51772%
Proportion - June 30, 2022	0.53046%
Change - Increase (Decrease)	0.01274%

continue

20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

Discount Rate

The discount rate on June 30, 2021 and 2022, was as follow:

	June 30, 2021	June 30, 2022
Discount Rate	2.21%	2.16%
20-Year Tax-Exempt Municipal Bond Yield	2.21%	2.16%

As of June 30, 2022, the ERS have issued its audited financial statements as of and for the fiscal year ended June 30, 2022 and has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021 (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, 2022. As a result, amounts reported as Total OPEB Liability, applicable disclosures and required supplementary information were presented with unaudited data.

Changes in Total OPEB Liability	**Total OPEB Liability**	**Proportional Share**
Balance as of June 30, 2021	$ 1,010,752,577	$ 5,361,610
Changes for the year:		
Service Cost	-	-
Interest on Total OPEB Liability	21,498,668	114,041
Effect of Plan Changes	-	-
Effect of Economic/Demographic (Gains) or Losses	(37,015,082)	(196,349)
Effect of Assumptions Changes or Inputs	7,531,623	39,952
Benefits Payments	(76,341,533)	(404,959)
Balance as of June 30, 2022	**$ 926,426,253**	**$ 4,914,295**

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.

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 1.16%	**Current Discount Rate 2.16%**	**1% Increase 3.16%**
Total OPEB Liability	**$ 5,395,298**	**$ 4,914,295**	**$ 4,504,922**

continue

21. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance Classification
Capital Projects Fund	Construction of Idamaris Gardens, Villa del Rey and Villa Blanca Recreational Facilities	$ 52,442	Restricted for Building and Facilities
	Construction of Borinquen Atravezada Basketball Court	134,646	Restricted for Building and Facilities
	Improvements to the Idelfonso Sola Morales Park	1,197,579	Restricted for Building and Facilities
	Water Distribution Sytstem Bo. Villa Nueva (EPA)	2,593,425	Restricted for Infrastructure Improvement
	Improvements of Francisco Pereira Terminal	228,949	Restricted for Building and Facilities
	Improvements to the Municipal Fuel Station	36,692	Restricted for Building and Facilities
	Acquisition of Alternative Water System Casa de Piedra	4,096	Restricted for Infrastructure Improvement
	Roads in Bo. Pueblo	49,137	Restricted for Infrastructure Improvement
	Improvements to Public Square Santiago R. Palmer	28,292	Restricted for Building and Facilities
	Roads in Bo. Tomas de Castro	45,420	Restricted for Infrastructure Improvement
	Roads in Urb. Villa del Rey	300,095	Restricted for Infrastructure Improvement
	Roads in La Changa Calle Los Estevez	17,304	Restricted for Infrastructure Improvement
	Improvements Los Ramos Bridge	1,723,955	Restricted for Infrastructure Improvement
	Roads in Bo. Lajitas and Borinquen	44,931	Restricted for Infrastructure Improvement
	Roads in Luis Muñoz Marin Avenue and Boulevard Leoncio Velazquez	98,806	Restricted for Infrastructure Improvement
	Roads in Bo. San Salvador, Borinquen and Tomas de Castro	49,949	Restricted for Infrastructure Improvement
	Total	$ 6,605,718	

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 2022.

Expenditures for the year ended June 30, 2022 for this service under the terms of this contract amounts to approximately $8.4 million.

continue

21. COMMITMENTS – continuation

Other Commitments

On June 30, 2022, the Non-Major Funds had a deficit of $583,983 as follows: Housing Funds $3,202, and Economic Development Activities Fund $873,985. 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.

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. During the fiscal year 2021-2022, the Municipality made contributions to COBAC for a total of $201,700 to cover operating expenses.

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 2021-2022 the Municipality contributed $3,750 to SANOS for education and drug prevention services.

continue

21. COMMITMENTS – continuation

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 2021-2022, the Municipality made contributions to CCECI for a total of $370,300 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, 2022 of $9,318.

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 $760,870 to cover operating expenses.

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, in fiscal year 2020-2021 a loan of $9,265 was made, finally, during fiscal year 2021-2022 a new loan was made in the amount of $116,390. These loans are non-interest bearing, no repayment has been made on these loans. In addition, during fiscal year 2020-2021, 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 2021-2022 the Municipality contribution to C3TEC was $166,812 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 2021-2022, the Municipality contributed $100,000 to AMSI to cover rent expenses.

continue

21. COMMITMENTS – continuation

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 2021-2022, the Municipality contributed $153,750 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.

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, 2022 the Municipality received HAP's assistance payments in the amount of approximately $7.1 million. No significant changes are expected during the subsequent fiscal year.

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continue

22. LEASES

Leases Accounting Policies – Lessee

The Municipality determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of an intangible right-to-use assets and lease liabilities on the Statement of Net Position. Right-to-use assets represent the use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Municipality determines lease classification as operating or finance at the lease commencement date. Finance leases, if applicable, are included in capital assets, other current liabilities and other long-term liabilities in our Statement of Net Position.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The right-to-use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Municipality uses the incremental borrowing rate (IBR) when readily determinable. As most of the leases do not provide an IBR, the Municipality uses the interest rate charged by the Lessor based on the information available at the commencement date to determine the present value of lease payments. IBR used to determine the present value of lease payments were derived by reference to the interest rate on the Lessor corresponding to the lease commencement date. Lease assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term.

The lease term is the noncancelable period per the contract. Additionally, the lease term may include options to extend or to terminate the lease that the Municipality is reasonably certain to exercise.

Leases Accounting Policies – Lessor

The Municipality is a Lessor for a noncancellable lease of facilities, buildings and improvements, equipment and vehicles. The Municipality recognizes a lease receivable and a deferred inflow of resources in the GWFS and GFFS, as applicable.

