COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAGUAS

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2023

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

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Governmental Audit Quality Center
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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, 2023, 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, 2023 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, 2023, 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, 2023 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, 2023. 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 February 13, 2024 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, 2023 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, which 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 136-137, and employees' retirement systems information and employees' other postemployment benefits information, on pages 138-140 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 142 through 145, 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 147 through 151, 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 26, 2024, 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 DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico
March 26, 2024

Stamp No. E539416 of the Puerto Rico Society of Certified
Public Accountants were 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, 2023. 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 $174,186,738.

- The government's total assets and deferred outflows of resources, in the Governmental-wide Statement of Net Position increased by $11,040,192 and government's liabilities and deferred inflows of resources decreased by $27,945,386.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $62,849,551 after a total and combined net increase of $21,314,208.

- The Municipality's total general and special long-term debts net increased by $7,091,992 during the current fiscal year.

- Total Pension Liability decreased by $36,336,798, and Total OPEB Liability by $831,517. The change was mainly due to the confirmation by the U.S. District Court for the District of Puerto Rico on January 18, 2022, that eliminated the Act 127-1958 high risk death and disability benefits for System 2000, Act 3, and Act 106 members in high risk positions, eliminated future cost of living adjustments, including those on the Act 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act 3 members who were not in payment status as of March 15, 2022.

- Net Capital Assets from Governmental Activities as of June 30, 2023 was $367,734,535 presenting a net decrease of $4,853,253 with respect to the prior year balance.

- The net increase in Current Assets was due to an increase, mainly, in cash during the year ended June 30, 2023, of approximately $15 million.

- The Municipality implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), in fiscal year 2023. This standard improves accounting and financial reporting for leases by governments. Adoption of GASB Statement No. 96 resulted in the recognition of SBITA's Asset and SBITA's Liability of $1,644,011. There was no effect on net position previously reported as of July 1, 2022.

This discussion and analysis are 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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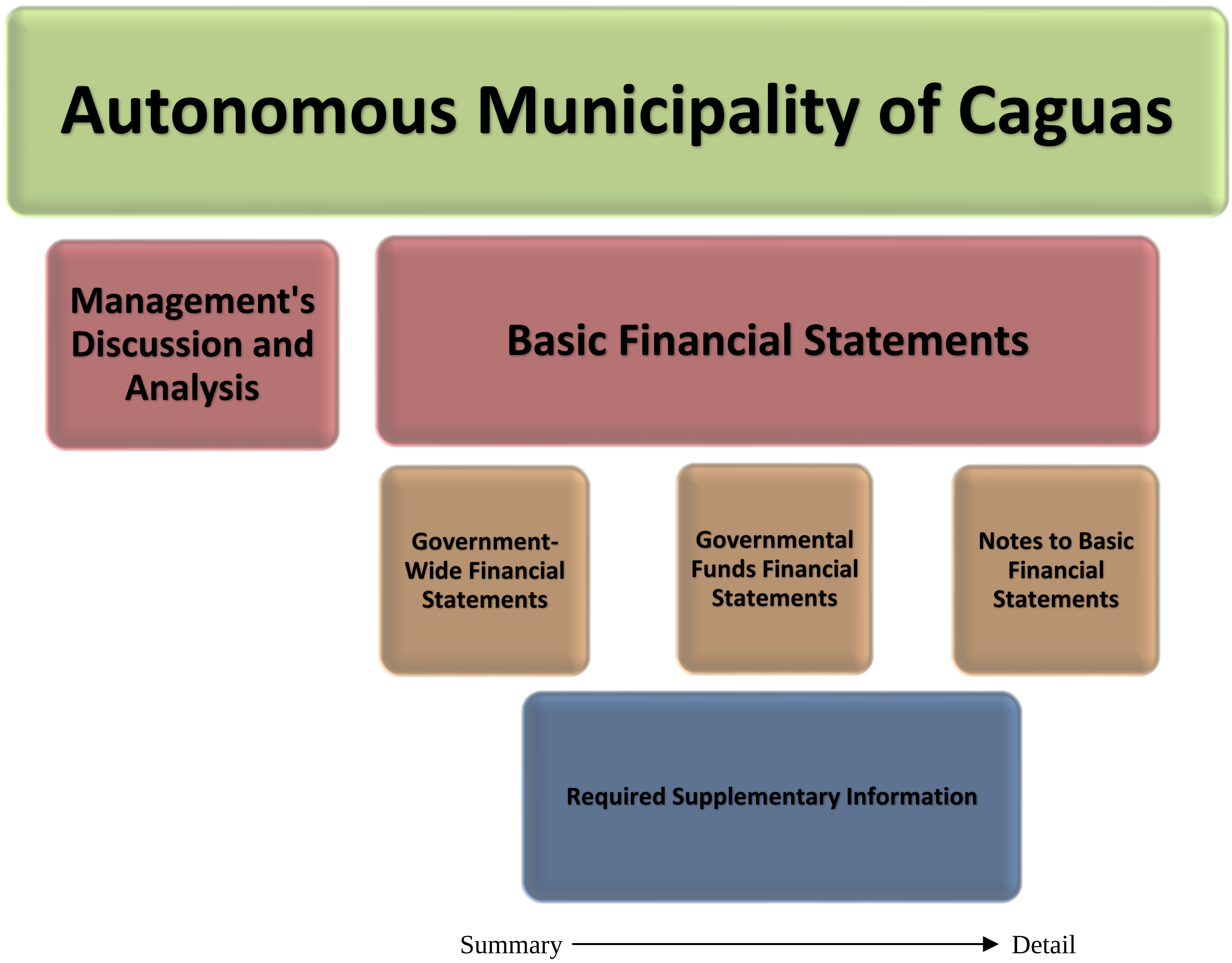
Required Components of Annual Financial Report
Figure 1



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 provides 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 2022-2023:

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- 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*
- Statement No. 99, *Omnibus 2022*

The effective dates of the following pronouncements are for fiscal year 2023-2024 and thereafter:

- Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62*
- Statement No. 101, *Compensated Absences*
- Statement No. 102, *Certain Risk Disclosures*

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 Funds Financial Statements (GFFS)

The GFFS provides a more detailed look at the Municipality's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Municipality's budget ordinance.

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

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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 gives 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 Basic 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 134 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 136-137 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 defined contribution plan was created and the GASB Statement No. 73 is effective as of 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 2022-2023, 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*, which 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 2022-2023, although, this information was not audited.

These information for Pension Plan and OPEB Plan can be found on pages 138 through 140 of this report.

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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 $174,186,738 as of June 30, 2023. The Municipality's net position increased by $38,985,578, for the fiscal year ended June 30, 2023.

One of the largest portions of the net position, $271,292,336, 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 $55,401,275 represents resources that are subject to external restrictions on how they may be used. Within this portion are $36,047,529 held by the Municipality in Escrow and Deposits Accounts for repayment of long-term debt, $9,525,527 restricted for Head Start program purposes, $3,070,982 for construction projects and $6,757,237 restricted, mainly, to provide housing services to the citizens.

An Unrestricted Net Position (Deficit) of ($152,506,873) was presented as of June 30, 2023. This balance was negatively affected primarily by the recognition of Total Pension Liability, as required by GASB Statement No. 73, for the amount ($105,295,561). Also, Total Other Post Employment Benefit (OPEB) Liability, as required by GASB Statement No. 75, was presented in the amount of ($4,082,778). Other long-term debts, such as compensated absences ($16,633,891), the outstanding balance of leases ($3,807,018), SBITA's Debt of $1,069,063, LUMA Debt of ($1,665,624), also affected the net position.

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

	Governmental Activities			
	2023	**2022**	**Dollar Change**	**Percentage Change**
Current and Other Assets	$ 179,488,336	$ 164,058,810	$ 15,429,526	9.40%
Capital Assets	367,734,535	372,587,788	(4,853,253)	-1.30%
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	(1,150,965)	-100.00%
Loan Receivable, Net	1,286,863	1,276,776	10,087	0.79%
Note Receivable, Net	172,467	162,705	9,762	6.00%
Total Assets	548,840,616	539,395,459	9,445,157	-85.11%
Deferred Outflows of Resources	25,883,565	24,288,530	1,595,035	6.57%
Current Liabilities	115,579,097	120,972,314	(5,393,217)	-4.46%
Other Liabilities	260,796,994	292,339,907	(31,542,913)	-10.79%
Total Liabilities	376,376,091	413,312,221	(36,936,130)	-15.25%
Deferred Inflows of Resources	24,161,352	15,170,608	8,990,744	59.26%
Net Position:				
Net Invested of Capital Assets	271,292,336	268,470,722	2,821,614	1.05%
Restricted	55,401,275	50,259,637	5,141,638	10.23%
Unrestricted (Deficit)	(152,506,873)	(183,529,199)	31,022,326	-16.90%
Total Net Position	$ 174,186,738	$ 135,201,160	$ 38,985,578	-5.62%

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Unaudited

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

	Governmental Activities			
	2023	2022	Dollar Change	Percentage Change
Revenues:				
Program Revenues:				
Charges for Services	$ 2,091,267	$ 1,975,531	$ 115,736	5.86%
Operating Grants and Contributions	63,497,335	56,578,128	6,919,207	12.23%
Capital Grants and Contributions	4,255,783	1,948,258	2,307,525	118.44%
General Revenues:				
Property Taxes	53,105,274	52,981,343	123,931	0.23%
Volume of Business Taxes	29,955,894	26,534,694	3,421,200	12.89%
Sales and Usage Taxes	28,439,264	29,363,880	(924,616)	-3.15%
Intergovernmental	3,969,821	4,766,319	(796,498)	-16.71%
Construction Excise Taxes	5,513,536	4,881,792	631,744	12.94%
Interest and Investment Income	2,370,631	173,344	2,197,287	1267.59%
Special Item - Donation of Works of Arts	705,000	-	705,000	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	3,165,015	2,959,044	205,971	6.96%
Total Revenues	197,068,820	191,299,383	5,769,437	3.02%
Expenses:				
General Government	15,040,078	45,363,527	(30,323,449)	-66.85%
Public Safety	9,858,827	7,722,513	2,136,314	27.66%
Public Works	38,235,270	24,196,812	14,038,458	58.02%
Cultural and Recreation	8,300,556	7,515,279	785,277	10.45%
Health and Welfare	10,973,983	7,472,024	3,501,959	46.87%
Economic and Social Development	10,345,449	7,189,618	3,155,831	43.89%
Housing	11,001,550	10,327,837	673,713	6.52%
Sanitation and Environmental	16,749,601	15,799,900	949,701	6.01%
Education	27,842,505	24,236,363	3,606,142	14.88%
Interest	9,735,423	7,354,185	2,381,238	32.38%
Total Expenses	158,083,242	157,178,058	905,184	0.58%
Net Change in Net Position	38,985,578	34,121,325	4,864,253	14.26%
Net Position, Beginning of Year, as Restated	135,201,160	101,079,835	34,121,325	33.76%
Net Position, Ending	$174,186,738	$ 135,201,160	$ 38,985,578	48.01%

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Governmental Activities – Governmental activities increased the Municipality's net position by $38,985,578. Key elements of this change in net position are the following:

Revenues:

Total overall revenues increased by 3.02 % over the prior year. The following categories had the mayor changes from prior year:

- Interest Income increased by 1267.59% – the increase was due to cash deposits in commercial banks, mostly from ARPA funds.
- Construction Excise Taxes – increased by 12.94%.
- Volume of Business Taxes – Increased by 12.89%.
- Capital Grants and Contributions increased by 118.44% because of the Federal funds received ARPA funding, which under the revenue loss category, have been used to maintenance of infrastructure and other improvements.

Expenses:

Total overall expenses had a net increase of 0.58% over the prior year. The following categories had the major changes from prior year:

- General Government decreased 66.85% – the decrease was due to the pension expense under GASB Statement No. 73, which was ($28,413,900). This negative pension expense, as described before, is due to changes made to the pension benefits.
- Public Works increased 58.02% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for the improvement and repair of municipal streets.
- Public Safety increased 27.66% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for payroll and professional services.
- Health and Welfare increased 46.87% – the increase was mainly related to funds incurred from Recovery Funds (ARPA) for allowable activities financed by federal awards.
- Interest Expense increased 32.38% – the increase was due to new debts issues, in addition to the recognition of interest expense under GASB Statements Nos. 87 and 96.

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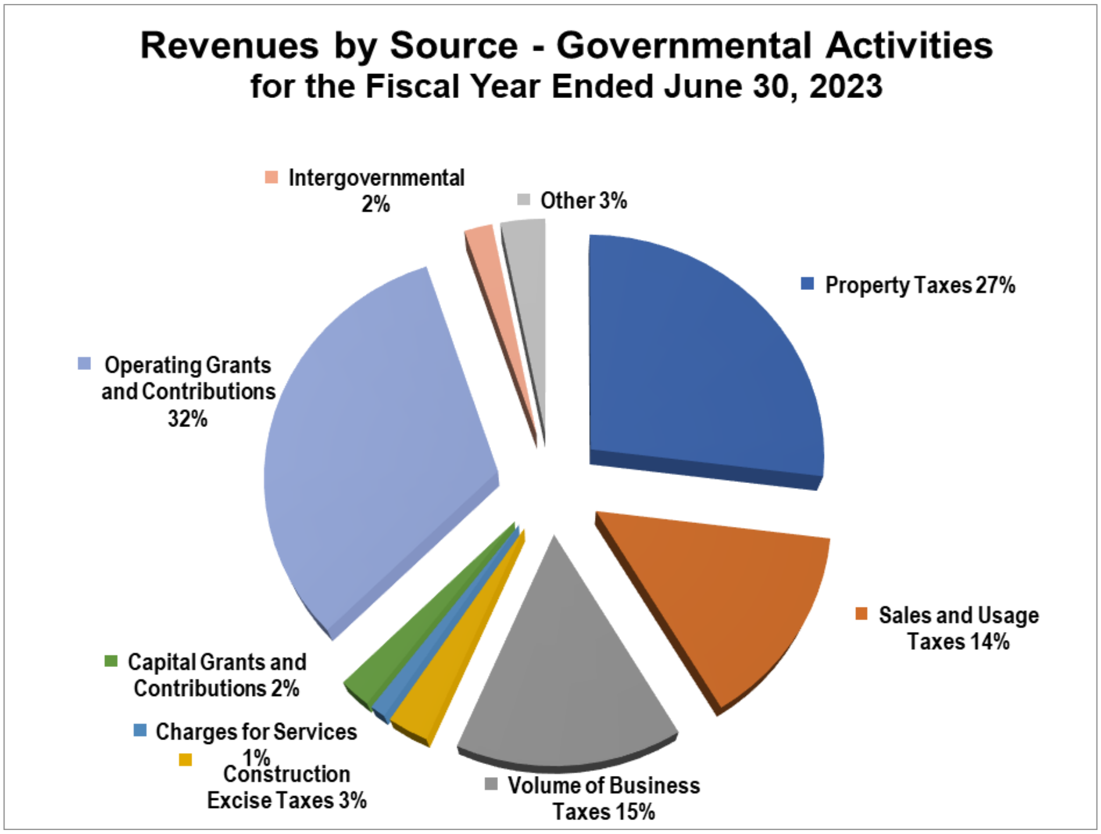
Figure 4



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, 2023, the governmental funds of the Municipality reported a combined fund balance of $62,849,551. This amount represents an increase of $21,314,208 or 34% over last year.

The net increase in fund balances during the fiscal year was caused mainly by the proceedings of two debts. The issuance of a General Obligation Bond in the amount of $15,479,000, for the improvements to "Coliseo Roger Mendoza, Parque de Los Campeones, Pistas Atléticas Pedro Milla Clara y Santa Juana I y II". In addition, a General Obligation Bond in the amount of $7,073,000, for the improvements to municipal roads.

continue

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

General Fund – The general fund revenues increased by $7.7 million. The main changes were in Property Taxes and Volume of Business Taxes revenues, which increased by $2.5 and $3.4 million, respectively. In addition, an increase in Interest Revenue of $1.9 million was due to interest in bank balances. Also, there was an increase in transfers to Other Non-Major Funds of $9.7 million in response to the Hurricane Fiona.

The expenditure increased by approximately $4.8 million, in comparison with the previous year. The categories with the major increase were Public Safety and Health and Welfare functions. The Public Safety and Health and Welfare increased by $4.3 million and $1.9 million, respectively, for expenditure of payroll of employees for which prior year salary and related benefits were paid with COVID funding. GASB Statement No. 87 application on new leases contracts brought the effect to recognized other financing sources on leases for $255 thousand against capital outlays expenditure function on these leased properties. GASB Statement No. 96 application on new SBITA's contracts brought the effect to recognized other financing sources on leases for $1.3 thousand against capital outlays. In addition, during the fiscal year, the Municipality agreed to a debt agreement with LUMA in the amount of $1.7 million.

Capital Projects Fund – Expenditures from this fund, increased by approximately $5.8 million. The increase in expenditure was in Public Works, related to improvements to municipal roads and infrastructure.

Debt Service Fund – The fund's revenues decreased by $1.7 million from Property Taxes and Sales and Usage taxes revenues. Debt service expenditures increased by $4.1 million from loan refinance plan and debt service principal payment requirements.

Health and Human Services Fund – An increase in expenditure of $2.4 million, is related to the education expenditure's function from the Head Start Program. GASB Statement No. 87, *Leases*, and SBITAs application on new leases contracts brought the effect to recognized other financing sources on leases for $350 thousand against capital outlays expenditure function on these leased properties and subscription based assets.

Social and Welfare Activities Funds – Revenues increased by $3.3 million, mainly due to an increase in federal funds for COVID-19 pandemic relief. Overall expenditure increased by $2.6 million. Expenditures related to COVID-19 included housing, payroll, solid waste, and economic and social development strategies. The public safety got a decrease in payroll of $2.7 million. Other functions increase their expenditures by $ $3.4 million mainly on donations, professional services and food for education and welfare purposes. Capital outlays or capitalizable expenditures decreased by $886 thousand. GASB Statement No. 87 and SBITAs application on new leases contracts brought the effect to recognized other financing sources on leases for $584 thousand against capital outlays expenditure function on these leased properties and subscription based assets.

Other Non-Major Funds – Overall revenues decreased by $3.7 million, mainly by $3.3 million from FEMA. Overall expenditure increased by $5.2 million mainly in public works for improvements and maintenance of the infrastructure.

continue

General Fund Budgetary Highlights: During the fiscal year 2023 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 2023 was $99,697,048 which is more than the prior year appropriations by $8,717,328.

- Actual budgetary transactions generated an excess of appropriations over resources of $9,715,305 due to an increase in budget expenditure to respond to the Hurricane Fiona Emergency.

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Figure 5

	Original	Increases	Final
Resources:			
Property Taxes	$ 29,404,428	$ 2,312,140	$ 31,716,568
Volume of Business Taxes	26,974,000	-	26,974,000
Sales and Usage Taxes	21,495,100	-	21,495,100
Construction Excise Taxes	9,310,630	-	9,310,630
Intergovernmental Revenues	6,186,070	-	6,186,070
Interest	110,000	-	110,000
Rent and Other Resources	5,316,820	-	5,316,820
Fines and Penalties	900,000	-	900,000
Amounts available for appropriation	99,697,048	2,312,140	102,009,188
Expenditures charged to appropriations:			
General Government	$ 55,893,758	$ 9,150,099	$ 65,043,857
Public Safety	7,891,964	192,748	8,084,712
Public Works	11,969,685	1,605,990	13,575,675
Culture and Recreation	3,600,043	447,828	4,047,871
Health and Welfare	1,963,172	125,980	2,089,152
Economic and Social Development	3,076,968	201,553	3,278,521
Housing	720,854	127,462	848,316
Sanitation and Environmental	12,921,423	81,492	13,002,915
Education	1,659,181	94,293	1,753,474
Total charges to appropriations	99,697,048	12,027,445	111,724,493
Excess of resources over appropriations	$ -	$ (9,715,305)	$ (9,715,305)

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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, 2023, total $367,734,535 (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 Statement No. 87 and GASB Statement No. 96, related "Right-To-Use" capital assets and SBITA's, were recognized and amortized accordingly. New construction in progress began during the year at $2,060,252. Depreciation and amortization expense for the fiscal year was $14,583,931, and amortization of "Right-To-Use" and SBITA's assets were $1,397,431. Additions to equipment and other capital assets were $5,947,744. Retirements of capital assets during the year were mainly in equipment and vehicles ($636,674), causing a loss on disposition of $55,371. In addition, a loss on the sale of land and building was presented in the amount of $7,500.

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

	Total			
	2023	**2022**	**Dollar Change**	**Percentage Change**
Capital Assets not being Depreciated				
Land and Improvements	$ 93,591,527	$ 93,621,527	$ (30,000)	-0.03%
Construction in Progress	19,425,756	17,365,504	2,060,252	11.86%
Works of Art and Historical Treasures	3,394,239	2,667,129	727,110	27.26%
Total Assets not being Depreciated	116,411,522	113,654,160	2,757,362	39.09%
Capital Assets Net of Depreciation / Amortization				
Facilities and Improvements	43,835,953	45,222,534	(1,386,581)	-3.07%
Right to Use Facilities and Improvements	1,640,134	1,599,202	40,932	2.56%
Subscription Asset (SBITA's)	1,533,224	-	1,533,224	100.00%
Buildings and Improvements	51,775,746	53,450,576	(1,674,830)	-3.13%
Right to Use Buildings and Improvements	1,748,269	2,050,881	(302,612)	-14.76%
Infrastructure	141,004,964	147,574,355	(6,569,391)	-4.45%
Equipment and Vehicles	9,500,210	8,624,430	875,780	10.15%
Right to Use Equipment and Vehicles	284,513	411,650	(127,137)	-30.88%
Total Net of Depreciation / Amortization	251,323,013	258,933,628	(7,610,615)	56.42%
Total Capital Assets Net of Depreciation / Amortization	$367,734,535	$372,587,788	$ (4,853,253)	95.52%

Additional information on the Municipality's capital assets can be found in Note 11 of the Basic Financial Statements on pages 70-71.

continue

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2023 are as follows:

Project	Amount
Improvements to Infrastructure - Los Ramos	$ 666,504
Villa Nueva Sewer Improvement	584,443
Improvement to the Yldefonso Sola Morales Stadium	1,493,522
Other Improvements to parks and infrastructure	936,868
	$ 3,681,337

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 is related to the implementation of GASB Statement No. 73 and GASB Statement No. 75 for pension liability reporting. GASB Statement Nos. 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 of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. We presented the applicable amounts under GASB Statement Nos. 73 and 75 at June 30,2023, 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 Statement No. 87, which represented the amount of $3,012,914.

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 71-72 and 79, respectively of this report.

continue

Long-Term Debts – As of June 30, 2023, the Municipality had total bonded debt outstanding of Special and General Obligations of $152,313,407 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 2023	Governmental Activities 2022	Dollar Change	Percentage Change
General Obligations Bonds	$ 123,635,450	$ 111,273,432	$ 12,362,018	11.11%
Special Obligations Bonds	28,677,957	33,947,983	(5,270,026)	-15.52%
Total Pension Liability	105,295,561	141,632,359	(36,336,798)	-25.66%
Total OPEB Liability	4,082,778	4,914,295	(831,517)	-16.92%
Leases Liability (Right-To-Use)	3,807,018	4,131,928	(324,910)	-7.86%
SBITA's Liability	1,069,063	-	1,069,063	100.00%
Line of Credit	-	240,114	(240,114)	100.00%
Law No. 142-MRCC	-	982,133	(982,133)	-100.00%
LUMA - Debt	1,665,624	-	1,665,624	100.00%
MRCC Liquidation	33,758	-	33,758	100.00%
PR Retirement System Administration	433,674	1,609,339	(1,175,665)	-73.05%
Claims and Judgments	93,718	68,718	25,000	36.38%
Puerto Rico Water and Sewer Authority	477,000	1,113,000	(636,000)	100.00%
Christmas Bonus	1,012,849	818,147	194,702	23.80%
Retainage Liability	1,154,800	1,083,932	70,868	6.54%
Compensated Absences	16,633,891	13,856,500	2,777,391	20.04%
Total	$ 288,073,141	$ 315,671,880	$ (27,598,739)	358.85%

The Municipality's debt related to General and Special obligations increased by $7,091,992 (4.41%) during the fiscal year 2023

Additional information on the Municipality's long-term debts can be found in Note 16 of the Basic Financial Statements on pages 72 through 78.

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. In 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 Real Property valuation.

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).

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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. The US Census estimated that the population of Puerto Rico had an overall decrease of over 300 citizens during the last 16 months ending 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, Banco Popular de PR Inc., Drogueria Betances, SPS Speciality Pharmacy Serv. Inc, Plaza Warehousing and Realty Corp, Plaza Food Systems LLC, Caguas Express Way Motors Inc., Calesa Motors Inc, First Federal Savings & Loan.

As per the Caribbean Business's seventeen (17) out of the 200-mayor local enterprises. Among these are Mech Tech College, Servimental, Farmacia Ruiz Belvis, Plaza Food Systems, Drogueria Betances among others. 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 growth in Puerto Rico. Two (2) out of seven (7) construction material supplier Corporations, Steel and Pipes, Inc. and Servimetal, LLC. In addition, located in Caguas, Data Access, which is within the first ten (10) biggest Telecommunications enterprises in Puerto Rico and Cortelco Systems PR, Inc., which is within the first eleven (11) Information Technology consulting businesses. Within Caguas, also; one (1) of the first ten (10) major commercial centers management businesses Kimco Realty Corp; one (1) of the first seven (7) electrical contractors and mechanics in Puerto Rico, Aireko Energy Solutions; one (1) out of the biggest six (6) electrical suppliers in Puerto Rico Warren-EMC A Sonepor, Co., and one (1) of the biggest seven (7) real estate enterprises, Jeannette Soto Realty CSP.

Finally, the Municipality's economy has an industry composition somewhat like Puerto Rico as a whole. As of the Third Quarter Year 2023 the industry composition's main sectors of Caguas, according to the PRDLHR, was Retail Trade (19.6% of total employment); Health and Social Assistance Services (11.7%); Public Administration (9.5%); Administration and Solid Waste Services (8.3%); Educational Services (7.4%); Manufacture (6.6%); Wholesale Trade (6.2%); Professional and Technical Services (5.1%); Construction (3.7%); and Other Non-Public Services (2.2%).

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, Pavia Hospital, formerly 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 Wall-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 28 to the basic financial statements on pages 120-134 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 increasing revenues and substantially reduce 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 April 3, 2023 (Eight 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, 2024

Governmental Activities: The general Budget for fiscal 2023-2024 will be $100.5 million, representing a decrease of 13% when compared with fiscal year ended June 30, 2023. These $100.5 are composed of $88.3 million from taxes, $5.7 from governmental grants, and 6.5 million from charges from services and other local incomes.

The special revenues funds budget will be $90.4 million. These are composed of $40.6 million of Federal grants, and $29.8 for local revenues and other financial resources. For the repayment of long-term debt, the budget will be $20M. These resources will come from property and sales and usage taxes revenue.

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.

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	GOVERNMENTAL ACTIVITIES
ASSETS:	
Current Assets:	
Cash and Investments	$ 85,392,559
Cash with Fiscal Agent	68,202,668
Receivables (Net):	
Sales and Usage Taxes	4,058,638
Volume of Business Taxes	393,660
Due from Government Units	1,291,893
Federal Grants	16,210,421
Construction Excise Taxes	258,740
Other	315,876
Leases	3,363,881
Total Current Assets	179,488,336
Non-Current Assets:	
Loans Receivables, Net	1,286,863
Notes Receivables, Net	172,467
Land, Improvement and Construction in Progress	116,411,522
Other Capital Assets [Net of Accumulated Depreciation/Amortization]	251,323,013
Housing Units Held for Sale	55,848
Idle Units Held for Future Use	102,567
Total Non-Current Assets	369,352,280
TOTAL ASSETS	**548,840,616**
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	25,883,565
TOTAL OUTFLOWS OF RESOURCES	**25,883,565**

continue

	GOVERNMENTAL ACTIVITIES
LIABILITIES:	
Current Liabilities:	
Accounts Payable	11,781,239
Accrued Expense	1,012,849
Accrued Interest	4,456,485
Bonds Payable	17,903,200
Advance Deposits	356,731
Unearned Revenues	69,378,343
Accrued Compensated Absences	4,728,554
Leases	1,366,564
Leases (SBITA's)	521,494
Due to Governmental Entities	4,073,638
Total Current Liabilities	115,579,097
Non-Current Liabilities:	
Bonds Payable	134,410,207
Accrued Compensated Absences	11,905,337
Legal Claims	93,718
Due to Governmental Entities	866,570
Retainage Payable	1,154,800
Leases	2,440,454
Leases (SBITA's)	547,569
Total Pension Liability	105,295,561
Total OPEB Liability	4,082,778
Total Non-Current Liabilities	260,796,994
TOTAL LIABILITIES	**376,376,091**
DEFERRED INFLOWS OF RESOURCES:	
Lease Related	3,012,914
Pension Related	21,148,438
TOTAL INFLOWS OF RESOURCES	**24,161,352**
NET POSITION:	
Net Investment in Capital Assets	271,292,336
Restricted for:	
Capital Projects	3,070,982
Debt Service	36,047,529
Head Start Program	9,525,527
Other Purposes	6,757,237
Unrestricted (Deficit)	(152,506,873)
TOTAL NET POSITION	**$ 174,186,738**

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

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues
Governmental Activities:					
General Government	$ 15,040,078	$ -	$ 174,528	$ -	$ (14,865,550)
Public Safety	9,858,827	845,245	59,724	141,103	(8,812,755)
Public Works	38,235,270	-	-	4,114,680	(34,120,590)
Culture and Recreation	8,300,556	-	-	-	(8,300,556)
Health and Welfare	10,973,983	-	5,257,938	-	(5,716,045)
Economic and Social Development	10,345,449	1,126,867	24,902,119	-	15,683,537
Housing	11,001,550	-	8,896,080	-	(2,105,470)
Sanitation and Environmental	16,749,601	119,155	1,410,090	-	(15,220,356)
Education	27,842,505	-	22,796,856	-	(5,045,649)
Unallocated Interest	9,735,423	-	-	-	(9,735,423)
Total Governmental Activities	**$ 158,083,242**	**$ 2,091,267**	**$ 63,497,335**	**$ 4,255,783**	**(88,238,857)**

General Revenues:	
Taxes:	
Property Taxes, levied for General Purposes	31,838,814
Property Taxes, levied for Debt Service	21,266,460
Volume of Business Taxes	29,955,894
Sales and Usage Taxes	28,439,264
Construction Excise Taxes	5,513,536
Intergovernmental	3,969,821
Interest	2,370,631
Other General Revenues	3,165,015
Special Item - Donation of Works of Arts	705,000
Total General Revenues and Special Items	127,224,435
CHANGES IN NET POSITION	**38,985,578**
Net Position – Beginning of Year, As Restated	135,201,160
NET POSITION – ENDING OF YEAR	**$ 174,186,738**

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	$ 26,246,368	$ 7,680,242	$ -	$ 332,491	$ 42,700,245	$ 8,433,213	$ 85,392,559
Cash with Fiscal Agent	-	27,678,979	40,504,014	-	-	19,675	68,202,668
Receivables:							
Sales and Usage Taxes	4,058,638	-	-	-	-	-	4,058,638
Volume of Business Taxes	393,660	-	-	-	-	-	393,660
Due from Governmental Units	538,670	738,792	-	14,431	-	-	1,291,893
Federal Grants	74,985	2,185,286	-	10,998,006	10,707	2,941,437	16,210,421
Construction Excise Taxes	258,740	-	-	-	-	-	258,740
Due from Other Funds	5,498,218	-	-	-	-	-	5,498,218
Leases	3,363,881	-	-	-	-	-	3,363,881
Others	315,606	-	-	-	-	270	315,876
Loans Receivable	-	-	-	-	476,251	810,612	1,286,863
Total Assets	**$ 40,748,766**	**$ 38,283,299**	**$ 40,504,014**	**$ 11,344,928**	**$ 43,187,203**	**$ 12,205,207**	**$ 186,273,417**
LIABILITIES:							
Account Payable	$ 5,574,980	$ 2,308,238	$ -	$ 314,875	$ 1,302,830	$ 2,280,316	$ 11,781,239
Bond Payable	-	-	13,259,200	-	-	-	13,259,200
Interest on Bonds Payable	-	-	4,456,485	-	-	-	4,456,485
Due to Governmental Entities	2,330,152	-	-	-	-	-	2,330,152
Due to Other Funds	-	461,023	-	1,310,521	2,327,299	1,399,375	5,498,218
Advance Deposits	355,731	-	-	-	-	1,000	356,731
Unearned Revenues	24,031,484	5,360,967	-	224,441	39,761,451	-	69,378,343
Total Liabilities	**32,292,347**	**8,130,228**	**17,715,685**	**1,849,837**	**43,391,580**	**3,680,691**	**107,060,368**
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenues:							
Federal Grants	-	1,075,885	-	9,525,527	-	2,749,172	13,350,584
Lease Related	3,012,914	-	-	-	-	-	3,012,914
Total Deferred Inflows of Resources	**3,012,914**	**1,075,885**	**-**	**9,525,527**	**-**	**2,749,172**	**16,363,498**
FUND BALANCES:							
Nonspendable - Loans	-	-	-	-	476,251	810,612	1,286,863
Restricted	1,206,883	27,227,957	22,788,329	191,973	1,394,539	2,354,174	55,163,855
Committed	-	-	-	-	34,063	26,433	60,496
Assigned	4,236,622	1,849,229	-	-	-	3,304,417	9,390,268
Unassigned (Deficit)	-	-	-	(222,409)	(2,109,230)	(720,292)	(3,051,931)
Total Fund Balances	**5,443,505**	**29,077,186**	**22,788,329**	**(30,436)**	**(204,377)**	**5,775,344**	**62,849,551**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 40,748,766**	**$ 38,283,299**	**$ 40,504,014**	**$ 11,344,928**	**$ 43,187,203**	**$ 12,205,207**	**$ 186,273,417**

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

Total Fund Balances – Government Funds (Page 26)		**$ 62,849,551**
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	$ 116,411,522	
Depreciable Capital Assets	714,729,994	
Accumulated Depreciation	(463,406,981)	
Total Capital Assets		367,734,535
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.		25,883,565
Notes Receivables from sale of capital assets in Governmental Activities are not recorded in the funds in the current period.		172,467
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	13,350,584	
Total Unavailable Revenues		13,350,584
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(21,148,438)
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	(139,054,207)	
Total Pension Liability	(105,295,561)	
Total OPEB Liabilty	(4,082,778)	
Compensated Absences	(16,633,891)	
SBITAs Liability	(1,069,063)	
LUMA - Debt	(1,665,624)	
MRCC Liquidation	(33,758)	
Leases	(3,807,018)	
Puerto Rico Retirement System Administration	(433,674)	
Puerto Rico Water and Sewer Authority	(477,000)	
Claims and Judgments	(93,718)	
Christmas Bonus	(1,012,849)	
Retainage Liability	(1,154,800)	
Total Long-Term Liabilities		(274,813,941)
Total Net Position of Governmental Activities (Page 24)		**$ 174,186,738**