At the commencement of a lease, the Municipality initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Municipality determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Municipality uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Municipality monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receiva**ble.**

Lease Assets – Lessee

The Municipality has recorded intangible right-to-use lease assets as a result of implementing GASB No. 87. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability [plus any lease payments made prior to the lease term and ancillary charges necessary to place the lease into service, less lease incentives], if any. Lease assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term.

continue

22. LEASES – continuation

Lease asset activity for the Municipality for the year ended June 30, 2022, was as follows:

	Beginning Balance July 1, 2021	Increase	Decreases	Ending Balance June 30, 2022
Right-To-Use Assets:				
Facilities	$ 989,525	$ 986,014	$ -	$ 1,975,539
Buildings and Improvements	1,200,177	1,389,436	-	2,589,613
Equipment and Vehicles	529,463	8,350	-	537,813
Total Right-To-Use Assets	2,719,165	2,383,800	-	5,102,965
Less Accumulated Amortization- Right-To-Use Assets:				
Facilities	-	(376,337)	-	(376,337)
Buildings and Improvements	-	(538,732)	-	(538,732)
Equipment and Vehicles	-	(126,163)	-	(126,163)
Total Accumulated Amortization- Right-To-Use Assets	-	(1,041,232)	-	(1,041,232)
Total Right-To-Use Less Accumulated Amortization	$ 2,719,165	$ 1,342,568	$ -	$ 4,061,733

Lease Liability – Lessee

The Municipality has entered into agreements to lease facilities. The lease agreements haves been recorded at the present value of the future lease payments as of the date of their inception or, for leases existing prior to the implementation fiscal year at the remaining terms of the agreement, using the facts and circumstances available on July 1, 2021. The following table presents a summary, by capital asset description:

Capital Asset Description	Lease Term	Interest Rate	Outstanding Balance
Head Start Facilities Leases	3.17 to 6.5 Years	5.0%	$ 2,187,255
Betances Street Commercial Buildings Leases	5 Years	5.0%	545,970
Commercial Building at Tapia Street Lease	2.67 Years	5.0%	58,048
Consolidated Medical Plaza Building Lease for Public Housing Office	6 Years	5.0%	785,463
Oficina de Turismo y PromoCaguas Commercial Lot at Muñoz Rivera Street Lease	3 Years	5.0%	136,763
Ricoh Lanier Copiers Leases	2.83 to 5 Years	4.1%	418,429
			$ 4,131,928

Long-Term Liability Roll-Forward Schedule:

DESCRIPTION	BALANCE JULY 1, 2021	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2022	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Leases Liability (Intangible Right-To-Use)	$ 2,719,165	$ 2,383,800	$ (971,037)	$ 4,131,928	$ 1,082,659	$ 3,049,269

continue

22. LEASES – continuation

The future minimum payments on this lease as of June 30, 2022, were as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2023	$ 1,082,659	$ 178,800	$ 1,261,459
2024	1,124,294	124,695	1,248,989
2025	836,256	73,717	909,973
2026	559,565	40,810	600,375
2027	430,103	15,867	445,970
2028-2032	99,051	59,719	158,770
TOTAL	**$ 4,131,928**	**$ 493,608**	**$ 4,625,536**

Lease Receivables / Deferred Inflows of Resources – Lessor

Additionally, as Lessor, the Municipality leases and subleases Municipality-owned properties such as facilities and buildings. The related receivables are presented in the Statement of Net Position for the amounts equal to the present value of lease payments expected to be received during the lease term. The total amount of lease revenue, interest revenue, and other lease-related revenues recognized in the current reporting period from leases is $505,791. The following Table presents a summary, by Capital Asset Description:

Capital Asset Description	Lease Term	Interest Rate	Lease Receivable	Deferred Inflow	Lease Revenue	Interest Revenue
Commercial Lot Antiguo Teatro Alcázar Lease	2.33 Years	5.0%	$ 7,724	$ 7,567	$ 5,676	$ 480
Commercial Lot in Urb. Bunker Lease	1.25 Years	5.0%	298	291	1,166	40
Commercial Lot Lincoln Center Plaza Building Leases	2.80 and 6.9 Years	5.0%	681,252	668,117	115,243	33,510
Edificio Mendez Luna Commercial Lease	11.01 Years	5.0%	94,886	93,137	9,237	4,512
Parking Lot Calle Goyco Lease	2.33 Years	5.0%	3,862	3,784	2,838	240
Parking Lot Calle Ruiz Belvis Lease	2.10 Years	5.0%	1,764	1,728	1,482	114
Plaza del Mercado Commercial Lot Leases	2.80 to 5 Years	5.0%	394,825	380,889	109,016	16,822
Residential Lot Urb. Jose Mercado Lease	10.58 Years	5.0%	255,847	245,213	25,587	12,046
Solid Waste Transfer Station Lease	10.00 Years	5.0%	2,316,520	2,084,868	231,652	-
Terminal Francisco Pereira Commercial Lot Lease	5.00 Years	5.0%	55,119	54,509	3,894	708
			$ 3,812,097	**$ 3,540,103**	**$ 505,791**	**$ 68,472**

The Municipality's variable payments clause within its lease arrangements as the lessor, is similar to the arrangements made as lessee. The Municipality did not incur revenue related to residual value guarantees or lease termination penalties. It also does not currently have agreements that include sale-leaseback and lease-leaseback transactions.

Disclosures – Lessee

The implementation of GASB Statement No. 87 require restatements to the basic financial statements, as applicable. There is no impact on the basic financial statements. (See Notes 11, 16, 18 and 26)