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, 2023

	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	$ 32,448,866	$ -	$ 21,266,460	$ -	$ -	$ -	$ 53,715,326
Volume of Business Taxes	29,955,894	-	-	-	-	-	29,955,894
Sales and Usage Taxes	23,244,305	-	5,194,959	-	-	-	28,439,264
Construction Excise Taxes	5,513,536	-	-	-	-	-	5,513,536
Federal Grants	141,103	4,166,395	-	23,317,558	19,679,860	13,410,360	60,715,276
Fines and Penalties	845,245	-	-	-	-	-	845,245
Intergovernmental	6,368,736	2,842,465	-	-	-	576,280	9,787,481
Interest	1,978,519	79,064	-	4,291	20,456	278,539	2,360,869
Rent and Other Services	990,132	22,966	-	-	-	3,287	1,016,385
Solid Waste Disposal	96,189	-	-	-	-	-	96,189
Other General Revenues	2,097,694	-	-	159,121	493,941	438,035	3,188,791
Total Revenues	**103,680,219**	**7,110,890**	**26,461,419**	**23,480,970**	**20,194,257**	**14,706,501**	**195,634,256**
EXPENDITURES:							
Current:							
General Government	38,998,533	1,151,502	110,000	-	2,221,573	1,758,067	44,239,675
Public Safety	7,959,714	84,391	-	-	773,404	221,072	9,038,581
Public Works	10,731,935	9,241,058	-	-	2,825,343	7,689,331	30,487,667
Culture and Recreation	4,523,577	26,158	-	-	8,115	30,420	4,588,270
Health and Welfare	3,654,052	187,402	-	1,109,706	5,119,977	466,123	10,537,260
Education	2,733,863	267,377	-	20,614,244	1,965,430	88,853	25,669,767
Sanitation and Environmental	14,374,163	98,914	-	-	1,422,651	154,215	16,049,943
Economic and Social Development	5,020,581	455,177	-	499	3,530,038	15,524	9,021,819
Housing	759,240	216,426	-	-	457,989	9,267,622	10,701,277
Capital Outlay	4,512,841	1,291,404	-	1,235,670	1,941,416	1,533,839	10,515,170
Debt Service:							
Principal	1,857,935	1,861	17,689,227	746,677	216,973	196,485	20,709,158
Interest and Other Charges	46,808	-	9,533,324	107,725	23,182	24,384	9,735,423
Total Expenditures	**95,173,242**	**13,021,670**	**27,332,551**	**23,814,521**	**20,506,091**	**21,445,935**	**201,294,010**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**8,506,977**	**(5,910,780)**	**(871,132)**	**(333,551)**	**(311,834)**	**(6,739,434)**	**(5,659,754)**
OTHER FINANCING SOURCES (USES):							
Refunding Bonds Issued	-	-	10,075,000	-	-	-	10,075,000
Payment to Refunded Bonds	-	-	(9,965,000)	-	-	-	(9,965,000)
Proceed of Bonds	-	22,552,000	-	-	-	-	22,552,000
Proceed of Debts	1,665,624	-	-	-	-	-	1,665,624
Leases (As Lessee)	255,135	-	-	234,248	408,444	-	897,827
SBITA Lessee	1,321,030	5,322	-	116,195	175,081	26,383	1,644,011
Transfers – In	3,826,766	391,190	5,051,848	-	-	9,716,376	18,986,180
Transfers – Out	(15,159,414)	-	(3,826,766)	-	-	-	(18,986,180)
Total Other Financing Sources (Uses)	**(8,090,859)**	**22,948,512**	**1,335,082**	**350,443**	**583,525**	**9,742,759**	**26,869,462**
SPECIAL ITEMS:							
Sales of Other Assets	-	104,500	-	-	-	-	104,500
Total Special Items	**-**	**104,500**	**-**	**-**	**-**	**-**	**104,500**
Net Change in Fund Balances	**416,118**	**17,142,232**	**463,950**	**16,892**	**271,691**	**3,003,325**	**21,314,208**
Fund Balances – Beginning	5,027,387	11,934,954	22,324,379	(47,328)	(476,068)	2,772,019	41,535,343
FUND BALANCES – ENDING	**$ 5,443,505**	**$ 29,077,186**	**$ 22,788,329**	**$ (30,436)**	**$ (204,377)**	**$ 5,775,344**	**$ 62,849,551**

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Net Change in Fund Balances – Government Funds (Page 28)		**$ 21,314,208**
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	$ 10,515,170	
Donation of Works of Arts	705,000	
Depreciation and Amortization Expense	(15,981,362)	
Excess of Capital Outlays over Depreciation Expense		(4,761,192)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	1,329,854	
MRCC – Property Taxes Liquidation	(610,052)	
Total Revenues		719,802
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.		(58,429)
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		9,762
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		(22,662,000)
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		20,709,158
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:		
Increase in Legal Claims	(25,000)	
Increase in Leases (As Lessee)	(1,644,011)	
Increase in SBITA Lessee	(897,827)	
Increase in Christmas Bonus	(194,702)	
Increase in MRCC Liquidation	(33,758)	
Decrease in Puerto Rico Water and Sewer System Authority	636,000	
Increase in LUMA Debt	(1,665,624)	
Decrease in Puerto Rico Retirement System Administration	1,175,665	
Decrease in Total Pension Liability	28,413,900	
Decrease in Total OPEB Liability	1,467,517	
Increase in Retainage Liability	(740,499)	
Increase in Compensated Absences	(2,777,392)	
Total Additional Expenses		23,714,269
Change in Net Position of Governmental Activities (Page 25)		**$ 38,985,578**

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 financially 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,* requires 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, 2023, 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.

GASB 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, 2023, 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, 2023, 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 requires 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 are 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, 2023 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, 2023.

Since the GFFS are presented in a 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 Statement Nos. 67/68 to 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 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 Statement 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 Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* should be made. As of June 30, 2023, the PRGERS issued the actuarial report which presents unaudited date related to 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, 2023, 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 are 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, 2023, which are recorded as governmental fund liabilities of June 30, 2023 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 transfers 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 is 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 lines 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, 2023. These account receivables are shown net to 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 2023. 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
SBITAs Subscriptions	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 a 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, 2023, all Work of Art are considered inexhaustible.

The Municipality annually performs an impairment analysis of its capital assets in accordance with GASB Statement 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 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 nor 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 Statement No. 73, and GASB Statement 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 provide 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 the 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 becomes 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 employees accumulate 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, 2023. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due 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. 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 take 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, 2023.

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, 2023, 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, 2023. 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, 2023 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 reflect 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, 2023.

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 Statement Nos. 67/68 to 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 Statement Nos.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 benefiting 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 Statement 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 Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement 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 Statement 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	$ 367,734,535
Outstanding Balance on Related Debt	(122,369,488)
Unspent Capital Debt Proceeds	25,927,289
Net Investment in Capital Assets	$ 271,292,336

- *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 (Deficit)* – These consists of a net position which does not meet the definition of the two preceding categories. An unrestricted net position is often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position (deficit) 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* (*Deficit*) – 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 employees 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 has not met its GASB Statement No. 54 fund balance targets on June 30, 2023.

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 receivable and payable 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 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 companies. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2023 amounted to $2,077,828, 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. The cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2023 amounted to $1,140,180.

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 considers events and transactions subsequent to June 30, 2023, 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, 2023:

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

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

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

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

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 Municipality implemented GASB Statement No. 91 with no material impact on the basic financial statements.

GASB Statement No. 96, _Subscription-Based Information Technology Arrangements_. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

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

  In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the state in which they are incurred.

  If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or no subscription component and allocate the contract price to the different components. If it is not practicable to determine the best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires a government to disclose descriptive information abouts its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year 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.

The Municipality implemented GASB No. 96 with material impact on the basic financial statements (see Note 23 for more information).

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 GASB Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of GASB 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 GASB 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 GASB 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 Municipality implemented GASB Statement No. 97 with no material impact on the basic financial statements.

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 GASB 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 GASB 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 GASB 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 GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in GASB 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 GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in GASB Statement No. 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 GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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 GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The Municipality implemented GASB Statement No. 99 with no material 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, 2023. The Municipality is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

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

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

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 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 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.

GASB Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Examples include, but are not limited to, the composition of any of the following:

a. Employers
b. Industries
c. Inflows of resources
d. Workforce covered by collective bargaining agreements
e. Providers of financial resources
f. Suppliers of material, labor, or services.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. Examples include, but are not limited to, the following:

a. Limitations on raising revenue
b. Limitations on spending
c. Limitations on the incurrence of debt
d. Mandated spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

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

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

The requirements of this Implementation Guide are effective as follows:

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.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023*

The requirements of this Implementation Guide are effective as follows:

Questions 4.1–4.9 and 5.1 for fiscal years beginning after June 15, 2023, and all reporting periods thereafter (FY 2023-2024).
Question 4.10 simultaneously with the requirements of Statement 100 (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 the 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 the fiscal year 2022-2023, this difference was recorded as a MRCC Liquidation Debt of $33,758.

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, 2023 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 appropriate 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 receives 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, 2023 the allocated expenses to the Municipality amounted to $1,444,862.

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 in 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 determines 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 to the taxpayers' request for services and by providing follow up on the MRCC taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

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

Personal Property

Incentive Municipal on Personal Property Taxes – New Business

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

Real Property

Incentive Municipal on Real Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.
- The downtown and development designated areas would enjoy a 90% exemption on real property for a period of 10 years.

Incentive Municipal on Real Property Taxes – Established Business

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

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 a declaration on or before the due date, the taxpayer is granted a 5% discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2023, from prior years.

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

Volume of Business Tax Incentive – New Business

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

Volume of Business Tax Incentive – Business Established

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

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

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

C. Sales and Usage Taxes

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20^{th} 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 represent filed sales tax returns that were collected subsequent to June 30, 2023 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 $90,000, the applicable rate will be 6% over the $90,000 cost.

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

4) Major repairs and improvements of detached properties occupied by their owner, for which cost do not 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% 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 conducted by not-for-profit organizations 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 FAFAA 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

The Municipality follows the practice of pooling cash. On June 30, 2023, the pool cash account in commercial banks had a balance of $85.4 million of which $26.2 million in the General Fund, $7.7 million in the Capital Projects Fund, $332,491 in Health and Human Services Fund, $42.7 million in Social and Welfare Activities Fund, and $8.4 million in Other Non-Major Funds. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Cash in with Fiscal Agent

Cash with Fiscal Agent in Popular Bank of Puerto Rico in the debt service fund consists principally of property tax collections and sales and usage taxes amounting to $40.5 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 $27.7 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 consists principally of unspent proceeds of bonds deposited in the private banking, which are restricted for different purposes.

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, 2023:

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, 2023, the Municipality invested only in cash equivalents of $85.4 million consisting of interest-bearing accounts in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the 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 ending June 30, 2023. 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, 2023.

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, 2023, the Municipality has balances deposited in commercial banks amounting to $85.4 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk.

continue

4. CASH AND INVESTMENTS – continuation

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, 2023, (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, 2023, 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, 2023.

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:	
General Fund:	
Volume of Business Taxes	24,031,484
Capital Projects Fund:	
Federal Grants - Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	$ 5,123,130
Federal Grants - COVID-19 ARP Act	237,837
Total Capital Projects Fund	5,360,967
Health and Human Services Fund:	
Federal Grants - Child Care Development Block Grant	66,985
Federal Grants - Aging Cluster Program	157,456
Total Health and Human Services Fund	224,441
Social and Welfare Activities Fund:	
Federal Grants - COVID-19 ARP Act	39,761,451
Total Unearned Revenues	$ 69,378,343

continue

6. LOANS AND OTHER RECEIVABLES

Loan's receivables recorded in non-major governmental funds consists of 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 $1,286,863, which were determined based upon past collection experience.

Other receivables in the amount of $315,876 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 land, on which an apartment building was constructed. The note is of 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 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 purposes.

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. The 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, 2023:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	$ 461,023
General Fund	Health and Human Services Fund	1,310,521
General Fund	Social and Welfare Activities Fund	2,327,299
General Fund	Other Governmental Funds	1,399,375
		$ 5,498,218

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

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

Other Governmental Fund – 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.

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

continue

8. INTER-FUND TRANSACTIONS – continuation

Capital Projects Fund – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

B. Transfers In/Out

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2023:

Transferred In	Transferred Out	Amount	Purposes
Debt Service Fund	General Fund	$ 5,051,848	Payment of Interest and Principal of Debt
General Fund	Debt Service Fund	3,826,766	Transfer of Equity
Capital Projects Fund	General Fund	391,190	Transfer of Equity
Other Non-Major Fund	General Fund	9,716,376	Transfer to provide funds for the Emergency with Hurricane Fiona
		$ 18,986,180	

9. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2023 for the General Fund, 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
Puerto Rico Department of Education	$ 499,562	$ -	$ -	$ -	$ -	$ 499,562
Puerto Rico Treasury Department	29,508	-	14,431	-	-	43,939
Puerto Rico Land Authority	-	10,000	-	-	-	10,000
Puerto Rico Department of Transportation	-	728,792	-	-	-	728,792
Other Agencies	9,600	-	-	-	-	9,600
Total Due from Governmental Units	$ 538,670	$ 738,792	$ 14,431	$ -	$ -	$ 1,291,893

The amount of $499,562 presented in the General Fund is related to the transportation program with the PR Department of Education. The amount of $728,792 presented in the Capital Projects Fund is from the Puerto Rico Department of 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, 2023, 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
Homeland Security Grant Program	$ 74,985	$ -	$ -	$ -	$ -	$ 74,985
Community Development Block Grants/Entitlements Grants	-	1,582,410	-	-	-	1,582,410
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	-	602,876	-	-	-	602,876
AmeriCorps Program	-	-	-	10,707	-	10,707
Head Start Program	-	-	10,378,952	-	-	10,378,952
Home Investment Partnership Program	-	-	-	-	2,541,046	2,541,046
Emergency Solutions Grants Program	-	-	-	-	343,385	343,385
Adult Education Program	-	-	-	-	25,024	25,024
Section 8 Cluster Program	-	-	-	-	31,982	31,982
Child and Adult Care Food Program	-	-	619,054	-	-	619,054
Total Due from Federal Grants	$ 74,985	$ 2,185,286	$ 10,998,006	$ 10,707	$ 2,941,437	$ 16,210,421

continue

11. CAPITAL ASSETS

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

DESCRIPTION	BALANCE JULY 1, 2022	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2023
Non-Depreciable Capital Assets:					
Land and Improvements	$ 93,621,527	$ -	$ -	$ (30,000)	$ 93,591,527
Construction in Progress	17,365,504	(2,555,932)	4,616,184	-	19,425,756
Works of Art	2,667,129	-	727,110	-	3,394,239
Total Non-Depreciable Capital Assets	113,654,160	(2,555,932)	5,343,294	(30,000)	116,411,522
Depreciable Capital Assets:					
Facilities and Improvements	127,720,149	1,791,351	-	-	129,511,500
Right-To-Use - Facilities	1,975,539	-	531,699	-	2,507,238
Subscription Asset (SBITA's)	-	-	1,644,011	-	1,644,011
Buildings and Improvements	121,448,233	392,881	130,638	(82,000)	121,889,752
Right-To-Use - Buildings and Improvements	2,589,613	-	366,128	-	2,955,741
Infrastructure	415,993,205	371,700	149,400	-	416,514,305
Equipment and Vehicles	36,680,440	-	3,125,868	(636,674)	39,169,634
Right-To-Use - Equipment and Vehicles	537,813	-	-	-	537,813
Total Depreciable Capital Assets	706,944,992	2,555,932	5,947,744	(718,674)	714,729,994
Less Accumulated Depreciation/Amortization:					
Facilities and Improvements	(82,497,615)	-	(3,177,932)	-	(85,675,547)
Right-To-Use - Facilities	(376,337)	-	(490,767)	-	(867,104)
Subscription Asset (SBITA's)	-	-	(110,787)	-	(110,787)
Buildings and Improvements	(67,997,657)	-	(2,120,791)	4,442	(70,114,006)
Right-To-Use - Buildings and Improvements	(538,732)	-	(668,740)	-	(1,207,472)
Infraestructure	(268,418,850)	-	(7,090,491)	-	(275,509,341)
Equipment and Vehicles	(28,056,010)	-	(2,194,717)	581,303	(29,669,424)
Right-To-Use - Equipment and Vehicles	(126,163)	-	(127,137)	-	(253,300)
Total Accumulated Depreciation/Amortization	(448,011,364)	-	(15,981,362)	585,745	(463,406,981)
Total Depreciable Capital Assets (Net)	258,933,628	2,555,932	(10,033,618)	(132,929)	251,323,013
CAPITAL ASSETS, NET	**$ 372,587,788**	**$ -**	**$ (4,690,324)**	**$ (162,929)**	**$ 367,734,535**

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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 details 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	$ 890,769
Public Safety	509,766
Public Works (Mainly Streets)	7,419,149
Culture and Recreation	3,471,909
Health and Welfare	230,286
Economic Development	988,561
Housing	127,422
Sanitation and Environmental	285,886
Education	2,057,614
Total Depreciation / Amortization Expenses	$ 15,981,362

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 it 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, 2023 for $158,415.

The Municipality has the following recurring fair value measurements as of June 30, 2023:

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	$ 25,883,565

14. DUE TO GOVERNMENTAL ENTITIES

The due to governmental entities for the fiscal year ended June 30, 2023 for the General Fund, corresponds to the follows:

	AMOUNT
Retirement System Administration	$ 184,405
AEELA	204,250
Puerto Rico Power Authority	63,547
PR Aqueduct and Sewer System	1,877,950
Total Due to Governmental Units	$ 2,330,152

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 28 and 29 to the basic financial statements on pages 120 through 134, 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, facilitating 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 managing 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, 2023:

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	2027	2.70% to 7.81%	$ 2,735,000
General Construction	2000	3,150,000	2025	2.70% to 7.81%	530,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	2,955,000
General Construction	2002	125,000	2026	2.70% to 5.60%	20,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	390,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	3,565,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	605,000
General Construction	2005	460,000	2029	2.53% to 5.31%	195,000
General Construction	2005	370,000	2029	2.53% to 5.31%	155,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	250,000
General Construction	2005	1,640,000	2030	4.50%	653,000
General Construction	2005	500,000	2030	4.75%	202,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	2,485,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	2,490,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	4,065,000
General Construction	2006	2,695,650	2031	4.75%	1,218,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	2,225,000
General Construction	2008	624,000	2030	4.50%	261,000
General Construction	2012	18,285,000	2036	3.47% to 7.50%	10,239,600
General Construction	2012	245,000	2036	0.37% to 7.50%	137,200
General Construction	2012	279,900	2037	4.50%	195,000
General Construction	2013	3,120,000	2030	4.25%	1,529,000
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	7,660,000
Purchase of Equipment	2019	900,660	2025	2.75%	276,000
Refinancing	2019	4,810,000	2028	7.25% to 8.00%	455,000
Refinancing	2019	8,555,000	2036	7.25% to 8.00%	320,000
Refinancing	2019	18,200,000	2035	7.50% to 8.00%	16,310,000
Refinancing	2021	22,295,000	2031	8.00%	20,350,000
Purchase of Equipment	2022	1,486,000	2028	8.00%	1,375,000
General Construction	2022	5,332,000	2028	8.00%	4,657,000
Refinancing	2022	2,505,000	2030	6.50%	2,505,000
General Construction	2023	15,479,000	2043	10.00%	15,479,000
General Construction	2023	7,073,000	2028	10.00%	7,073,000
Refinancing	2023	7,240,000	2037	10.00%	7,240,000
Refinancing	2023	2,835,000	2029	10.00%	2,835,000
Subtotal					**123,635,450**

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%	$ 585,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	1,455,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	4,320,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	1,495,000
General Construction	2007	10,075,000	2026	5.84% to 6.07%	2,415,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	1,660,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	675,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	4,187,000
Subtotal					**16,792,000**
Sales & Usage Taxes:					
General Construction	2009	8,770,000	2033	1.48% to 7.50%	5,387,479
General Construction	2009	542,000	2033	1.48% to 7.50%	215,266
General Construction	2010	4,710,000	2034	4.75% to 7.50%	3,233,212
Operational Purpose	2020	4,805,277	2025	6.00% to 8.00%	3,050,000
Subtotal					**11,885,957**
Total Special Obligations Bonds					**28,677,957**
Total General and Special Obligations Bonds					**$ 152,313,407**

Principal and interest on the bonds are generally paid from amounts withheld by MRCC from the monthly property tax remittances and deposited in FAFAA 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, facilitating 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 managing 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.

The following is a summary of changes in long-term debts of the Municipality for the year ended June 30, 2023:

DESCRIPTION	BALANCE JULY 1, 2022	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2023	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 111,273,432	$ 22,662,000	$ (10,299,982)	$ 123,635,450	$ 12,352,200	$ 111,283,250
Special Obligations Bonds	33,947,983	-	(5,270,026)	28,677,957	5,551,000	23,126,957
Leases Liability (Intangible Right-To-Use)	4,131,928	897,827	(1,222,737)	3,807,018	1,366,564	2,440,454
SBITAs Liability	-	1,644,011	(574,948)	1,069,063	521,494	547,569
Line of Credit	240,114	-	(240,114)	-	-	-
Total Pension Liability	141,632,359	-	(36,336,798)	105,295,561	-	105,295,561
Total OPEB Liability	4,914,295	-	(831,517)	4,082,778	-	4,082,778
Other Obligations	19,531,768	10,470,659	(8,497,113)	21,505,314	7,484,889	14,020,425
TOTAL	**$ 315,671,879**	**$ 35,674,497**	**$ (63,273,235)**	**$ 288,073,141**	**$ 27,276,147**	**$ 260,796,994**

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, 2023, are as follows:

	General Obligation Bonds		Special Obligation Bonds		Other Obligations		Total	
Year Ending June 30,	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal	Interest
2024	$ 12,352,200	$ 7,840,189	$ 5,551,000	$ 1,990,378	$ 9,372,947	$ 210,535	$ 27,276,147	$ 10,041,102
2025	13,478,200	8,205,360	5,188,000	1,638,533	2,418,557	121,632	21,084,757	9,965,525
2026	13,582,200	7,265,963	4,712,000	1,264,202	717,736	52,895	19,011,936	8,583,060
2027	12,440,200	6,337,663	2,973,000	964,621	563,020	20,206	15,976,220	7,322,490
2028	10,695,200	5,457,135	1,315,000	763,673	121,522	1,778	12,131,722	6,222,586
2029-2033	34,782,650	17,581,192	7,848,266	2,148,320	-	-	42,630,916	19,729,512
2034-2038	18,499,800	7,214,855	1,090,691	85,420	-	-	19,590,491	7,300,275
2039-2043	6,415,000	2,213,850	-	-	-	-	6,415,000	2,213,850
2044	1,390,000	69,500	-	-	-	-	1,390,000	69,500
Unmatured	-	-	-	-	122,565,952	-	122,565,952	-
TOTAL	**$123,635,450**	**$ 62,185,707**	**$28,677,957**	**$ 8,855,147**	**$ 135,759,734**	**$ 407,046**	**$ 288,073,141**	**$ 71,447,900**

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, 2023, 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.

continue

16. LONG-TERM DEBTS – continuation

D. Refunding of Bonds and Issuance of Debt

On May 16, 2023, by Resolution Number 36 Fiscal Year 2022-2023 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 B of 2023 in the amount of $15,479,000. This bond is for the improvements to “Coliseo Roger Mendoza, Parque de Los Campeones, Pistas Atléticas Pedro Milla Clara y Santa Juana I y II” and bond issue costs; principal and fixed interest at 10%, payable semi-annually on the 1st day of January and July of each year through 2043. Loan payments will be from $364,000 to $1,390,000.

In addition, on May 16, 2023, by Resolution Number 37, Fiscal Year 2022-2023 from the Municipal Legislative Assembly the Municipality obtained the approval for the issuance of a general obligation bond with First Bank of Puerto Rico, Series D of 2023 in the amount of $2,835,000. This bond is to refinance a general obligation bond from 2018 for $2,795,000 and bond issue costs; principal and fixed interest at 10%, payable semi-annually on the 1st day of January and July of each year through 2028. Loan payments will be from $490,000 to $650,000.

On May 16, 2023, by Resolution Number 38 Fiscal Year 2022-2023 from the Municipal Legislative Assembly, the Municipality obtained the approval for the issuance of a general obligation bond with First Bank of Puerto Rico, Series E of 2023 in the amount of $7,240,000. This bond is to refinance a general obligation bond from 2018 for $7,170,000 and bond issue costs; principal and fixed interest at 10%, payable semi-annually on the 1st day of January and July of each year through 2036. Loan payments will be from $355,000 to $1,010,000.

On June 7, 2023, by Resolution Number 46 Fiscal Year 2022-2023 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 A of 2023 in the amount of $7,073,000. This bond is for the improvements to municipal roads and bond issue costs; principal and fixed interest at 10%, payable semi-annually on the 1st day of January and July of each year through 2027. Loan payments will be from $1,218,000 to $1,615,000.

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, 2023:

DESCRIPTION	BALANCE JULY 1, 2022	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2023	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 42-MRCC	$ 982,133	$ -	$ (982,133)	$ -	$ -	$ -
PR Retirement System Administration	1,609,339	-	(1,175,665)	433,674	433,674	-
Claims and Judgments	68,718	25,000	-	93,718	-	93,718
Puerto Rico Water and Sewer Authority	1,113,000	-	(636,000)	477,000	477,000	-
LUMA - Debt	-	1,665,624	-	1,665,624	832,812	832,812
MRCC Liquidation	-	33,758	-	33,758	-	33,758
Christmas Bonus	818,147	1,012,849	(818,147)	1,012,849	1,012,849	-
Retainage Liability	1,083,932	140,474	(69,606)	1,154,800	-	1,154,800
Compensated Absences	13,856,499	7,592,954	(4,815,562)	16,633,891	4,728,554	11,905,337
TOTAL	**$ 19,531,768**	**$ 10,470,659**	**$ (8,497,113)**	**$ 21,505,314**	**$ 7,484,889**	**$ 14,020,425**

continue

16. LONG-TERM DEBTS – continuation

Due to Municipal Revenue Collection Center

Property Taxes Liquidation for fiscal year 2022-2023 result in a payable to the MRCC in the amount of $33,758.

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, 2023 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2023.

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 $16.6 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 has been used to liquidate the liability for this concept.

LUMA Debt Agreement

On June 30, 2023, the Municipality entered into a repayment agreement with LUMA to pay the total amount of debt related to power grid service. The total amount of debt is $3,158,950 to be paid during 24 months by monthly payment of $69,401.01, after a down payment of $1,493,326.15.

PR Retirement System Administration

The GWFS, Statement of Net Position, includes approximately $433,674 in the governmental activities for the amount notified by the Retirement System Administration to the Municipality, related to pay-go funding. The General Fund has been used to liquidate the liability for this concept.

PR Water and Sewer Authority

The GWFS, Statement of Net Position, includes $477,000 in the governmental activities for the amount notified by the Authority for which a payment plan was negotiated. The General Fund has been used to liquidate the liability for this concept.

continue

16. LONG-TERM DEBTS – continuation

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. This line of credit was cancelled during fiscal year 2022-2023.

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, facilitating 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 is reportable on the government-wide *Statement of Net Position* that 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	$ 3,012,914
Pension Related	21,148,438
Total Deferred Inflows of Resources	$ 24,161,352

Balance Sheet:	
Lease Related	$ 3,012,914
Federal Grants:	
Capital Projects Fund	1,075,885
Health and Human Services Fund	9,525,527
Other Governmental Funds	2,749,172
Total Deferred Inflows of Resources	$ 16,363,498

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 measurement date as of June 30, 2022 for reporting period as of June 30, 2023.

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

SIGNIFICANT CHANGES

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions ($0.7 billion), eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits ($0.1 billion), and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 ($1.2 billion).

These changes reduced the Total Pension Liability as of June 30, 2023 by $2.0 billion. The reduction is recognized immediately as a plan change. Following is presented the Summary of Plan Provisions as of June 30, 2023, and a comparison of major changes in participant data.

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Participant Data

	July 1, 2020 Census Data Collection	July 1, 2021 Census Data Collection	Total Changes
Active Members			
Number	90,139	37,439	-52,700
Average Salary	$ 29,569	$ 35,636	$ 6,067
Total Annual Salary	$ 2,665,289,397	$1,334,172,033	$ (1,331,117,364)
Retirees			
Number	94,398	94,723	325
Average Monthly Basis System Benefit	$ 1,116	$ 1,109	$ (7)
Average Monthly System Administered Benefit	$ 78	$ 71	$ (7)
Disabled Members			
Number	12,828	12,259	-569
Average Monthly Basis System Benefit	$ 414	$ 414	$ -
Average Monthly System Administered Benefit	$ 215	$ 209	$ (6)
Beneficiaries			
Number	15,945	15,271	-674
Average Monthly Basis System Benefit	$ 414	$ 392	$ (22)
Average Monthly System Administered Benefit	$ 34	$ 25	$ (9)

Change in Assumptions since Prior Valuation

In accordance with GASB No. 73, the discount rate is based on a bond market index. PRGERS has selected the Bond Buyer General Obligations 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate increase from 2.16% as of June 30, 2022 to 3.54% as of June 30, 2023.

The load on the GASB No.73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants has increased from 2.5% to 5%. The increase is based on the available information on deferred vested participants.

The Total Pension Liability as of June 30, 2023 decreased by $4.2 billion due to the increase in the discount rate and increased by $0.7 billion due to the change in the load for deferred vested participants.

(1) Summary of Plan Provisions

Act No. 106 of August 23, 2017 (Act No. 106-2017) closed participation in the Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (PRGERS) to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. This summary details the provisions under Act No. 3 of April 4, 2013 (Act No. 3-2013), which was effective July 1, 2013 and under which the benefits to be paid to PRGERS members are determined. Certain provisions are different for the three groups of members who entered PRGERS prior to July 1, 2013 as described below:

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- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, 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 (Contributory, Defined Benefit 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 or System 2000).

Act No. 106-2017 eliminate the prior statutory employer contributions and changed the funding of PRGERS benefits to Pay-As-You-Go by the Commonwealth., public corporation or municipality. Prior to July 1, 2017, most benefits were paid from system assets while some benefits were paid by the General Fund, public corporation or municipality.

Subsequent to Act No. 106-2017, 2022 Plan of Adjustment eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As directed by the System, the June 30, 2019 through June 30, 2021 valuations included the Act No. 127-1958 death and disability benefits for Act No. 106-2017 employees (e.g. those hired July 1, 2017 and later) in high-risk positions. These benefits are described in items 8b and 9b.

1. <u>Type of Plan</u>

   The System is a contributory, hybrid defined benefit plan.

2. <u>Effective Date</u>

   The System was established in 1951 by Act No. 447 of May 15, 1951 to be effective January 1, 1952. The plan was last amended under the 2022 Plan of Adjustment.

3. <u>Eligibility for Membership</u>

   Members of the Employees Retirement System of the Government of Puerto Rico and its instrumentalities include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and were hired before July 1,2017 (Act No. 106-2017). Employees include those in the following categories:

   - Police of Puerto Rico,
   - Firefighters of Puerto Rico,
   - Elective Officers of the People of Puerto Rico and the employees of the Legislature,
   - Officers and employees of the Government of Puerto Rico,
   - Officers and employees of public enterprises,
   - Officers and employees, including mayors of the municipalities, and
   - Irregular personnel fulfilling the requirements of regular employees.

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Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Controller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to PRGERS benefits based on the provisions of the 2022 Plan of Adjustment.

4. Definitions

a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).

b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.

c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).

d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).

e. Municipality: The Municipality of San Juan (Article 1-104).

f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).

g. Employee: Any officer or employee of the Employer is regularly employed on a full time basis (Article 1-104).

h. Creditable Service for Act No. 447-1951 members: The years and months of plan participation, during which contributions have been made, beginning on the later date of hire or January 1,1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Months in which less than 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

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Creditable Service also includes purchased service, if any (Article 1-106).

i. Creditable Service for Act No. 1-1990 members: The years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Articles 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made fi Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

j. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article1-104).

k. Average Compensation for Act No. 447-1951 members: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).

l. Average Compensation for Act No 1-1990 members: the average of the last 5 years of compensation that the participant has received for Creditable Service. If annual compensation in the average period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)

m. Contributions: The amount deducted from the compensation of a Member and the employer (Sectio 781).

n. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). Prior to July 1, 2017, the rate was 2.50%. Due to Act No. 106-2017, regular interest ceased July 1, 2017.

o. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (Article 1-104).

p. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the System's experience and in accordance with the recommendations of the actuary.

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For purposes of converting the Define Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employees Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

q. Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.

r. Social Security Retirement Are (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below:

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

s. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Account(Article 3-107).

t. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

u. Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.

   i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
   ii. System's investment portfolio – the yield is equal to 90% (75% prior to July 1,2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
   iii. Other alternatives adopted by the Board of the System.

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v. Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Saving Account as of June 30, 2013.

w. Credit to Defined Contribution Hybrid Contribution Account: The credits to the retirement savings account include (1) the Retirement Savings Account as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to PRGERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to Pay-As-You-Go funding under Act No. 106-2017, no credits are applied after June 30, 2017.

5. Coordination with Social Security for Act No. 447 Members: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System retroactive to the later of July 1, 1968 or to the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementary Plan.

6. Retirement Benefits

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, and (4), for Mayors, 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 would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table 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

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2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 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, and (3) 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.

3) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

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

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

   System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

4) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 67.

   Act No.3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

5) *Eligibility for Public Officers in High Risk Positions*: Public Officers in High Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-ear extensions (delaying retirement until age 62) 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. Public Officers in High Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.

6) *Benefit*: An annuity payable for the lifetime of the members equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the Accrued Benefit determined as of June 30,2013. If the balance in the Defined Contribution Account is $10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.

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19. PENSION PLANS – continuation

7) *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 for Act No. 447-1951 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the Highest Compensation 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 Plan, the benefit is re-calculated at the SSRA 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 Defined Contribution 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. The maximum benefit is 75% of the Average Compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of Average Compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years, plus 2.0% of average Compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

   For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as 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-Mayoral Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

8) *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 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

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19. PENSION PLANS – continuation

If the Act No. 1-1990 Commonwealth Police or Firefighter 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 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. The maximum benefit is 90% of the Highest Compensation as a Mayor.

7. Termination Benefits

   a. *Lump Sum Withdrawal*

   Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Define Contribution Hybrid Contribution Account is $10,000 or less.

   Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

   b. *Deferred Retirement*

   Eligibility: A Member is eligible upon termination of service prior to 5 or more years of service(10 years of Credited Service for Act No. 447-1951 and Act No.1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contribution and the Define Contribution Hybrid Contribution Account.

   Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the Defined Contribution 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.

8. Death Benefits

   a. *Pre-retirement Death Benefit*

   Eligibility: Any current non-retired member is eligible.

   Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447-1951 and Act No. 1-1990 members.

continue

19. PENSION PLANS – continuation

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

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Spouse's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity until death or remarriage (Act No. 127-1958 as amended).

Children's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act No. 127-1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 60% of the participant's Compensation at date of death, payable as an annuity for life. (Act No. 127-1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

c. *Post-retirement Death Benefit for Members who retired prior to July 1, 2013*

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

Benefit: The benefit is as follows (Act No. 105-1969 as amended by Act No. 4-1985).

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower of dependent children is equal to 60% (50% if the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. (Article 2-113 and Act No. 524-2004)

d. *Post-retirement Death Benefit for Members who retired after June 30,2013*

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

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

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19. PENSION PLANS – continuation

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contribution for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

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

9. Disability Benefits

a. *Disability*

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

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

b. *High Risk Disability under Act No. 127-1958*

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Benefit: 80% (100% for Act No. 447 members) of Compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15,2022. (Act No. 127-1958 as amended)

c. Members who qualify for occupational or non-occupational disability benefits as of June 30,2013 continue to be eligible to receive such benefits.