continue

23. 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
Nonspendable - Loans	**$ -**	**$ -**	**$ -**	**$ -**	**$ 467,777**	**$ 751,110**	**$ 1,218,887**
Restricted For:							
Commercial and Residential Loans	-	-	-	-	-	248,336	248,336
COVID-19 Emergency	-	-	-	-	1,992	-	1,992
Debt Repayments	-	-	22,324,379	-	-	-	22,324,379
Drug Prevention Programs	-	-	-	-	12,377	-	12,377
Economic Development Purposes	-	-	-	-	145,169	3,692	148,861
Educational Assisted Programs	-	-	-	-	6,209	-	6,209
Energy Saving Loans	-	-	-	-	171,679	-	171,679
Head Start and Elderly Programs	-	-	-	14,520	-	-	14,520
Health Services	-	-	-	6,472	-	-	6,472
Housing Assisted Programs	-	-	-	-	-	1,381,933	1,381,933
Improvement to the City Hall Building	-	10,906	-	-	-	-	10,906
Improvements to Facilities and Buildings	389,924	3,630	-	-	1,368	-	394,922
Infrastructure Improvements	-	8,293,489	-	-	1,050	6,393	8,300,932
Purchase and Maintenance of Equipment	-	1,203,608	-	-	-	-	1,203,608
Recovery and Reconstruction Projects	-	-	-	-	-	586,463	586,463
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	-	-	-	-	569,108	17	569,125
Sureste Sport Facility Construction	-	582,551	-	-	-	-	582,551
System 911	-	-	-	-	722	-	722
CARES Act Revolving Loan	-	-	-	-	93,006	-	93,006
Transit Improvement Programs	596,667	-	-	-	684	75,000	672,351
Total Restricted	**986,591**	**10,117,035**	**22,324,379**	**20,992**	**1,160,014**	**2,367,580**	**36,976,591**
Committed To:							
Economic Development Purposes	-	-	-	-	-	10,800	10,800
Transcriollo Transportation Program	-	-	-	-	-	15,087	15,087
Total Committed	**-**	**-**	**-**	**-**	**-**	**25,887**	**25,887**
Assigned To:							
Improvements to Facilities and Buildings	-	1,762,306	-	-	-	-	1,762,306
Improvements to Facilities and Infrastructure	-	-	-	-	-	412,459	412,459
Recovery and Reconstruction Projects	-	-	-	-	-	92,170	92,170
Improvements to Facilities	-	25,125	-	-	-	-	25,125
Health Services	312,989	-	-	-	-	-	312,989
Infrastructure Improvements	86,046	30,488	-	-	-	-	116,534
Maintenance and Supplies	249,342	-	-	-	-	-	249,342
Maintenance Buildings and Green Areas	587,882	-	-	-	-	-	587,882
General Government Expenditures	2,031,106	-	-	-	-	-	2,031,106
Professional Services	337,397	-	-	-	-	-	337,397
Total Assigned	**3,604,762**	**1,817,919**	**-**	**-**	**-**	**504,629**	**5,927,310**
Unassigned (Deficit)	**436,034**	**-**	**-**	**(68,320)**	**(2,103,859)**	**(877,187)**	**(2,613,332)**
Total Fund Balances	**$ 5,027,387**	**$ 11,934,954**	**$ 22,324,379**	**$ (47,328)**	**$ (476,068)**	**$ 2,772,019**	**$ 41,535,343**

continue

24. CONTINGENCIES

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.

25. 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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continue

25. 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 2011-2014 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>$1,924,476</td><td>$3,845,364</td><td>$0</td><td>$0</td><td>$19,136</td><td>Not Applicable</td></tr>
</table>

continue

25. 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>$304,804</td><td>Not Available</td><td>$0</td><td>$2,481,584</td><td>Not Available</td></tr>
</table>

continue

25. 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	**$253,950**	**Not Available**	**$0**	**$48,000**	**Not Available**

continue

25. 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	**$1,030,150**	**Not Available**	**$0**	**$6,687**	**Not Available**

continue

25. 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**
	$761,525	**$4,515**	**Not Applicable**	**Not Available**	**$8,159**	**Not Available**

continue

25. 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	**$66,184**	**Not Available**

continue

25. 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	**$13,970**	**Not Applicable**	**Not Applicable**	**$383,915**	**Not Applicable**

This space is intentionally left in blank.

continue

25. 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		
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		
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	**$29,446**	**Not Applicable**

continue

25. TAX ABATEMENTS – continuation

Municipality Tax Abatement Disclosure as required by GASB Statement No. 77	**Programs Administered by the Puerto Rico Department of Housing**		
	Act Number 165 of August 23, 1996		
1) Purpose of Program.	Housing Rental Program for the Elderly with Low Income properties.		
2) Tax being abated.	Real 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.	The taxpayer will rent residential property to elderly with low-income to be eligible.		
5) How recipients' taxes are reduced.	This Act provide 90% exemption of Real 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 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	**$25,668**	**Not Applicable**

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

26. NET POSITION / FUND BALANCES RESTATEMENT

For the year ended June 30, 2022, 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, 2021 Net Position and Fund Balance, respectively, as previously reported to Beginning Net Position and Fund Balance, respectively, as restated, July 1, 2021:

Net Position

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2021	$ 100,840,581
Adjustment to Total Pension Liability	381,436
Adjustment to Total OPEB Liability	(216,232)
Increase in Capital Assets (Intangible Right-To-Use)	2,719,165
Increase in Leases Liability (Intangible Right-To-Use)	(2,719,165)
Beginning Net Position, as Restated, At July 1, 2021	**$ 101,005,785**

Fund Balance

	GENERAL FUND	CAPITAL PROJECT FUNDS	OTHER NON MAJOR FUNDS
Fund Balance, as Previously Reported, At June 30, 2021	$ 1,789,842	$ 6,082,806	$ 1,837,522
Reclassification for GASB No. 54	2,752,856	(844,968)	(1,907,888)
Beginning Fund Balance, As Restated, At July 1, 2021	**$ 4,542,698**	**$ 5,237,838**	**$ (70,366)**

27. 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.

continue

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

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.

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

27. 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

27. 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 FY2020-FY2021. 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.

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

27. 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

27. 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 • 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) • Medium-term: Implement ERP system (quarterly closing procedure) • 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 • Adjusting entries are communicated and coordinated across agencies • Accruals and interagency reconciliations automated	Not started
	Revenue / Expenses	• Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes • Detailed resolution certifications and expense system registration	Some Progress
	Payroll Systems	• Appropriations for termination of payroll accruals • Integrate systemwide payroll system into a financial reporting system	Some Progress
	Accounts Payable	• Maintain government wide monthly accounts payable procedures • Automate process and journal entries	Some Progress
	Purchase Orders	• Book encumbrances for entire year when contract is approved • 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 • 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 • Issue consistent systemwide guidance	Not started
	Real time spending reports	• Perform quarterly budget to actual review and forecast adjustment by senior leadership • 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 • Require reporting and sweep back unused general fund appropriations	Not started
	Financial accounting systems	• Integrate financial systems • 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

27. 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

27. 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

27. 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

27. 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.

28. SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

Contributions to Puerto Rico Health Reform Plan

In February 2023, the municipality got an adjustment on plan contribution of with $3.1 million to the plan. This will mean a reduction of 60% from actual contributions to the health reform plan.

Municipality has evaluated subsequent events through March 29, 2023, 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

Required Supplementary Information

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	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	(See Notes 1 and 2)	Final Budget
Resources (Inflows):				
Property Taxes	$ 28,120,448	$ 28,120,448	$ 30,530,064	$ 2,409,616
Volume of Business Taxes	26,375,000	26,375,000	26,437,400	62,400
Sales and Usage Taxes	18,800,000	20,568,828	24,275,902	3,707,074
Construction Excise Taxes	9,310,630	9,310,630	5,073,897	(4,236,733)
Intergovernmental Revenues	4,356,422	4,356,422	4,161,622	(194,800)
Interest	110,000	110,000	25,990	(84,010)
Rent and Other Resources	3,007,220	3,007,220	985,165	(2,022,055)
Fines and Penalties	900,000	900,000	527,845	(372,155)
Total Resources (Inflows)	90,979,720	92,748,548	92,017,885	(730,663)
Charges to Appropriations (Outflows):				
General Government	44,846,423	52,887,831	52,581,645	306,186
Public Safety	7,514,082	3,808,388	3,808,130	258
Public Works	10,595,744	11,167,074	10,981,460	185,614
Culture and Recreation	3,944,525	3,568,694	3,535,728	32,966
Health and Welfare	1,949,454	1,000,987	1,000,835	152
Economic and Social Development	3,226,142	3,059,080	2,933,826	125,254
Housing	730,897	696,399	639,756	56,643
Sanitation and Environmental	16,493,516	15,078,248	14,799,670	278,578
Education	1,678,937	1,481,848	1,168,744	313,104
Total Charges to Appropriations	90,979,720	92,748,548	91,449,794	1,298,754
Excess of Appropriations Over Resources	**$ -**	**$ -**	**$ 568,091**	**$ 568,091**

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, 2022 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 126)	$ 92,017,885
Basis of Accounting:	
Net Change in Assets and Deferred Inflow of Resources	(665,793)
Perspective Difference:	
Non Budgetary Items – Revenues of Other Funds and Transfers	4,615,218
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 28)	$ 95,967,310
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 126)	$ 91,449,794
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary Items – Expenditures of Other Funds	4,228,731
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(3,291,773)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	3,964,680
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(5,944,756)
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 28)	$ 90,406,676

END OF NOTES

	2022	2021	2020	2019	2018
Proportion of theTotal Pension Liability *	0.46124%	0.45892%	0.43100%	0.43457%	0.47978%
Proportionate Share of the Collective Total Pension Liability	$ 141,632,359	$ 145,432,662	$ 120,792,619	$ 119,972,258	$ 154,055,408
Covered - Employee Payroll	$ 19,789,168	$ 20,339,441	$ 21,236,900	$ 22,565,235	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	715.71%	715.03%	568.79%	531.67%	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.

	2022	2021	2020	2019	2018	2017
Proportion of Total Other Post-Employment Benefit Liability *	$ 4,914,295	$ 5,232,844	$ 5,016,612	$ 5,061,029	$ 5,515,908	$ 7,100,340
Proportionate Share of Total Other Post-Employment Benefit	0.53046%	0.51772%	0.52054%	0.51884%	0.51671%	0.51662%
Covered - Employee Payroll	N/A	N/A	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	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

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Line Item No. Assets		14.HCC HCV CARES Act Funding	14.879 Mainstream Voucher Program	14.871 Housing Choice Voucher	TOTAL
	Current Assets - Cash:				
111	Cash - Unrestricted	$ -	$ -	$ 1,338,140	$ 1,338,140
113	Cash - Other Restricted	-	77,369	134,345	211,714
115	Cash - Restricted for Payment of Current Liabilities	3,553	-	-	3,553
100	**Total Cash**	**3,553**	**77,369**	**1,472,485**	**1,553,407**
	Receivables:				
121	Accounts Receivable - PHA Projects	-	-	55,662	55,662
128	Fraud Recovery	-	-	47,867	47,867
128.1	Allowance for Doubtful Accounts - Fraud Recovery	-	-	(47,867)	(47,867)
120	**Total Receivables, Net of Allowancesfor Doubtful Accounts**	**-**	**-**	**55,662**	**55,662**
150	**Total Current Assets**	**3,553**	**77,369**	**1,528,147**	**1,609,069**
	Fixed Assets:				
164	Furniture, Equipment & Machinery - Administration	-	-	874,150	874,150
166	Accumulated Depreciation	-	-	(580,849)	(580,849)
160	**Total Capital Assets, Net of Accumulated Depreciation**	**-**	**-**	**293,301**	**293,301**
190	**Total Assets**	**3,553**	**77,369**	**1,821,448**	**1,902,370**
200	Deferred Outflow of Resources	-	-	-	-
290	**Total Assets and Deferred Outflow of Resources**	**$ 3,553**	**$ 77,369**	**$ 1,821,448**	**$ 1,902,370**