10. Minimum Benefits

a. *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.

b. *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)

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

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19. PENSION PLANS – continuation

11. 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).Future COLAs were eliminated effective March 15, 2022. (Various Acts)

12. Medical Insurance Plan Contribution: A payment of up to $100 per month to the eligible medical insurance plan selected by the retiree or disabled member provided the member retired prior to July 1, 2013. (Act No. 483-2004 as amended by Act No. 3-2013)

13. Special "Bonus" Benefits:

    a. *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)

    b. *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)

(2) 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.

(3) Total Pension Liabilities and Actuarial Information

The Total Pension Liability of the System was approximately $24.9 billion as of June 30, 2023 and was determined by an actuarial valuation as of July 1, 2021 which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

(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, 2023, was 3.54%. 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, 2023; 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*

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*

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.

(b) Total Pension Liability

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, 2022, the date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2022 through June 30, 2023.

continue

19. PENSION PLANS – continuation

As June 30, 2023, the Municipality's proportional share of the Total Pension Liability used was as follows (last available information):

Proportion - June 30, 2022	0.46124%
Proportion - June 30, 2023	0.42356%
Change - Increase (Decrease)	-0.03768%

As June 30, 2023, the Municipality reported $105,295,561 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

Total Pension Liability	June 30, 2023	
	Total	Proportional Share (0.42356%)
Total Pension Liability	$ 24,859,724,944	$ 105,295,561
Covered Payroll	$ 1,334,172,033	$ 7,255,471
Total Pension Liability as a % of Covered Payroll	1863.31%	1451.26%

(b) Pension Expense

For the fiscal year ended June 30, 2023, the Municipality recognized pension expense of $7,276,661 of total pension payments of the "Pay-As-You-Go" system.

(c) Deferred Outflows/Inflow of Resources

As of June 30, 2023, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ 4,584,200	$ 8,831,967
Changes in assumptions	14,667,151	12,316,471
Subsequent payments made	6,632,214	-
Total	$ 25,883,565	$ 21,148,438

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

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

continue

19. PENSION PLANS – continuation

Year Ended June. 30,	Amount
2024	$ (3,383,547)
2025	(3,383,548)
2026	2,505,234
2027	2,505,231
2028	6,491,757
Thereafter	-
Total	$ 4,735,127

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, 2022 and 2023, was as follow:

	June 30, 2022	June 30, 2023
Discount Rate	2.16%	3.54%
20 Year Tax-Exempt Municipal Bond Yield	2.16%	3.54%

Changes in Total Pension Liability

Changes in Total Pension Liability	Increase (Decrease)	
	Total Pension Liability	Proportional Share
Balance as of June 30, 2022	$ 30,707,025,436	$ 141,632,359
Changes for the year:		
Service Cost	95,218,312	456,712
Interest on Total Pension Liability	649,170,416	3,000,944
Effect of Plan Changes	(2,016,269,244)	(15,781,203)
Effect of Economic/Demographic (Gains) or Losses	467,950,926	(2,423,157)
Effect of Assumptions Changes or Inputs	(3,539,219,367)	(15,243,187)
Benefits Payments	(1,504,151,535)	(6,346,907)
Balance as of June 30, 2023	**$ 24,859,724,944**	**$ 105,295,561**

(d) 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:

continue

19. PENSION PLANS – continuation

	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Total Pension Liability	$ 117,966,043	$ 105,295,561	$ 94,786,480

Fiscal Plan for Puerto Rico

The last Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA (see Note 27) on April 3,2023. The Government operates three public employee retirement systems in Puerto Rico: The Employees' Retirement System (ERS), the Teachers' Retirement System (TRS), and the Judiciary Retirement System (JRS). As of March 15, 2022, these pensions systems were reformed by the Plan of Adjustment (PoA) through a series of pension initiatives. As a result of these initiatives, the Commonwealth has strengthened its ability to pay for its future commitment to pensions.

"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.

continue

19. PENSION PLANS – continuation

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 experiences 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.

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, 2023, the Plan has 400 active participants. The participant vesting schedule on such portion of their accounts is described below:

continue

19. PENSION PLANS – continuation

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.

Total contributions to the Plan for fiscal year ended December 31, 2021 (the last available financial information) were $521,370 and benefits paid were $347,503. Investment revenues were $50,828 and net appreciation in fair value of investments was $425,406, for a net increase in Plan Assets of $650,102. As of December 31, 2021, the Net Fund Assets of the Plan is $4,858,751.

Additional information on the Plan is provided in its financial statements for the year ended December 31, 2021, 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).

continue

20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

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).

(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, 2023 and was determined by an actuarial valuation as of July 1, 2021 which was rolled forward to June 30, 2022 (measurement date as of June 30, 2022).

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, 2023, was 3.54%. 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.

continue

20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

– *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.

– *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, 2021. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2022. This is the date on 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, 2021 to June 30, 2022 for reporting period ending June 30, 2023.

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 Statement No. 75.

Total OPEB Liability	June 30, 2023	
	Total	Proportional Share (0.50864%)
Total OPEB Liability	$ 802,689,035	$ 4,082,778
Covered Payroll	N/A	N/A
Total OPEB Liability as a % of Covered Payroll	N/A	N/A

continue

20. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

The Municipality's proportionate share of the Total OPEB Liability used was as follows:

Proportion - June 30, 2022	0.53046%
Proportion - June 30, 2023	0.50864%
Change - Increase (Decrease)	-0.02182%

Discount Rate

The discount rate on June 30, 2022 and 2023, was as follow:

	June 30, 2022	June 30, 2023
Discount Rate	2.16%	3.54%
20-Year Tax-Exempt Municipal Bond Yield	2.16%	3.54%

As of June 30, 2023, the ERS have issued its audited financial statements as of and for the fiscal year ended June 30, 2023 and has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 (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, 2023. 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, 2022	$ 926,426,253	$ 4,914,295
Changes for the year:		
Service Cost	-	-
Interest on Total OPEB Liability	19,193,582	101,853
Effect of Plan Changes	-	-
Effect of Economic/Demographic (Gains) or Losses	33,187,045	(32,338)
Effect of Assumptions Changes or Inputs	(100,042,418)	(501,132)
Benefits Payments	(76,075,427)	(399,900)
Balance as of June 30, 2023	**$ 802,689,035**	**$ 4,082,778**

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 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Total OPEB Liability	**$ 4,435,184**	**$ 4,082,778**	**$ 3,778,639**

continue

21. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance Classification
Capital Projects Fund	Roads in Ave. Gautier Benitez	$ 413,334	Restricted for Infrastructure Improvement
	Annual Plan Development & Consulting in Federal CDBG Funds	41,000	Restricted for Infrastructure Improvement
	Architecture and Engineering for roundabout	213,000	Restricted for Infrastructure Improvement
	Consulting for the Planning Office to Administer Federal Programs	30,000	Restricted for Infrastructure Improvement
	Construction of Retaining Wall of Borinquen Atravesada	96,883	Restricted for Infrastructure Improvement
	Engineering for road improvements and roundabout in Rafael Cordero Ave. and Bicycle Lane	126,297	Restricted for Infrastructure Improvement
	Engineering for roundabout	131,651	Restricted for Infrastructure Improvement
	Impovements to Municipal Roads	2,546,732	Restricted for Infrastructure Improvement
	Purchase of Vehicles	118,880	Restricted for Purchase and Maintenance of Equipment
	Improvements to Public Square Santiago R Palmer	28,292	Assigned for Building and Facilities
	Improvements to the Idelfonso Sola Morales Park	44,229	Assigned for Building and Facilities
	Improvements to the Roger Mendoza Sport Court	35,000	Assigned for Building and Facilities
	Luis Cartagena Nieves School	25,079	Assigned for Building and Facilities
General Fund	Improvements to the Roger Mendoza Sport Court	2,990	Restricted for Building and Facilities
	Improvements to the Municipal Fuel Station	10,887	Restricted for Building and Facilities
Other Non Major Fund	Improvements to the Idelfonso Sola Morales Park	17,243	Restricted for Recovery and Reconstruction Projects
	Impovements to Municipal Roads	517,512	Restricted for Recovery and Reconstruction Projects
	Improvments of San Salvador Basketball Court	11,179	Restricted for Recovery and Reconstruction Projects
	Improvments to the Roger Mendoza Sport Court	3,300	Restricted for Recovery and Reconstruction Projects
	Improvments to the Chess House	112,462	Restricted for Recovery and Reconstruction Projects
	Roads in Borinquen Atravesada	49,434	Restricted for Recovery and Reconstruction Projects
		$ 4,575,383	

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, 2022 for the following services and is due on June 30, 2027. Such a contract requires the Municipality to pay the Company $7.97 per unit served. The contract provides for a minimum of 48,243 units served. Also, the Company also should collect recyclable material, the monthly fee is $1.97 per unit, which increases annually from 10,000 units from January 2023, up to 28,561 on January 2027.

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 $30.00 per ton 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%).

continue

21. COMMITMENTS – continuation

Expenditures for the year ended June 30, 2023 for this service under the terms of this contract amount to approximately $7.1 million.

Other Commitments

On June 30, 2023, the Non-Major Funds had a deficit of $720,292 as follows: Housing Funds $5,382, MASS Transportation Fund $4,030, and Economic Development Activities Fund $710,880. 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 make. 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 2022-2023, the Municipality made contributions to COBAC for a total of $95,170 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. No contributions were made during this fiscal year.

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. During the fiscal year 2022-2023, the Municipality made contributions to CCECI for a total of $162,300 to cover operating expenses. An additional allocation was made for improvements to the Caguas Botanical Garden in the amount of $1,250,000.

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 the fiscal year, the Municipality contributed $770,000 to cover operating expenses.

An additional amount of $300,000 was provided to comply with a matching requirement for an EDA project that INTECO is administering. In addition, the amount of $500,000 was granted as an incentive of teachers of the CIMATEC school.

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, during fiscal year 2021-2022 a new loan was made in the amount of $116,390, finally, during fiscal year 2022-2023 a new loan was made in the amount of $109,500. These loans are non-interest bearing, repayments in the amount of $53,877 were made on these loans. In addition, during fiscal year 2022-2023, the amount of $1,200,000 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 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 2022-2023 the Municipality contribution to C3TEC was $200,000 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 it 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 for employment contributing to a strengthened industry and a workforce that grows. During fiscal year 2022-2023, 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 that was created to have strategies and projects for the promotion of agriculture and food security in our region. During the fiscal year 2022-2023, the Municipality contributed $150,000 to CJDCS to cover operations expenses.

Housing and Rental Contracts

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

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, 2023 the Municipality received HAP's assistance payments in the amount of approximately $7.7 million. No significant changes are expected during the subsequent fiscal year.

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.

continue

22. LEASES – continuation

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 are 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 receivable.

Lease Assets – Lessee

The Municipality has recorded intangible right-to-use lease assets as a result of implementing GASB Statement 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.

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continue

22. LEASES – continuation

Lease asset activity for the Municipality for the year ended June 30, 2023, was as follows:

	Beginning Balance July 1, 2022	Increase	Decreases	Ending Balance June 30, 2023
Right-To-Use Assets:				
Facilities	$ 1,975,539	$ 531,699	$ -	$ 2,507,238
Subscription Asset (SBITA's)	-	1,644,011	-	1,644,011
Buildings and Improvements	2,589,613	366,128	-	2,955,741
Equipment and Vehicles	537,813	-	-	537,813
Total Right-To-Use Assets	5,102,965	2,541,838	-	7,644,803
Less Accumulated Amortization- Right-To-Use Assets:				
Facilities	(376,337)	(490,767)	-	(867,104)
Subscription Asset (SBITA's)	-	(110,787)	-	(110,787)
Buildings and Improvements	(538,732)	(668,740)	-	(1,207,472)
Equipment and Vehicles	(126,163)	(127,137)	-	(253,300)
Total Accumulated Amortization- Right-To-Use Assets	(1,041,232)	(1,397,431)	-	(2,438,663)
Total Right-To-Use Less Accumulated Amortization	$ 4,061,733	$ 1,144,407	$ -	$ 5,206,140

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, 2022. The following table presents a summary, by capital asset description:

Capital Asset Description	Lease Term	Interst Rate	Oustanding Balance
Head Start Facilities Leases	3.17 to 6.5 Years	5.0%	$ 1,785,088
Betances Street Commercial Buildings Leases	5 Years	5.0%	426,558
Commercial Building at Tapia Street Lease	2.67 Years	5.0%	36,458
Consolidated Medical Plaza Building Lease for Public Housing Office	6 Years	5.0%	643,643
Oficina de Turismo y PromoCaguas Commercial Lot at Muñoz Rivera Street Lease	3 Years	5.0%	70,087
Ricoh Lanier Copiers Lease	2.83 to 5 Years	4.1%	295,079
Property at Baldorioty D-3, Urb. Paradaise (Bajos) for Oficina de la Mujer	2.5 Years	5.0%	22,499
Suite 202 Gastby Building for CEE Satellites Office	5 Years	5.0%	212,251
Property at Muñoz Rivera 20 for COVID Prevention Office	4 Years	5.0%	211,514
Facilities from Centro Criollo de Ciencia y Tecnologia for Proyecto Apoyo Educativo Criollo	1.9 Years	5.0%	103,841
			$ 3,807,018

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)	$ 4,131,928	$ 897,827	$ (1,222,737)	$ 3,807,018	$ 1,366,564	$ 2,440,454

continue

22. LEASES – continuation

The future minimum payments on this lease as of June 30, 2023, were as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2024	$ 1,366,564	$ 157,081	$ 1,523,645
2025	1,038,176	94,253	1,132,429
2026	717,736	52,895	770,631
2027	563,020	20,206	583,226
2028	121,522	1,778	123,300
2029-2033	-	-	-
TOTAL	**$ 3,807,018**	**$ 326,213**	**$ 4,133,231**

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 $632,885. The following Table presents a summary, by Capital Asset Description:

Capital Asset Description	Lease Term	Interst Rate	Lease Receivable	Deferred Inflow	Lease Revenue	Interest Revenue
Commercial Lot Antiguo Teatro Alcázar Lease	2.33 Years	5.0%	$ 1,979	$ 1,891	$ 5,676	$ 256
Commercial Lot in Urb. Bunker Lease	1.25 Years	5.0%	-	-	291	2
Commercial Lot Lincoln Center Plaza Building Leases	2.80 and 6.9 Years	5.0%	577,336	552,874	115,243	31,702
Edificio Mendez Luna Commercial Lease	11.01 Years	5.0%	87,462	83,900	9,237	4,576
Parking Lot Calle Goyco Lease	2.33 Years	5.0%	990	946	2,838	128
Parking Lot Calle Ruiz Belvis Lease	2.10 Years	5.0%	258	246	1,482	54
Plaza del Mercado Commercial Lot Leases	2.80 to 5 Years	5.0%	279,741	257,387	123,502	17,148
Residential Lot Urb. Jose Mercado Lease	10.58 Years	5.0%	238,284	219,626	25,587	12,437
Solid Waste Transfer Station Lease	10.00 Years	5.0%	2,132,347	1,853,216	231,652	115,826
Terminal Francisco Pereira Commercial Lot Lease	5.00 Years	5.0%	45,484	42,828	11,681	2,540
			$ 3,363,881	**$ 3,012,914**	**$ 527,189**	**$ 184,669**

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.

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23. SUBCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

A. SBITAs Accounting Policies

The Municipality determines if a contract to use another party's information technology (IT) software qualifies as a subscription-based information technology arrangement (SBITAs) at inception. SBITAs result in the recognition of an intangible right-to-use subscription assets and subscription liabilities on the Statement of Net Position. Right-to-use subscription assets represent the use of an underlying asset for the subscription term, and subscription liabilities represent the obligation to make subscription payments arising from the contract, measured on a discounted basis.

At subscription inception, when the subscription asset is placed into service, the subscription liability is measured at the present value of the subscription payments over the subscription term. The right-to-use subscription asset equals the subscription liability adjusted for any payments made before the subscription term, capitalizable implementation costs, and subscription incentives received before the subscription term. The Municipality uses the incremental borrowing rate (IBR) when readily determinable. As most of the subscription contracts do not provide an IBR, the Municipality uses its most recent borrowing rate 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 subscription payments were derived by reference to the interest rate on the vendor corresponding to the subscription commencement date. Subscription assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the subscription term.

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

B. Subscription Assets

The Municipality has recorded intangible right-to-use subscription assets as a result of implementing GASB Statement No. 96. The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability [plus any subscription payments made prior to the subscription term and capitalizable implementation costs, less subscription incentives], if any.

Subscription assets are amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the subscription term.

Subscription asset activity for the Municipality for the year ended June 30, 2023, was as follows:

Subscription Asset	$ 1,644,011
Amortization - Subscription Asset	(110,787)
Total Right-To-Use Subscription Assets Less Accumulated Amortization	$ 1,533,224

C. Subscription Liability

The Municipality has entered into agreements for subscription-based information technology. The subscription agreements have been recorded at the present value of the future lease payments as of the date of their inception or, for subscriptions existing prior to the implementation fiscal year at the remaining terms of the agreement, using the facts and circumstances available on July 1, 2022.

continue

23. SUBCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs) – continuation

An agreement was in effect on January 1, 2023, related to a subscription-based information technology through May 2025, requiring 3 yearly payments of $61,230. The subscription liability is measured at the applicable Incremental Borrowing Rate (IBR) of 5.00%. The Municipality uses the incremental borrowing rate (IBR) when readily determinable. As a result of the subscription, the Municipality has a subscription asset with a net book value of $145,901 and a lease liability of $113,851 on June 30, 2023.

Another agreement was in effect on May 1, 2023, related to a subscription-based information technology through May 2025, requiring 3 yearly payments of $513,718. The subscription liability is measured at the applicable Incremental Borrowing Rate (IBR) of 5.0%. The Municipality uses the incremental borrowing rate (IBR) when readily determinable. As a result of the subscription, the Municipality has a subscription asset with a net book value of $1,387,323 and a lease liability of $955,212 on June 30, 2023.