continue

Liabilities and Equity		Value			
	Liabilities:				
	Current Liabilities:				
312	Accounts Payable <=90 days	$ -	$ -	$ 32,184	$ 32,184
322	Accrued Compensated Absences - Current Portion	-	-	55,614	55,614
331	Accounts Payable - HUD PHA Programs	-	-	1,767	1,767
332	Accounts Payable - PHA Projects	-	-	12,790	12,790
333	Accounts Payable - Other Government	-	-	89,055	89,055
343	Current Portion of Long-Term-Debt	-	-	47,273	47,273
345	Other Current Liabilities	3,553	-	-	3,553
310	**Total Current Liabilities**	**3,553**	**-**	**238,683**	**242,236**
	Non-current Liabilities:				
353	Non-current Liabilities - Other	-	-	214,547	214,547
354	Accrued Compensated Absences - Non-Current	-	-	162,240	162,240
350	**Total Non-Current Liabilities**	**-**	**-**	**376,787**	**376,787**
300	**Total Liabilities**	**3,553**	**-**	**615,470**	**619,023**
400	Deferred Inflow of Resources	-	-	-	-
	Equity:				
508.4	Net Investment in Capital Assets	-	-	293,301	293,301
511.4	Restricted Net Position	-	77,369	119,788	197,157
512.4	Unrestricted Net Position	-	-	792,889	792,889
513	**Total Equity / Net Position**	**-**	**77,369**	**1,205,978**	**1,283,347**
600	**Total Liabilities, Deferred Inflow of Resourses and Equity - Net Assets / Position**	**$ 3,553**	**$ 77,369**	**$ 1,821,448**	**$ 1,902,370**

See accompanying notes to Financial Data Schedule.

SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM – FINANCIAL DATA SCHEDULES (RQ007)
PROGRAM REVENUES AND EXPENSES SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Line Item No.		Value			
Revenues		**14.HCC HCV CARES Act Funding**	**14.879 Mainstream Voucher Program**	**14.871 Housing Choice Voucher**	**TOTAL**
70600	HUD PHA Operating Grants	$ 121,198	$ 45,410	$ 7,519,729	$ 7,686,337
71100	Investment Income - Unrestricted	-	-	909	909
71400	Fraud Recovery	-	-	34,031	34,031
71500	Other Revenue	-	-	438,339	438,339
70000	**Total Revenues**	**121,198**	**45,410**	**7,993,008**	**8,159,616**
Expenses	**Administrative:**				
91100	Administrative Salaries	89,976	-	379,493	469,469
91200	Auditing Fees	3,000	-	10,000	13,000
91400	Advertising and Marketing	-	-	780	780
91500	Employee Benefit Contributions - Administrative	8,675	-	78,923	87,598
91600	Office Expenses	19,547	5,455	244,612	269,614
91900	Other	-	-	68,498	68,498
91000	**Total Operating - Administrative**	**121,198**	**5,455**	**782,306**	**908,959**
	General Expenses:				
96720	Interest on notes payable	-	-	13,040	13,040
91000	**Total General Expenses**	**-**	**-**	**13,040**	**13,040**
96900	**Total Operating Expenses**	**121,198**	**5,455**	**795,346**	**921,999**
97000	**Excess of Operating Revenue over Operating Expenses**	**-**	**39,955**	**7,197,662**	**7,237,617**
97300	Housing Assitance Payments	-	69,565	6,668,274	6,737,839
97350	HAP Portability-In	-	-	411,579	411,579
97400	Depreciation Expense	-	-	87,410	87,410
97500	Fraud Losses	-	-	-	-
90000	**Total Expenses**	**121,198**	**75,020**	**7,962,609**	**8,158,827**
10010	Operating Transfer In	-	-	-	-
10020	Operating Transfer Out	-	-	-	-
10010	**Total Other Financing Sources (Uses)**	**-**	**-**	**-**	**-**
10000	**Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**	**$ -**	**$ (29,610)**	**$ 30,399**	**$ 789**
	Memo Account Information:				
*11030	Beginning Equity	$ -	$ 106,979	$ 1,175,579	$ 1,282,558
*11040	Prior Period Adjustments, Equity Transfers	$ -	$ -	$ -	$ -
*11170	Administrative Fee Equity	$ -	$ -	$ 1,086,190	$ 1,086,190
*11180	Housing Assistance Payments Equity	$ -	$ 77,369	$ 119,788	$ 197,157
*11190	Unit Months Available	-	900	15,900	
*11210	Number of Unit Months Leased	-	154	14,257	
*11640	Furniture & Equipment - Administrative Purchases			$ 309,261	

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

PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE

U.S. DEPARTMENT OF AGRICULTURE PROGRAM:				
Puerto Rico Department of Education – Child and Adult Care Food Program (CACFP)	10.558	CCC-003	$ -	$ 798,413
Total U.S. Department of Agriculture Program			-	798,413
U.S. DEPARTMENT OF COMMERCE PROGRAM:				
COVID-19 – Economic Adjustment Assistance	11.307		-	552,525
Total US Department of Commerce Program			-	552,525
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS:				
Housing Voucher Programs Cluster:				
COVID-19 – Section 8 Housing Choice Vouchers Program	14.871		-	121,199
Section 8 Housing Choice Vouchers Program	14.871		-	7,915,270
Mainstream Voucher Program (MV)	14.879		-	75,020
Total Housing Voucher Programs Cluster			-	8,111,489
Other Programs:				
COVID-19 – Community Development Block Grant/Entitlements Grant	14.218		-	622,149
Community Development Block Grants/Entitlements Grants	14.218		-	1,726,759
Total Community Development Block Grants/Entitlements Grants			-	2,348,908
COVID-19 – Emergency Solutions Grant Program	14.231		434,859	526,959
Emergency Solutions Grant Program	14.231		134,672	139,774
Total Emergency Solutions Grant Program			569,531	666,733
Home Investment Partnership Program (HOME)	14.239		-	555,801
Puerto Rico Housing Department - Community Development Block Grant/States Program and Non Entitlements Grants in Hawaii	14.228	N/A	-	268,941
Total U.S. Department of Housing and Urban Development Programs			569,531	11,951,872
U.S. DEPARTMENT OF JUSTICE PROGRAMS:				
Body Worn Camera Policy and Implementation Program	16.835		-	58,251
Puerto Rico Department of Justice:				
COVID-19 - Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1319	-	39,281
Crime Victim Assistance	16.575	2019-V2-CAGUA-01	-	63,605
Total U.S. Department of Justice Programs			-	161,137

continue

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Assistance Listing Number*	*Pass-Through Entity Identifying Number*	*Pass-Through To Subrecipients*	*Total Federal Expenditures*
U.S. DEPARTMENT OF TRANSPORTATION PROGRAMS:				
Federal Transit Programs Cluster:				
COVID-19 – Federal Transit-Formula Grants (Urbanized Area Formula Program)	20.507		$ -	$ 455,505
Bus and Bus Facilities Formula and Discretionary Program (Bus Program)	20.526		-	257,200
Total Federal Transit Programs Cluster			-	712,705
Other Programs:				
Public Transportation Emergency Relief Program	20.527		-	166,293
Highway Safety Cluster:				
Puerto Rico Traffic Safety Commission:				
State and Community Highway Safety	20.600	N/A	-	11,530
National Priority Safety Program	20.616	N/A	-	4,574
Total Highway Safety Cluster			-	16,104
Total U.S. Department of Transportation Programs			-	895,102
U.S DEPARTMENT OF TREASURY PROGRAMS:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	21.027		-	10,275,324
Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) – COVID-19 - Coronavirus Relief Fund	21.019	N/A	-	2,516,180
Puerto Rico Health Department – COVID-19 - Coronavirus Relief Fund	21.019	N/A	-	850,565
Total U.S. Department of Treasury Programs			-	13,642,069
U.S. ENVIRONMENTAL PROTECTION AGENCY PROGRAM:				
Puerto Rico Environmental Quality Board – Capitalization Grants for Clean Water State Revolving Funds	66.458	C-72-082-08	-	929,005
Total U.S. Environmental Protection Agency Program			-	929,005
U.S. DEPARTMENT OF EDUCATION PROGRAMS:				
Puerto Rico Department of Education:				
Adult Education – Basic Grants to States	84.002	A000710	-	109,780
Twenty-First Century Community Learning Centers	84.287	2022-AF0091	-	516,942
Total U.S. Department of Education Programs			-	626,722

continue

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Assistance Listing Number*	*Pass-Through Entity Identifying Number*	*Pass-Through To Subrecipients*	*Total Federal Expenditures*
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PROGRAMS:				
Head Start Programs Cluster:				
Head Start	93.600		$ -	$ 16,458,571
COVID-19 – Head Start American Rescue Plan Act of 2021 (ARP)	93.600		-	1,379,376
Head Start Disaster Recovery from Hurricanes Harvey, Irma, and Maria	93.356		-	1,848,371
Total Head Start Programs Cluster			-	19,686,318
Aging Programs Cluster:				
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, Cares Act for Supportive Services Under Title III-B of the Older Americans Act, and American Rescue Plan for Supportive Services Under Title III-B of the Older Americans Act	93.044	180169R1	-	24,485
Nutrition Services for Nutrition Services Under Title III-C of the Older American Act, Cares Act for Nutrition Services Under Title III-C of the Older American Act, and American Rescue Plan for Nutrition Services Under Title III-C of the Older American Act	93.045	180205R1	-	43,377
COVID-19 - Nutrition Services for Nutrition Services Under Title III-C of the Older American Act, Cares Act for Nutrition Services Under Title III-C of the Older American Act, and American Rescue Plan for Nutrition Services Under Title III-C of the Older American Act	93.045	180205R1	-	34,475
Nutrition Services Incentive Program	93.053	180206R1	-	65,299
Total Aging Programs Cluster			-	167,636
Others Programs:				
Puerto Rico Department of Familiy:				
Temporary Assistance for Needy Families (TANF)	93.558	PCOC_2022-04177	-	16,936
Child Care and Development Block Grant	93.575	G2001PRCCDD	-	667,122
COVID-19 - Child Care Development Block Grant	93.575	G2001PRCCC3	-	111,956
Family Violence Prevention and Services/State Domestic Violence Coalitions	93.671	G2102PRFVPS	-	37,453
COVID-19 - Family Violence Prevention and Services/State Domestic Violence Coalitions	93.671	G2102PRFVC6	-	7,697
Total U.S. Department of Health and Human Services Programs			-	20,695,118
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (CNCS) PROGRAM:				
Puerto Rico Governor's Commission for Volunteerism and Community Service – AmeriCorps State and National	94.006	21AC236917	-	65,059
Total U.S. Corporation for National and Community Service (CNCS) Program			-	65,059
U.S. DEPARTMENT OF HOMELAND SECURITY PROGRAMS:				
Puerto Rico Office of Disaster and Emergencies Administration – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-DR-4339-PR	-	5,634,869
Puerto Rico Office of Public Safety – Homeland Security Grant Program (HSGP)	97.067	EMW-2021-SS-00024-S01	-	306,078
Total U.S. Department of Homeland Security Programs			-	5,940,947
Total Expenditures of Federal Awards			**$ 569,531**	**$ 56,257,969**

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, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform 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 $140,740. The amount of $140,740 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.

continue

6. 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 - $306,078, Capital Projects Fund – $2,617,849, Health and Human Services Fund – $20,670,485, Social and Welfare Activities Fund – $16,658,953 and Other Governmental Funds $15,940,690.

The amount of $524,310 was included as expenditure in the SEFA, under the program Economic Adjustment Assistance (11.307) that are not expenditure. In accordance with program regulation, the amount of expenditure to be reported in the SEFA, should consider the principal loan balance outstanding at year end ($425,674), plus any cash balance available for loan purposes ($98,636), and finally, any administrative expenditures incurred during the fiscal year, which was $28,215.

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.

The Municipality received grants under the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – CDBG-DR, from the Puerto Rico Housing Department (PRHD). In accordance with the program regulation, these funds are the matching portion for allowable costs incurred for projects approved by the PRHD, related to the Disaster Grants – Public Assistance (Presidentially Declared Disasters) expenditures.

END OF NOTES

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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, 2022, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements, and have issued our qualified report thereon dated March 29, 2023. 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 and related notes disclosure with respect to its participation in the employees' retirement pension and other postemployment benefits plans.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of **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 or significant deficiencies may exist that were not identified.