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
Subscription Liability (SBITAS)	$ -	$ 1,644,011	$ (574,948)	$ 1,069,063	$ 521,494	$ 547,569

The future minimum payments on those subscriptions as of June 30, 2023, were as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2024	$ 521,494	$ 53,454	$ 574,948
2025	547,569	27,379	574,948
TOTAL	**$ 1,069,063**	**$ 80,833**	**$ 1,149,896**

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24. 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	**$ -**	**$ -**	**$ -**	**$ -**	**$ 476,251**	**$ 810,612**	**$ 1,286,863**
Restricted For:							
Commercial and Residential Loans	-	-	-	-	-	203,151	203,151
Child Care Program	-	-	-	3,612	-	-	3,612
COVID-19 Emergency	-	-	-	-	-	-	-
Debt Repayments	-	-	22,788,329	-	-	-	22,788,329
Drug Prevention Programs	-	-	-	-	12,377	-	12,377
Economic Development Purposes	-	-	-	-	138,906	3,692	142,598
Educational Assisted Programs	-	-	-	-	201,503	-	201,503
Energy Saving Loans	-	-	-	-	254,527	-	254,527
Head Start and Elderly Programs	-	-	-	14,809	-	-	14,809
Health Services	-	-	-	-	4,014	-	4,014
Housing Assisted Programs	-	-	-	-	-	1,168,597	1,168,597
Hurricane Fiona Emergency	-	-	-	-	-	25,095	25,095
Improvement to the City Hall Building	-	10,906	-	-	-	-	10,906
Improvements to Facilities and Buildings	382,184	3,630	-	-	1,368	-	387,182
Infrastructure Improvements	1,098	10,458,819	-	-	1,050	6,393	10,467,360
Purchase and Maintenance of Equipment	-	782,398	-	-	-	-	782,398
Improvements to Parks	-	15,360,000	-	-	-	-	15,360,000
Municipal Library Administration	-	-	-	14,431	-	-	14,431
Opioid Program	-	-	-	159,121	-	-	159,121
Recovery and Reconstruction Projects	-	-	-	-	-	806,483	806,483
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	-	-	-	-	622,738	17	622,755
Sureste Sport Facility Construction	-	589,353	-	-	-	-	589,353
System 911	-	-	-	-	722	-	722
CARES Act Revolving Loan	-	-	-	-	-	-	-
Transit Improvement Programs	823,601	-	-	-	684	75,000	899,285
Total Restricted	**1,206,883**	**27,227,957**	**22,788,329**	**191,973**	**1,394,539**	**2,354,174**	**55,163,855**
Committed To:							
Economic Development Purposes	-	-	-	-	-	11,234	11,234
Public Nuisances Program	-	-	-	-	34,063	-	34,063
Transcriollo Transportation Program	-	-	-	-	-	15,199	15,199
Total Committed	**-**	**-**	**-**	**-**	**34,063**	**26,433**	**60,496**
Assigned To:							
Improvements to Facilities and Buildings	-	623,852	-	-	-	-	623,852
Purchase and Maintenance of Equipment	-	1,160,727	-	-	-	-	1,160,727
Improvements to Facilities and Infrastructure	-	-	-	-	-	307,636	307,636
Recovery and Reconstruction Projects	-	-	-	-	-	10,815	10,815
Improvements to Facilities	-	23,638	-	-	-	-	23,638
Hurricane Fiona Emergency	-	-	-	-	-	2,985,966	2,985,966
Health Services	414,217	-	-	-	-	-	414,217
Infrastructure Improvements	391,230	41,012	-	-	-	-	432,242
Reinvestment and Economic Development Program	687,367	-	-	-	-	-	687,367
Parking Meters Program	369,676	-	-	-	-	-	369,676
Maintenance Buildings and Green Areas	1,144,598	-	-	-	-	-	1,144,598
General Government Expenditures	1,226,397	-	-	-	-	-	1,226,397
Educational Assisted Programs	3,137	-	-	-	-	-	3,137
Total Assigned	**4,236,622**	**1,849,229**	**-**	**-**	**-**	**3,304,417**	**9,390,268**
Unassigned (Deficit)	**-**	**-**	**-**	**(222,409)**	**(2,109,230)**	**(720,292)**	**(3,051,931)**
Total Fund Balances	**$ 5,443,505**	**$ 29,077,186**	**$ 22,788,329**	**$ (30,436)**	**$ (204,377)**	**$ 5,775,344**	**$ 62,849,551**

continue

25. 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 $93,718 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.

26. 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 determined that Satellite Television is 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, provides 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 people with low incomes.

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26. 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>$1,495,596</td><td>$609,217</td><td>Not Available</td><td>$6,151,429</td><td>$2,317,604</td><td>Not Available</td></tr>
</table>

continue

26. 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">Act to Promote The Export of Services (Act Number 20 of January 17, 2012 as Amended)</th><th colspan="3">Green Energy Incentives Act of Puerto Rico (Act Number 83 of July 19, 2010 as Amended)</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">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.</td><td colspan="3">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.</td></tr>
<tr><td>2) Tax being abated.</td><td colspan="3">Real and Personal Property Taxes, and Volume of Business 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 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.</td><td colspan="3">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.</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% up to 20 years; and Volume of Business Taxes of 60% of total amount for 20 years.</td><td colspan="3">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.</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; 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; 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>$35,394</td><td>$323,636</td><td>Not Available</td><td>$645,606</td><td>$49,131</td><td>Not Available</td></tr>
</table>

continue

26. 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**
	$5,309,136	**$1,480**	**Not Applicable**	**$7,094**	**$80,955**	**Not Available**

continue

26. TAX ABATEMENTS – continuation

<table>
<tr><th rowspan="2">Municipality Tax Abatement Disclosure as required by GASB Statement No. 77</th><th colspan="3">Programs Administered by the Puerto Rico Industrial Development Company</th></tr>
<tr><th colspan="3">Agricultural Tax Incentives Act of Puerto Rico (Act Number 225 of December 1, 1995, as Amended)</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">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.</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></tr>
<tr><td>3) Authority under which abatement agreements are entered into.</td><td colspan="3">Act No. 107 of August 14, 2020, as amended, known as the Municipal Code of Puerto Rico; Law Number 113 of July 10, 1974, as amended by Law Number 82 of August 30, 1991, known as the Municipal Patents Law; and Law Number 83 of August 30, 1991, as amended, known as the Municipal Property Tax Act.</td></tr>
<tr><td>4) Criteria to be eligible to receive abatement.</td><td colspan="3">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.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable property value, volume of business; the approved percentage is applied to that figure to determine the abatement amounts.</td></tr>
<tr><td>7) Provisions for recapturing abated taxes.</td><td colspan="3">N/A</td></tr>
<tr><td>8) Types of commitments made by the Municipality other than to reduce taxes.</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="2">9) Gross dollar amount, on accrual basis, by which the Municipality's tax revenues were reduced as a result of abatement agreement.</td><td>Property Taxes</td><td>Volume of Business Taxes</td><td>Construction Excite Taxes</td></tr>
<tr><td>$8,958</td><td>$7,921</td><td>Not Available</td></tr>
</table>

continue

26. 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 Treasury Department</th></tr>
<tr><th colspan="3">Law on Cooperative Savings and Credit Societies (Act Number 225 of October 28, 2002)</th><th colspan="3">Tax Exemptions for Hospitals (Act Number 168 of June 30, 1968, as Amended)</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">To facilitate and advance the growth and strengthening of savings and credit cooperatives organized under this Act, to encourage broad and full participation in the financial services markets and to promote the expansion of the philosophy and cooperative principles.</td><td colspan="3">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</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">"Cooperative" means any cooperative savings and credit cooperative of first or second degree constituted and organized in accordance with this Act. Those cooperatives whose partners are cooperative entities shall be considered as second degree cooperatives. "Closed cooperatives" means any first-tier savings and credit cooperative whose members are limited to a particular company or group to the exclusion of other groups. "Insured Cooperative" means any cooperative that receives the stock and deposit insurance that the Corporation will provide. "Adequate Condition Cooperative" means that credit and savings cooperative that has an adequate financial and managerial condition, to be determined according to objective and uniform parameters that the Corporation will define through regulations.</td><td colspan="3">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.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.</td><td colspan="3">This Act, as amended, provide full exemption of Real Property Taxes and Personal Property Taxes; Volume of Business Taxes and Construction Excise Taxes.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable 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; 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><th>Property Taxes</th><th>Volume of Business Taxes</th><th>Construction Excite Taxes</th><th>Property Taxes</th><th>Volume of Business Taxes</th><th>Construction Excite Taxes</th></tr>
<tr><td>$185,760</td><td>$397,272</td><td>Not Applicable</td><td>$1,849,842</td><td>$113,641</td><td>Not Available</td></tr>
</table>

continue

26. 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 Department of Treasury</th></tr>
<tr><th colspan="3">Section 1101 (a) (6) of Internal Revenue Code of Puerto Rico</th><th colspan="3">Insurance Code of Puerto Rico (Act Number 77 of June 19, 1957)</th></tr>
<tr><td>1) Purpose of Program.</td><td colspan="3">Promote low-income families access to rental housing at reasonable prices.</td><td colspan="3">Promote to maintain a main office of insurer in Puerto Rico.</td></tr>
<tr><td>2) Tax being abated.</td><td colspan="3">Volume of Business Taxes.</td><td colspan="3">Volume of Business Taxes and Personal Property 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.</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 be a low-income family to be eligible.</td><td colspan="3">Maintain a main Office in Puerto Rico.</td></tr>
<tr><td>5) How recipients' taxes are reduced.</td><td colspan="3">This Act provide full exemption of Volume of Business Taxes.</td><td colspan="3">This Act provide full exemption of Volume of Business Taxes and Personal Property Taxes.</td></tr>
<tr><td>6) How amount of abatement is determined.</td><td colspan="3">The amount of the direct reduction to revenues is based on the calculated certified reasonable volume of business; the approved percentage is applied to that figure to determine the abatement amounts.</td><td colspan="3">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.</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>$4,484</td><td>$13,879</td><td>Not Applicable</td><td>$4,289</td><td>$3,782,331</td><td>Not Applicable</td></tr>
</table>

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26. 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>$2,081,969</td><td>$4,186,005</td><td>$0</td><td>$0</td><td>$18,054</td><td>Not Applicable</td></tr>
</table>

continue

26. 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**
	$42,808	**$28,947**	**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

27. NET POSITION RESTATEMENT

For the year ended June 30, 2023, the Municipality adjusted net position to reflect prior period adjustment related to Law 42 by the MRCC.

The following schedule reconciles the June 30, 2022, Net Position as previously reported to Beginning Net Position, as restated, July 1, 2022:

Net Position

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2022	$ 135,127,110
Adjustment to Law No. 42 by MRCC	74,050
Beginning Net Position, as Restated, At July 1, 2022	**$ 135,201,160**

28. 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.

Background

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

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

Most of Puerto Rico's unaffordable debt has been dramatically reduced. The restructuring of the central government debt saved Puerto Rico more than $50 billion in debt payments to creditors. The restructurings of the Puerto Rico Sales Tax Financing Corporation (COFINA) saved about $17.5 billion, the Highways and Transportation Authority (HTA) about $3 billion, and the Puerto Rico Aqueducts and Sewers Authority (PRASA) about $400 million. The savings of more than $70 billion reduced the debt burden on the people of the Island by approximately $24,000 per person in Puerto Rico. This provided critical relief and will allow the government to manage its future finances with more certainty.

continue

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

Restructuring the debt, however, was only half of PROMESA's mandate. The debt restructuring of the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Industrial Company (PRIDCO) is pending. In order to fulfill the mandate of PROMESA, fiscal responsibility still needs to be secured over the long term. Necessary improvements to systems and procedures are underway. However, appropriate spending discipline to preserve and institutionalize the recent success and prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in bankruptcy has not been achieved. Strong financial management is critical to long-term fiscal stability and will be required to restore access to the capital markets at reasonable rates.

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 and the Government can more frequently communicate to the public and the markets about the financial performance of the Commonwealth. Since its establishment, the Oversight Board typically updates the fiscal plan annually, with a handful of exceptions. This annual update includes an updated revenue and expenditure forecast, with in-year public updates provided of actual performance relative to budget for TSA revenues and agencies. Moving forward, the Oversight Board will work with the Government to move toward periodic updates to forecasts, in addition to updates on actuals vs budget (e.g., quarterly).

This will allow the Oversight Board and Government to communicate transparently about changes to the outlook and get ahead of potential changes needed as conditions evolve. Note that in evaluating potential changes on a more frequent basis, the Oversight Board and Government may decide that no update is warranted (e.g., if the outlook is uncertain, or if the changes are not material).

continue

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

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, economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA were designed to ensure that Puerto Rico's financial outlook is stabilized, and better financial management processes are institutionalized before the Board's oversight can be terminated. Now that the Commonwealth debt restructuring is completed and restructured debt service is included in Annual Budgets, in the coming months, the Oversight Board intends to provide more guidance on the performance standards and metrics by which the Section 209 requirements will be measured. In any case, while the Oversight Board must certify that these requirements have been satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet Section 209 termination requirements.

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 standards.

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

Sustainable Debt Restructuring

The Commonwealth's debt has been drastically reduced and made more affordable. Prior to the enactment of PROMESA, the Government accumulated a debt burden of $71 billion, roughly $24,000 per resident of Puerto Rico. Through the concerted efforts of the Oversight Board and the Government described below, the debt is on course to be reduced to $34 billion, as shown in Exhibit 1.

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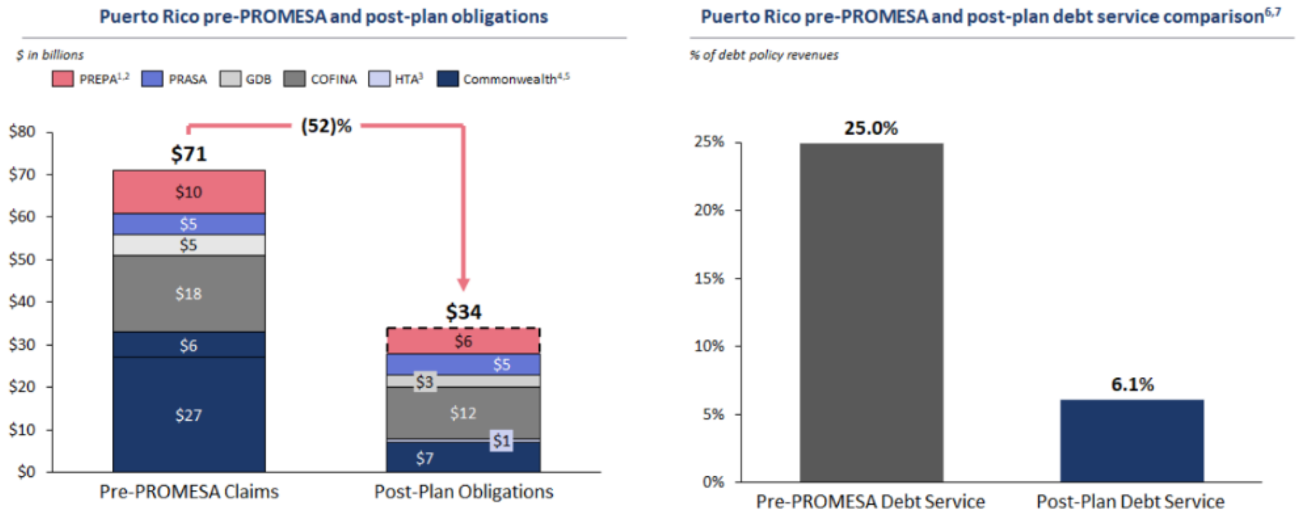
28. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 1: EVOLUTION OF PUERTO RICO'S OBLIGATIONS PRE- AND POST-PROMESA[1]



1) Pre-PROMESA Claims include ~$9 billion of bonded debt and ~$1 million est. GUCs pool per PREPA Title III Amended Disclosure Statement filed on March 3, 2023
2) Post-Plan Obligations of ~$6 billion represents total Series A and Series B Bonds per proposed terms in the pending PREPA Title III Plan of Adjustment filed on December 16, 2022.
3) Post-Plan Obligations of ~$1 billion settles ~$6 billion of CW related claims under the HTA Plan of Adjustment and supported by HTA toll revenues
4) Pre-PROMESA Claims include GO/PBA of ~$19 billion, est. GUCs of ~$3 billion, and ERS of ~$3 billion, as well as ~$2 billion PRIFA and ~$450 million CCDA and MBA (other-clawback entities)
5) Post-Plan Obligations Includes General Obligation claims,; but excludes CVI Claims
6) Pre-PROMESA Debt Service from 2022 Certified Fiscal Plan and Moody's Investor Service "State Government – U.S. Medians," 2020. (Moody's 2015 number was adjusted to exclude HTA debt service).
7) Post-Plan Debt Service represents FY23 Commonwealth debt service, including COFINA, as a percent of own-source revenues.

Debt Management Policy: The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. This Policy is adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires AAFAF adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below. The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the Commonwealth may issue in the future that is supported by its taxes. The 2023 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

Debt Management Policy Concepts:

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues (at the time of the Commonwealth's Title III exit the ratio was about 6.5%)
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings

Restoration of market access at reasonable rates: The Oversight Board will use specific performance standards and consult with independent third-party specialists to determine whether Puerto Rico has achieved market access at reasonable rates. The Commonwealth and its Instrumentalities will have to demonstrate they have achieved and sustained specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards.

continue

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

For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines. Furthermore, the Commonwealth and Instrumentalities will have to adopt and institutionalize the financial practices and fiscal management reforms outlined elsewhere in this Fiscal Plan that are consistent with market standards and investor requirements. The government will also need to demonstrate its ability to comply with the regulatory requirements and securities laws for the issuance of municipal securities. This includes the ability to enter into a standard Continuing Disclosure Agreement (CDA) with dealers and obtain standard market legal and audit opinions.