Report on 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 financial statement. 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 performed in accordance with *Government Auditing Standards* in considering the **Municipality**'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, 2025

Caguas, Puerto Rico
March 29, 2023

Stamp No. E508710 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

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

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

Opinion on 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 identified as subject to audit 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, 2022. **Municipality**'s major Federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the **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, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether do to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **Municipality**'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the **Municipality**'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality**'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002. Our opinion on each major Federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the **Municipality**'s response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The **Municipality**'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The **Municipality** is responsible for preparing a Corrective Action Plan to address each audit finding included in our auditor's report. The **Municipality**'s Corrective Action Plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on 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.

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 DM, CSP

CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
March 29, 2023

Stamp No. E508711 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

PART III

FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with special reporting framework:	[X]	Unmodified Opinion		
		Modified:	[X]	Qualify Opinion
			[ ]	Adverse Opinion
			[ ]	Disclaimer Opinion
Internal control over financial reporting:				
• Significant deficiency (ies) identified?	[ ]	Yes	[X]	No
• Material weakness (es) identified?	[ ]	Yes	[X]	No
Noncompliance material to financial statements noted?	[ ]	Yes	[X]	No

Federal Awards

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?	[X]	Yes		[ ]	No
Type of auditor's report issued on compliance for each Major Federal Programs:	[X]	Unmodified Opinion			
		Modified:		[ ]	Qualify Opinion
				[ ]	Adverse Opinion
				[ ]	Disclaimer Opinion
Internal control over Major Federal Programs::			**Questioned Costs**		
• Significant deficiency (ies) identified?	[X]	Yes		[ ]	No
• Material weakness (es) identified?	[ ]	Yes		[X]	No
• Known Questioned Costs Greater than $25,000 for a Compliance Requirement on a Major Program?	[ ]	Yes	$ -	[X]	None Reported
• Known Questioned Costs Greater than $25,000 on an Nonmajor Program?	[ ]	Yes	$ -	[X]	None Reported
• Known or Likely Fraud Affecting a Federal Award?	[ ]	Yes	$ -	[X]	None Reported

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant/Entitlements Grants / COVID-19 - Community Development Block Grant/Entitlements Grants
21.019	COVID-19 - Coronavirus Relief Fund
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
66.458	Capitalization Grants for Clean Water State Revolving Funds
93.600 / 93.356	Head Start Program Cluster / COVID-19 Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$1,687,739			
Auditee qualified as low-risk auditee?	[ ]	Yes	[X]	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 **2022-001**

FEDERAL PROGRAM **(ALN 14.218) COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

AWARD NUMBER **B21MC72001 (Federal Award Year 2021)**

COMPLIANCE REQUIREMENT **REPORTING**

TYPE OF FINDING **NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

CRITERIA

In accordance with 2 CFR Appendix A to Part 170, I(a), unless a recipient of grants or cooperative agreements is exempt, they are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). The non-Federal entity or Federal agency must report each obligating action to http://www.fsrs.gov. For subaward information, report no later than the end of the month following the month in which the obligation was made.

STATEMENT OF CONDITION

As part of our audit procedures, the **Municipality** include information from contractors instead of subrecipient in the report submitted June 30, 2022.

QUESTIONED COSTS

Not Applicable

PERSPECTIVE INFORMATION

We received from the **Municipality** the report made for the month of June 30, 2022. We noted that they included all contracts from vendors, instead of Federal awards made to a subrecipient under which the total funding is anticipated to be equal or exceed $30,000 in Federal funding. The total transactions examined were five (5) contracts with vendors in the amount of $271,032.

STATEMENT OF CAUSE

Municipality staff had the understanding that they must include all contracts or purchase orders greater than $30,0000 in the FFATA report.

POSSIBLE ASSERTED EFFECT

The **Municipality** is in non-compliance with the requirements to report through the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) platform. This breach does not allow for the transparency that this report requires.

IDENTIFICATION OF REPEAT FINDING

This is not a repeated Finding.

RECOMMENDATIONS

We recommend that the **Municipality** provide training and technical assistance to the personnel that prepares and submits the contracts that meet the requirements to be reported on the FSRS portal. In addition, controls should be in place in order to be able to keep track of the type of contract they need to report.

VIEWS OF RESPONSIBLE OFFICIALS

The Municipality will be evaluating possible training alternatives so that personnel from different Offices such as the Planning Office, Municipal Secretary, Internal Audit and Department of Housing can take them. In turn, the following link will be provided: https://www. Hudexchange.infor/trainings/cources/ffata-subaward-reporting-system-webinar-for-cdbg-grantees1/, which is a one hour training course that is on the HUD Exchange platform on the FFATA Reporting System.

IMPLEMENTATION DATE

During fiscal year 2023

RESPONSIBLE PERSON

Zaid Díaz Isaac, Program Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2022-002**
FEDERAL PROGRAM	**(ALN 21.027) CORONAVIRUS STATE AND LOCAL RECOVERY FUNDS** **U.S. DEPARTMENT OF TREASURY**
AWARD NUMBER	**NOT AVAILABLE**
COMPLIANCE REQUIREMENT	**REPORTING**
TYPE OF FINDING	**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**

CRITERIA

Per the Compliance and Reporting Guidance – Part I: General Guidance – Section D: Uniform Administrative Requirements – Section 10: Reporting: establishes that: All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Recipients should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles.

In addition, where appropriate, recipients need to establish controls to ensure completion and timely submission of all mandatory performance and/or compliance reporting.

STATEMENT OF CONDITION

During the performance of our audit procedures regarding reporting, we obtained copies of the reports submitted for the periods of March to December 2021, January to March 2022 and April to June 2022 for the evaluation of the reporting requirements. Due to that the reports presented accumulated information, we selected the report for the period of April to June 2022 for reporting requirement evaluation. After the evaluation of the report and its supporting documentation we noticed the following situations:

1. In one of the projects the total amount of current period and cumulative obligations does not agree with the total amounts of obligations recognized in the accounting system for the same project and period.

2. In one of the projects the total current period and cumulative expenditures does not agree with the total amounts of expenditures recognized in the accounting system for the same project and period..

QUESTIONED COSTS

Not Determined.