To lay the groundwork to achieve market access, the Government recently met with credit agencies. It is likely credit rating agencies will look beyond the Section 209 provisions in assessing Puerto Rico's credit worthiness. The rating agencies maintain detailed models to assess the riskiness of public sector debts. In addition to its standard metrics, the rating agencies have also historically required sustained periods of fiscal reform and recovery before assigning new credit ratings for previously bankrupt issuers. The government will need to demonstrate its ability to meet the criteria necessary to achieve credit ratings. The Oversight Board continues to work with the Government so it can eventually meet the requirements to gain access to, and the trust of, the credit markets.

In evaluating whether Puerto Rico has achieved reasonable rates, the Oversight Board will look to see whether new or restructured outstanding debt is actively trading in the municipal market at reasonable levels relative to market indices and will look for evidence investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The Oversight Board will rely on the expert opinion of independent third-party entities with municipal market experience for compliance with this requirement.

The Financial Management Agenda

The 12 required initiatives to support the Financial Management Agenda, described in Exhibit 1, are grouped into three categories: Foundational, Central, and Supporting:

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

EXHIBIT 1: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

Financial Management Agenda initiatives

Foundational initiatives – lay the foundation for sound, sustained financial management	**Office of the Chief Financial Officer**	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	A Civil Service Reform (CSR)	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
Central initiatives – essential for meeting the conditions for terminating the Oversight Board	**Timely Audited Financial Statements**	Fulfill a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	Debt Management Policy	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	Budgeting Best Practices	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	Federal Funds Management	
Supporting initiatives – support other aspects of financial management improvement	**Automated time and attendance**	Will ensure that only active employees who are working get paid
	Cash & bank account monitoring	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	Procurement best practices	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	Non-partisan legislative scoring	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	Real estate best practices	Will ensure that all Gov.-owned property is accounted for, properly maintained, and delivers the maximum value to the people of PR
	Real property registry	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

Implementation of the Agenda

While the Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers promised results, implementation must be strengthened. Key steps the Government must take to achieve a successful implementation include:

- A Governor's Management Council (GMC) consists of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda's implementation. Importantly, the GMC will provide a way for leadership across agencies to support Government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together. This initiative has been kicked off by the OCFO but is still a work in progress.
- Alternatively, expanding the role of the existing Enterprise Resource Management (ERP) Steering Committee, which may include monitoring implementation of the Agenda. The Steering Committee, led by Hacienda, includes representatives from all agencies who are responsible for Agenda initiatives.
- To provide Puerto Rico with the best chance for success and make the most of limited resources, the Governor must direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities. These agencies can serve as centers of excellence to implement and maintain modern financial management standards across more than 100 units of government.

continue

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

Key steps the Government has already undertaken to further the implementation of the Agenda are:

- Executing the ERP Solution contract and a service agreement with an ERP implementor. The ERP Implementation began in November 2022. The Oversight Board anticipates continued collaboration as implementation begins.
- Creating detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Enacting Act 1-2023 for the creation of the Budget Office of the Legislative Assembly (OPAL for its Spanish acronym).
- Issuing the FY2019 and FY2020 audited financial statements.
- Establishing a comprehensive debt management policy approved by the Oversight Board.

The 2023 Fiscal Plan requires that the OCFO complete the required implementation items in Exhibit 3.

EXHIBIT 3: ERP REQUIRED IMPLEMENTATION ACTIONS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	**Create an Executive Project Steering Committee,** chaired by the CFO and composed by other executive level officials to oversee the implementation.	OCFO	May 2021 *Completed*
	Designate project management team (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	OCFO	June 2021 *Completed*[1]
To be completed in FY 23	**Agree on a project plan with milestones and budget** for completion of phases and projections of total project completion.	OCFO	November 2022 *Completed*
	Select ERP solution and implementer.	OCFO	December 2022 *Completed*
	Review and change accounting system cycles, perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	OCFO	June 2023 *Revised deadline*
To be completed in FY 24	**Complete Annual Financial (ACFR) track**	OCFO	October 2023 *New milestone*
	Reassess the full project timeline and fees based on the results achieved in Wave 1. Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	OCFO	December 2023 *Revised deadline*
To be completed in FY 25	**Complete finance, budget, and sourcing track for all central Government agencies**	OCFO	July 2024 *New milestone*
	Complete human capital management track for all central Government agencies	OCFO	July 2024 *New milestone*
	Complete ERP Wave 1 implementation for the internal ERP system at Hacienda.	OCFO	September 2024 *Revised deadline*

1. Milestone budget incentive was released on November 4, 2021, upon completion

Timely Audited Financial Statements

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must return to the timely publication of audited financial statements and related information—key steps to regain access to credit markets, as required by PROMESA for the termination of the Oversight Board. Best practice calls for audited statements to be published no later than 180 days (six months) after the end of each fiscal year.

continue

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

The 2023 Fiscal Plan requires the following implementation activities:

- Audited financial statements will be issued no later than 180 days (six months) after the end of the fiscal year, consistent with financial reporting preferred best practices according to the Government Finance Officers Association (GFOA). To ensure this schedule is met, the Government will direct that:

    - Component units audited financial statements are issued three months after the close of the fiscal year.
    - Reporting formats and distribution are standardized.
    - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.

- Financial information will be consistently monitored and updated. Agencies and component units will:

    - Follow the policies and procedures that define a 'record to report' cycle, such as:

        - Preparing monthly, quarterly, and annual accounting closings and financial statements
        - Performing recurring monthly cash reconciliations to close accounting period

    - Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
    - Personnel will be provided with job-specific training.
    - The financial reporting module of the ERP system under development will be utilized to support the Government in performing these tasks. Specifically, the financial reporting module of the ERP system will (i) allow for more timely reporting of actuarial reports, (ii) create an ability to close financial records in a timely manner, and (iii) complete the necessary steps for the timely submission of the annual comprehensive financial report.

Progress to date

The most recent ACFRs, for fiscal years 2019 and for 2020, were published in April 2022 and September 2022, 34 and 27 months after the close of the respective fiscal years. Although these were not finalized within the six-month period, the Government is making progress in reducing the backlog of past ACFRs.

Multi-year contracts have been established to audit the Basic Financial Statements and component units, which should allow a more coordinated and efficient audit process. As noted, the ERP system cloud provider and implementation partner firm have been selected.

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

EXHIBIT 5: TIMELY AUDITED FINANCIAL STATEMENTS

	Required implementation actions	Responsible party	Deadline & status
To be completed in FY 22	**Issue FY19 audited financial statement.**	OCFO	April 2022 *Completed*
	Issue FY20 audited financial statement.	OCFO	September 2022 *Completed*
To be completed in FY 23	**Expedite actuarial reports** to complete CU financial a "record-to-report" cycle.	OCFO	Completed
	Establish a multi-year contract with prequalified contractors for ACFR and Component Units.	OCFO	Completed
	Issue FY21 audited financial statement.	OCFO	March 2023 *Revised deadline*
	Perform closing financial records on a monthly, interim, and annual basis for agencies and Component Units.	OCFO	December 2023 *On-Track*
	Publish a management letter for each audit that includes management's comments and corrective actions for auditor-identified control deficiencies.	OCFO	Ongoing
	Issue FY22 audited financial statement.	OCFO	September 2023 *Revised deadline*
To be completed in FY 24	**Develop policies and procedures** that define and support a "record-to-report" cycle.	OCFO	December 2023 *Revised deadline*

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

PROMESA's conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that expenditures do not exceed revenues for four consecutive fiscal years. Meeting these conditions will require adopting and implementing best practices for budget development and monitoring, revenue forecasting, and accounting. The 2023 Fiscal Plan requires the following implementation activities:

- The OCFO will establish a revenue committee that reviews budget-to-actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented with economic forecasts provided by the Government and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for budget development and appropriations processes.
- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure that a revenue source is identified before any spending bill is enacted.
- With the implementation of the ERP system, the OCFO will present the results of the revenue and expense budget-to-actuals variance report each quarter, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecast revenues.
- The OCFO will propose legislation to amend Act 230-1974 to ensure the Office of Management and Budget (OMB) has authority to assign budgets for the entire Commonwealth.
- The OCFO will provide a summary of SRFs that can be consolidated into the General Fund (GF) and a list of SRFs that will maintain zero-balance sweep accounts.

continue

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

- OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionment requests for the Commonwealth entities that have a total Budget GF appropriation under $5 million.

Progress to date

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of its analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented in this division, in compliance with all the emerging requirements. As a result of these efforts, OMB developed a work plan to improve on three main areas:

- Budget Operations – focused on the daily budget operations regarding government agencies
- Strategic Planning – focused on the planning of the budget process both long and short-term
- Quality and Compliance – focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan

OMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections.

These modules have the main objective of providing clear visibility to standardize and make the budget process more agile and efficient.

There has been additional progress made:

- Bi-weekly meetings with Hacienda are in place to review budgets.

- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development.

- Three circular letters have been published, including:

    - No. 1300-03-22: To establish the monthly workplan requirement for all agencies and public corporations.

    - No. 1300-05-22: To require a corrective action plan for all control deficiencies identified by external auditors, regulators, the comptroller's office, etc.

    - No. 1300-13-22: To establish a collaboration with the General Inspector Office of Puerto Rico for them to visit each agency and component unit to ensure their compliance with the monthly closings.

Limited progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches.

There have been delays in the completion of the items due to cost overruns.

continue

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

EXHIBIT 8: BUDGET BEST PRACTICES

	Action items	Responsible party	Deadline & status
To be completed in FY 24	▪ **Prepare training materials** to support budget best practices and compliance with modified accrual.	▪ OMB	▪ July 2023 *Revised deadline*
	▪ **Prepare reporting template or financial system** to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ October 2023 *Revised deadline*
	▪ **Enact legislation** to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	▪ Legislature and AAFAF	▪ October 2023 *Revised deadline*
	▪ **Establish a reporting process** that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ December 2023 *Revised deadline*
	▪ **Issue circular letters** detailing reporting requirements.	▪ OCFO and AAFAF	▪ December 2023 ▪ *Revised deadline*
	▪ **Prepare and present consolidated reporting**. Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ May 2024 *Revised deadline*
	▪ **Amend Act 230-1974** to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ May 2024 *Revised deadline*

Fiscal Plan – 2023

The 2023 Fiscal Plan approved on April 2, 2023 requires the following implementation activities:

- The OMB has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget.
- Grants Management Office (GMO) will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
    - OMB will publish bi-weekly reports of disbursements of federal funds.
    - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
    - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
    - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues.
- Federal Funds Management will benefit greatly from using the Grants Management Module of the ERP system. This module will allow the Government to monitor fund performance by viewing funds available at both detail and summary levels.

continue

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

- To facilitate the management and oversight of federal funds, the OMB, together with the OCFO, must, establish a GMO using existing governmental personnel and financial resources. This office would have several responsibilities, including:

  - Risk Management:

    - Compliance – Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
    - Unspent funds – Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
    - Lost opportunities – In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.

  - Capacity Building:

    - The GMO will provide capacity building activities to maximize the return of federal investment in Puerto Rico.
    - Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
    - Supporting the development of local capacity ensures long-term compliance with federal regulations and requirements.
    - Implement change management within each agency to ensure continuation of federal funds.

- Policy Making:

  - Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when drafting their own.
  - Development of educational material, guides, and communications in accordance with applicable laws and regulations.
  - These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
  - The policy-making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.

- Fiscal Guidance:

  - Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
  - Develop corrective action plans to provide the technical assistance necessary to rectify any critical findings.
  - Provide technical assistance to ensure compliance with matching funds and negotiate indirect cost rate agreement, when applicable.

- Facilitator with State and Federal Government:

  - The GMO, in close collaboration with the OCFO, will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
  - With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.

continue

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

- Data Analysis:

  - Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
  - Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
  - If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Progress update

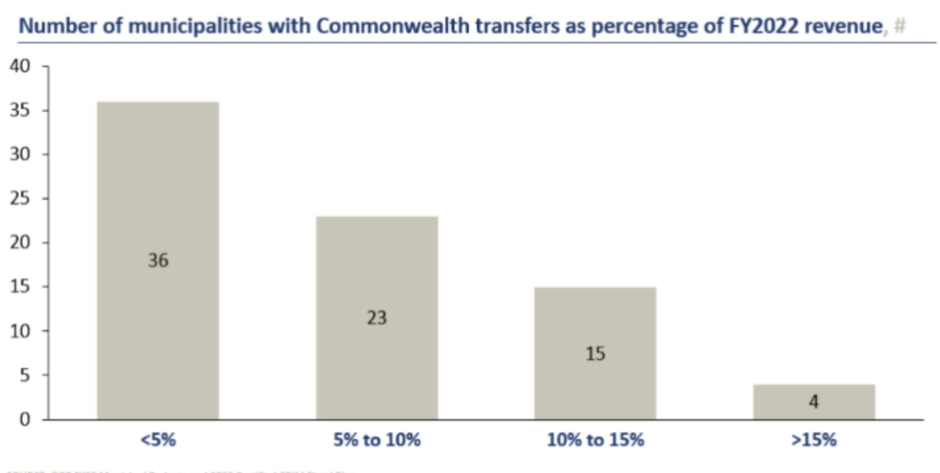
- The OMB has appointed a Director of the Grants Management Office (GMO). The GMO is to propose a suitable structure for the office.
- The creation of the Grants Management Office is currently being reviewed by the Oversight Board.
- The Grants Management Office is to be overseen by the Director of OMB.

Municipal Services Reform

Like the central government, in recent years, Puerto Rico's 78 municipalities have confronted significant fiscal and economic challenges. To respond to this fiscal reality and to incentivize a new operating model between the central and municipal governments, starting in 2015, the Commonwealth government proposed the reduction of certain Commonwealth financial transfers to the municipalities. The Oversight Board subsequently adopted the Central Government's proposal to reduce these financial transfers in the certified fiscal plans.

Commonwealth transfers are a component of the Equalization Fund, which also includes certain electronic lottery proceeds and the Act 53 Waste Fund. As shown in Exhibit 35, a significant number of municipalities continue to rely on these commonwealth transfers, including 4 municipalities that rely on the transfers for more than 15 percent of their operating budgets. Municipalities with higher reliance percentages tend to be smaller and are less resilient to reductions in central government funding.

EXHIBIT 35: REDUCTION IN MUNICIPAL APPROPRIATIONS UNDER STATUS QUO SCENARIO



It is well known, however, that Puerto Rico's municipalities are important providers of critical services to all citizens. Municipalities provide services including support for: public works, social affairs, education, recreation and culture, health, environmental protection, economic development and public order and safety. In recognition of the important value provided by municipalities, over the past 3 years, the Oversight Board authorized and funded the establishment of multiple new appropriations and investments to offset the decline in intergovernmental transfers.

continue

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

This incremental funding includes, among other funds the:

- **Act 53 Waste Fund –** The government enacted an "Extraordinary Fund to Address the Collection and Disposal of Residuals, Wastes, and to Implement Recycling Programs in the Municipalities" (Act 53 Waste Fund). This was first provided in the 2021 Fiscal Plan. This fund helps to pay the sanitation and waste collection costs at the municipalities, partially offsetting one of the largest recurring expenses municipalities must pay.

- **Federal Funds Medicaid offset –** Currently, CRIM is responsible for remitting payments on behalf of the municipalities to fund the Puerto Rico Health Insurance Administration (ASES) in accordance with Act 72-1993 and Act 29-2019. This fiscal plan includes temporary relief for municipal ASES contributions to reflect the additional funds made available by the federal government using a Federal Municipal Adjustment Percentage (FMAP) calculation. This amount averages approximately $66 million per year for at least the next 5 fiscal years, for a total of $328 million. The Municipalities must, however, continue to pay the remaining share of payments due to ASES in accordance with Act 72-1993.

- **Municipal consolidation fund –** To further incentivize service consolidation, starting with the 2020 Fiscal Plan, incremental funds had been set aside to assist the municipalities in achieving fiscal sustainability. Consolidating services was intended to facilitate municipalities significantly reducing costs and generating additional revenues through economic development and other potential initiatives. This fund totaled $66 million through FY2023 and has been unutilized to date. As initially structured, these funds were to be accessible to municipalities upon the achievement of certain milestones designed to promote the consolidation and optimized administration of the municipalities.

- **Municipal one-time economic support –** The certified Commonwealth FY2023 General Fund Budget included $40 million to provide one–time economic support to municipalities for rising costs and economic uncertainty due to inflationary pressures. Such funds were allocated based on an equitable distribution methodology developed by CRIM and approved by the Oversight Board. The distribution methodology considered factors including budget per capita and assessed property value per capita.

- **Emergency Reserve –** In September 2022, the Office of Management and Budget (OGP) requested authorization for emergency disbursements of up to $250,000 per municipality ($19.5 million total) from the Commonwealth's Emergency Reserve to support recovery efforts related to the impacts of Hurricane Fiona. Given that the Emergency Reserve is intended for extraordinary events such as natural disasters that are generally outside of human control and unpreventable, the Oversight Board approved this emergency funding request. Access to the Emergency Reserve was granted for a period of fifteen (15) days, commencing on September 16, 2022.