PERSPECTIVE INFORMATION

Condition 1: This was an isolated case in the accounting system were the purchase order balance does not reflect the expenditures incurred. No additional information was required when preparing the report to validate the reason because the purchase order balance was the same as originally reported although expenditures were incurred during the period related to the same project. In a subsequent report the total amount of obligations will be updated.

Condition 2: For the next period report the involuntary error was identified and properly corrected to reflect the correct amounts in the report in accordance with the accounting records.

STATEMENT OF CAUSE

Condition 1: The personnel in charge of preparing the report used a worksheet to analyze the information to include in the report and by an error of the accounting system the purchase order balance at the end of the period was the same as originally reported. When the expenditures for the period were entered in the worksheet they were considered as new obligations and not as a reduction to the original purchase order amount.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2022-002 – continuation**

Condition 2: The personnel in charge of preparing the report used a worksheet to analyze the information to include in the report and by an involuntary error entered as total expenditures the total amount of obligations for the project causing that the amount reported as expenditures be greater than the amount in the accounting system.

POSSIBLE ASSERTED EFFECT The information included in the reports does not agree with the **Municipality** accounting records.

IDENTIFICATION OF REPEAT FINDING This is not a repeated Finding.

RECOMMENDATIONS We recommend that the **Municipality** establish an adequate procedure to verify and trace the amounts included in the report to the amounts in the accounting records of the **Municipality**, by using more than one type of report from the accounting system so the personnel in charge of preparing the report can trace to more than one source of information that the amounts reported are in accordance with the accounting records.

VIEWS OF RESPONSIBLE OFFICIALS Management concurs with the finding. The year-end closing process has improved significantly over the past years and we will continue to strengthen controls over financial reporting to reduce the time required to perform year-end analyses and the closing process. Specifically, analyses and adjustments to contract obligations and purchase orders will be performed on a quarterly basis to complete the reconciliation of year-end balances and transactions in July, within the time constraint. In addition, the Municipality immediately implemented a three-step quality control to the quarterly report's submission (Preparer / Reviewer / Approval) to ensure that the amounts reported are in accordance with the accounting records.

IMPLEMENTATION DATE Ongoing Process

RESPONSIBLE PERSON Finance Department

END OF SCHEDULE

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(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2021

Findings Related to the Federal Programs:

Finding Reference Number	**2021-001**	**Significant Deficiency / Noncompliance – Reporting**
Assistance Listing Number	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Statement of 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**.
Recommendations		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.
Questioned Cost	None	
Current Status	No final determination has been received from awarding agency.	

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

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caguas.gov.pr

PLAN DE ACCIÓN CORRECTIVA
REPORTE SINGLE AUDIT

Cita o Número de Informe	Oficina Auditada	Descripción de los Hallazgos	Plan de Acción Correctiva
2022-001	Planning Office	In accordance with 2 CFR appendix a to Part 170, I(a), unless a recipient of grants or cooperative agreements is exempt, they are required to report first-tier subawards of $30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). The non-Federal entity or Federal agency must report each obligating action to http://www.fsrs.gov. For subaward information, report no later than the end of the month following the As part of our audit procedures, the Municipality include information from contractors instead of subrecipient in the report submitted June 30, 2022. Municipality of Caguas staff had the understanding that they must include all contracts or purchase orders greater than $30,0000 in the FFATA report. The Municipality is in non-compliance with the requirements to report through the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) platform. This breach does not allow for the transparency that this report requires. We received from the Municipality of Caguas the report made for the month of June 2022. We noted that they included all contractsfrom vendors, instead of federal awards made to a subrecipient under which the total funding is anticipated to be equal or exceed $30,000 in Federal funding. The total transactions examined were five contracts with vendors in the amount of $271,032	The Municipality will be evaluating possible training alternatives so that personnel from different Offices such as the Planning Office, Municipal Secretary, Internal Audit and Department of Housing can take them. In turn, the following link will be provided: https://www.hudexchange.info/trainings/courses/ffata-subaward-reporting-system-webinar-for-cdbg-grantees1/, which is a one hour training course that is on the HUD Exchange platform on the FFATA Reporting System.

Zaid Díaz Isaac

28-Mar-23
Fecha

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS
CORRECTIVE ACTION PLAN
SINGLE AUDIT REQUIREMENTS
AS OF JUNE 30, 2022

Finding Number	Finding Description	Management Response and/or Corrective Action	Assigned Responsibility	Status
2022-002	Per the Compliance and Reporting Guidance – Part I: General Guidance – Section D: Uniform Administrative Requirements – Section 10: Reporting: establishes that: All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Recipients should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles. In addition, where appropriate, recipients need to establish controls to ensure completion and timely submission of all mandatory performance and/or compliance reporting. During the performance of our audit procedures regarding reporting, the auditors obtained copies of the reports submitted for the periods of March to December 2021, January to March 2022 and April to June 2022 for the evaluation of the reporting requirements. Due to that the reports presented accumulated information; they selected the report for the period of April to June 2022 for reporting requirement evaluation. After the evaluation of the report and its supporting documentation they noticed the following situations: 1. In one of the projects the total amount of current period and cumulative obligations does not agree with the total amounts of obligations recognized in the accounting system for the same project and period. 2. In one of the projects the total current period and cumulative expenditures does not agree with the total amounts of expenditures recognized in the accounting system for the same project and period.	Management concurs with the finding. The year-end closing process has improved significantly over the past years and we will continue to strengthen controls over financial reporting to reduce the time required to perform year-end analyses and the closing process. Specifically, analyses and adjustments to contract obligations and purchase orders will be performed on a quarterly basis to complete the reconciliation of year-end balances and transactions in July, within the time constraint. In addition, the Municipality immediately implemented a three-step quality control to the quarterly report's submission (Preparer|Reviewer|Approval) to ensure that the amounts reported are in accordance with the accounting records.	Finance Department Sra. Luz Delia Ortiz Review Purchases Orders Report Angie L. Frias Baez Final Approval	Inmediately

Angie L. Frías Báez
Finance Director

March 28, 2023