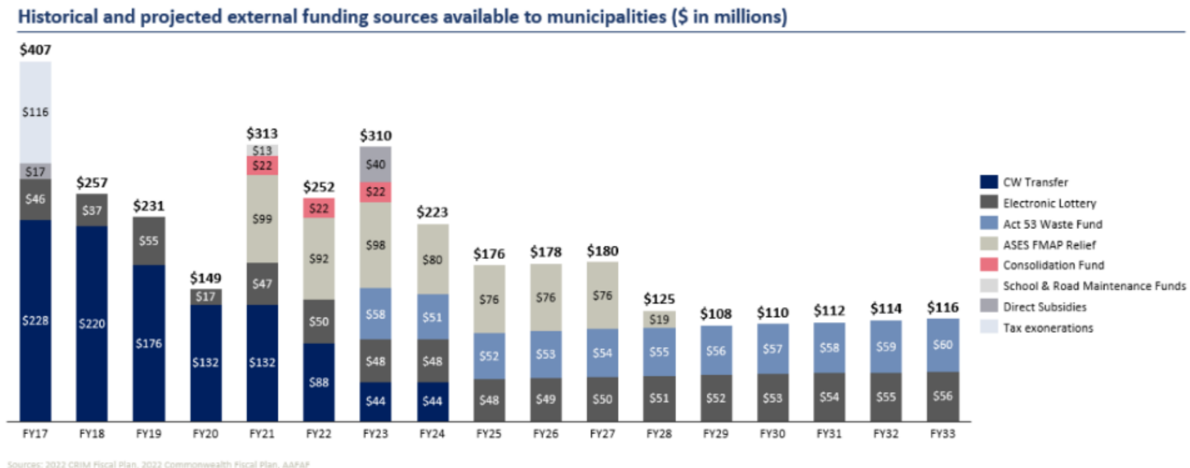
- **School and road maintenance –** For school maintenance, the 2020 Fiscal Plan made available $2.5 million for FY2021 which was extended to FY2022. Within this incentive fund, municipalities were to be reimbursed for maintenance costs associated with their Public Building Authority (AEP for its Spanish acronym) managed schools. For road maintenance, the 2020 Fiscal Plan made available $10 million for FY2021 which was extended to FY2022. Within this incentive fund, municipalities were to be reimbursed for maintenance costs associated with their secondary and tertiary roads through coordination with the Department of Transportation and Public Works (DTOP, for its Spanish acronym).

As illustrated in Exhibit 36 below, while the Commonwealth transfer to municipalities has declined since 2017, these other new funding sources have provided a significant offset to promote the fiscal stability of municipalities.

continue

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

EXHIBIT 36: HISTORICAL AND PROJECTED EXTERNAL FUNDING SOURCES PROVIDED TO MUNICIPALITIES



Beyond those sources of alternate funding, municipalities are also in possession of significant federal funds to supplement their budgets in the near term. This funding includes: State Fiscal Recovery Funds through the American Rescue Plan Act (ARPA); COVID-19 - State and Local Fiscal Recovery Funds (SLFRF); Coronavirus Relief Fund (CRF); FEMA Public Assistance Permanent Work and Hazard Mitigation Grant Programs; and others.

29. SUBSEQUENT EVENTS

Management believes that the following events should be disclosed:

Refinancing Note

On July 17, 2023, the Municipal Legislature approved the Resolution Number 2, Serie 2023-2024, authorizing the issuance of a 2023 General Obligation Refinancing Note, Series A in the amount of 41,585,000 to refinance various notes with the Oriental Bank.

On July 17, 2023, the Municipal Legislature approved the Resolution Number 23, Serie 2023-2024 authorizing the issuance of a 2023 General Obligations Loan, Series F in the amount of $7,230,000 for improvements roads with the Oriental Bank.

SAP System Upgrade

In Fiscal Year 2023-2024 the Municipality implemented SAP Enterprise Resource Planning (ERP), an architecture software handling budget finance human resources and logistics with a centralized database. The project encompassed the implementation of the upgrade from SAP ERP R3 Version 6.0 to SAP S/4 HANA 2021. The total estimate allocation for this project is $1,565,000.

The Municipality has evaluated subsequent events through March 26, 2024, the date which the financial statements were available to be issued. Except for the subsequent events mentioned above, no additional events were identified that should be disclosed or adjusted in the Financial Statements or its Notes.

END OF NOTES

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Required Supplementary Information

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	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	**Final**	**(See Notes 1 and 2)**	**Final Budget**
Resources (Inflows):				
Property Taxes	$ 29,404,428	$ 31,716,568	$ 32,241,087	$ 524,519
Volume of Business Taxes	26,974,000	26,974,000	31,559,108	4,585,108
Sales and Usage Taxes	21,495,100	21,495,100	22,981,417	1,486,317
Construction Excise Taxes	9,310,630	9,310,630	5,348,501	(3,962,129)
Intergovernmental Revenues	6,186,070	6,186,070	3,087,273	(3,098,797)
Interest	110,000	110,000	1,454,206	1,344,206
Rent and Other Resources	5,316,820	5,316,820	6,978,017	1,661,197
Fines and Penalties	900,000	900,000	528,855	(371,145)
Total Resources (Inflows)	99,697,048	102,009,188	104,178,464	2,169,276
Charges to Appropriations (Outflows):				
General Government	55,893,758	65,043,857	63,855,320	1,188,537
Public Safety	7,891,964	8,084,712	7,949,875	134,837
Public Works	11,969,685	13,575,675	13,270,901	304,774
Culture and Recreation	3,600,043	4,047,871	3,846,905	200,966
Health and Welfare	1,963,172	2,089,152	1,985,733	103,419
Economic and Social Development	3,076,968	3,278,521	3,086,502	192,019
Housing	720,854	848,316	796,473	51,843
Sanitation and Environmental	12,921,423	13,002,915	12,717,838	285,077
Education	1,659,181	1,753,474	1,683,139	70,335
Total Charges to Appropriations	99,697,048	111,724,493	109,192,686	2,531,807
Excess of Appropriations Over Resources	**$ -**	**$ (9,715,305)**	**$ (5,014,222)**	**$ 4,701,083**

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, 2023 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 136)	$ 104,178,464
Basis of Accounting:	
Net Change in Assets and Deferred Inflow of Resources	(5,931,974)
Perspective Difference:	
Non Budgetary Items – Revenues of Other Funds and Transfers	5,433,729
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 28)	$ 103,680,219
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 136)	$ 109,192,686
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary Items – Expenditures of Other Funds	12,379,163
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(2,541,291)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	3,850,789
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(27,708,105)
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balance (See Page 28)	$ 95,173,242

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF PROPORTIONATE SHARE OF TOTAL PENSION LIABILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	2023	2022	2021	2020	2019	2018
Proportion of theTotal Pension Liability *	0.42356%	0.46124%	0.45892%	0.43100%	0.43457%	0.47978%
Proportionate Share of the Collective Total Pension Liability	$ 105,295,561	$ 141,632,359	$ 145,432,662	$ 120,792,619	$ 119,972,258	$ 154,055,408
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Proportionate Share of the Collective Total Pension Liability as Percentage of Covered-Employee Payroll	N/A	N/A	N/A	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.

** The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022. These changes reduced the Total Pension Liability as of June 30, 2022 by $2.0 billion. The reduction is recognized by the Senate as a plan change and included in the FY2023

Note: Fiscal year 2019 was the first year that the Municipality transtitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to ilustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF PROPORTIONATE SHARE OF TOTAL OTHER POSTEMPLOYMENT BENEFITS LIABILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Proportion of Total Other Post-Employment Benefit Liability *	$ 4,082,778	$ 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	0.50864%	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	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	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.

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 the Employee's Retirement System of the Government of the Government of Puerto Rico as a whole.

2. The data provided in the schedule 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

Supplementary Information Required by U.S. Department of Housing and Urban Development

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		Value		
Line Item No. Assets		**14.879 Mainstream Voucher Program**	**14.871 Housing Choice Voucher**	**TOTAL**
	Current Assets – Cash:			
111	Cash – Unrestricted	$ -	$ 1,402,739	$ 1,402,739
113	Cash – Other Restricted	-	-	-
115	Cash – Restricted for Payment of Current Liabilities	-	-	-
100	**Total Cash**	**-**	**1,402,739**	**1,402,739**
	Receivables:			
121	Accounts Receivable – PHA Projects	-	21,354	21,354
122	Accounts Receivable – HUD Other Projects	3,616	28,366	31,982
128	Fraud Recovery	-	71,152	71,152
128.1	Allowance for Doubtful Accounts – Fraud Recovery	-	(71,152)	(71,152)
144	Inter Program Due From	-	2,478	2,478
120	**Total Receivables, Net of Allowancesfor Doubtful Accounts**	**3,616**	**52,198**	**55,814**
150	**Total Current Assets**	**3,616**	**1,454,937**	**1,458,553**
	Fixed Assets:			
164	Furniture, Equipment & Machinery – Administration	-	899,052	899,052
166	Accumulated Depreciation	-	(650,038)	(650,038)
160	**Total Capital Assets, Net of Accumulated Depreciation**	**-**	**249,014**	**249,014**
190	**Total Assets**	**3,616**	**1,703,951**	**1,707,567**
200	Deferred Outflow of Resources	-	-	-
290	**Total Assets and Deferred Outflow of Resources**	**$ 3,616**	**$ 1,703,951**	**$ 1,707,567**

continue

Liabilities and Equity		Value		
	Liabilities:			
	Current Liabilities:			
312	Accounts Payable <=90 days	$ -	$ 50,011	$ 50,011
322	Accrued Compensated Absences – Current Portion	-	96,528	96,528
331	Accounts Payable – HUD PHA Programs	-	-	-
332	Accounts Payable – PHA Projects	-	-	-
333	Accounts Payable – Other Government	-	149,724	149,724
343	Current Portion of Long-Term-Debt – Capital	-	56,654	56,654
347	Inter Program Due To	2,478	-	2,478
310	**Total Current Liabilities**	**2,478**	**352,917**	**355,395**
	Non-current Liabilities:			
351	Long-Term Debt, Net of Current – Capital Projects / Mortgage Revenue Bonds	-	172,166	172,166
354	Accrued Compensated Absences – Non-Current	-	194,042	194,042
350	**Total Non-Current Liabilities**	**-**	**366,208**	**366,208**
300	**Total Liabilities**	**2,478**	**719,125**	**721,603**
400	Deferred Inflow of Resources	-	-	-
	Equity:			
508.4	Net Investment in Capital Assets	-	20,194	20,194
511.4	Restricted Net Position	-	-	-
512.4	Unrestricted Net Position	1,138	964,632	965,770
513	**Total Equity / Net Position**	**1,138**	**984,826**	**985,964**
600	**Total Liabilities, Deferred Inflow of Resourses and Equity – Net Assets / Position**	**$ 3,616**	**$ 1,703,951**	**$ 1,707,567**

See accompanying notes to Financial Data Schedule.

Line Item No.		Value		
Revenues		**14.879 Mainstream Voucher Program**	**14.871 Housing Choice Voucher**	**TOTAL**
70600	HUD PHA Operating Grants	$ 136,870	$ 7,732,348	$ 7,869,218
71100	Investment Income – Unrestricted	-	44,940	44,940
71400	Fraud Recovery	-	46,275	46,275
71500	Other Revenue	-	450,580	450,580
70000	**Total Revenues**	**136,870**	**8,274,143**	**8,411,013**
Expenses	**Administrative:**			
91100	Administrative Salaries	-	648,389	648,389
91200	Auditing Fees	-	11,500	11,500
91400	Advertising and Marketing	-	2,805	2,805
91500	Employee Benefit Contributions – Administrative	-	99,372	99,372
91600	Office Expenses	25,997	155,345	181,342
91900	Other	-	118,969	118,969
91000	**Total Operating – Administrative**	**25,997**	**1,036,380**	**1,062,377**
	Utilities:			
93200	Electricity	-	23,707	23,707
93000	**Total Utilities**	**-**	**23,707**	**23,707**
	Insurance:			
96130	Workmen's Compensation	-	7,067	7,067
96100	**Total Insurance Premiums**	**-**	**7,067**	**7,067**
	General Expenses:			
96720	Interest on notes payable	-	12,017	12,017
96000	**Total General Expenses**	**-**	**12,017**	**12,017**
96900	**Total Operating Expenses**	**25,997**	**1,079,171**	**1,105,168**
97000	**Excess of Operating Revenue over Operating Expenses**	**110,873**	**7,194,972**	**7,305,845**
97300	Housing Assitance Payments	187,104	6,941,262	7,128,366
97350	HAP Portability-In	-	405,441	405,441
97400	Depreciation Expense	-	69,421	69,421
97500	Fraud Losses	-	-	-
90000	**Total Expenses**	**213,101**	**8,495,295**	**8,708,396**
10000	**Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**	**$ (76,231)**	**$ (221,152)**	**$ (297,383)**
	Memo Account Information:			
*11030	Beginning Equity	$ 77,369	$ 1,205,978	$ 1,283,347
*11040	Prior Period Adjustments, Equity Transfers	$ -	$ -	$ -
*11170	Administrative Fee Equity	$ 1,138	$ 984,826	$ 985,964
*11180	Housing Assistance Payments Equity	$ -	$ -	$ -
*11190	Unit Months Available	900	15,960	
*11210	Number of Unit Months Leased	437	13,825	
*11640	Furniture & Equipment – Administrative Purchases		$ 25,134	

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

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Assistance Listing Number*	*Pass-Through Entity Identification Number*	*Pass-Through To Subrecipients*	*Total Federal Expenditures*
U.S. DEPARTMENT OF AGRICULTURE PROGRAM:				
Puerto Rico Department of Education – Child and Adult Care Food Program (CACFP)	10.558	CCC-003	$ -	$ 627,475
Total U.S. Department of Agriculture Program			**-**	**627,475**
U.S. DEPARTMENT OF COMMERCE PROGRAM:				
COVID-19 – Economic Adjustment Assistance	11.307		-	537,576
Total US Department of Commerce Program			**-**	**537,576**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PROGRAMS:				
COVID-19 – Community Development Block Grant/StateEntitlements Grants	14.218		-	374,852
Community Development Block Grants/Entitlements Grants	14.218		-	2,154,845
Total Community Development Block Grants/Entitlements Grants			-	2,529,697
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers Program	14.871		-	8,411,292
Mainstream Voucher Program (MV)	14.879		-	213,101
Total Housing Voucher Cluster			-	8,624,393
Other Programs:				
COVID-19 – Emergency Solutions Grant Program	14.231		150,090	230,530
Emergency Solutions Grant Program	14.231		147,385	165,432
Total Emergency Solutions Grant Program			297,475	395,962
Home Investment Partnership Program (HOME)	14.239		-	384,623
Puerto Rico Housing Department – Community Development Block Grant/States Program and Non Entitlements Grants in Hawaii	14.228	N/A	-	1,230,851
Total U.S. Department of Housing and Urban Development Programs			**297,475**	**13,165,526**
U.S. DEPARTMENT OF JUSTICE PROGRAMS:				
Body Worn Camera Policy and Implementation Program	16.835		-	39,377
Puerto Rico Department of Justice:				
COVID-19 – Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1319	-	1,107
Crime Victim Assistance	16.575	2019-V2-CAGUA-01	-	102,852
Total U.S. Department of Justice Programs			**-**	**143,336**

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:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning	20.505		$ -	$ 133,040
COVID-19 – Federal Transit-Formula Grants (Urbanized Area Formula Program)	20.507		-	885,399
Other Programs:				
Public Transportation Emergency Relief Program	20.527		-	14,174
Highway Safety Cluster:				
Puerto Rico Traffic Safety Commission:				
State and Community Highway Safety	20.600	N/A	-	13,802
National Priority Safety Program	20.616	N/A	-	11,559
Total Highway Safety Cluster			-	25,361
Total U.S. Department of Transportation Programs			**-**	**1,057,974**
U.S DEPARTMENT OF TREASURY PROGRAMS:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Fund	21.027		-	16,780,892
Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) – COVID-19 – Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	-	220,139
Total U.S. Department of Treasury Programs			**-**	**17,001,031**
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	-	307,574
Total U.S. Environmental Protection Agency Program			**-**	**307,574**
U.S. DEPARTMENT OF EDUCATION PROGRAMS:				
Puerto Rico Department of Education:				
Adult Education – Basic Grants to States	84.002	A000710	-	88,853
Twenty-First Century Community Learning Centers	84.287	2022-AF0091	-	573,893
Total U.S. Department of Education Programs			**-**	**662,746**

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		$ -	$ 16,737,012
COVID-19 – Head Start American Rescue Plan Act of 2021 (ARP)	93.600		-	1,374,730
Head Start Disaster Recovery from Hurricanes Harvey, Irma, and Maria	93.356		-	4,190,772
Total Head Start Programs Cluster			-	22,302,514
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	-	460
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	-	111,678
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	-	52,192
Nutrition Services Incentive Program	93.053	180206R1	-	13,258
Total Aging Programs Cluster			-	177,588
Others Programs:				
Puerto Rico Department of Familiy:				
Temporary Assistance for Needy Families (TANF)	93.558	PCOC_2022-04177	-	64,053
Child Care and Development Block Grant	93.575	G2001PRCCDD	-	736,088
Family Violence Prevention and Services/State Domestic Violence Shelter and Supportive Services	93.671	G2102PRFVPS	-	183,835
COVID-19 – Family Violence Prevention and Services/State Domestic Shelter and Supportive Services	93.671	G2102PRFVC6	-	10,136
Total U.S. Department of Health and Human Services Programs			**-**	**23,474,214**
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	-	80,743
Total U.S. Corporation for National and Community Service (CNCS) Program			**-**	**80,743**
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	-	4,440,400
Puerto Rico Office of Public Safety – Homeland Security Grant Program (HSGP)	97.067	EMW-2021-SS-00024-S01	-	66,181
Total U.S. Department of Homeland Security Programs			**-**	**4,506,581**
Total Expenditures of Federal Awards			**$ 297,475**	**$ 61,564,776**

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, 2023. 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. No charges to indirect costs were made and no indirect costs were received during this fiscal year.

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 - $66,181, Capital Projects Fund – $3,980,687, Health and Human Services Fund – $23,400,025, Social and Welfare Activities Fund – $19,389,272 and Other Governmental Funds $14,664,558.

The amount of $537,576 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 ($398,701), plus any cash balance available for loan purposes ($131,727), and finally, any administrative expenditures incurred during the fiscal year, which was $13,148.

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, 2023, 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 26, 2024. 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 weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **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 26, 2024

Stamp No. E539417 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.

CPA DIAZ-MARTINEZ, CSP
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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, 2023. **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, 2023.

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 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 an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001. 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001, to be a significant deficiency.

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.

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

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

Caguas, Puerto Rico
March 26, 2024

Stamp No. E539418 of the Puerto Rico Society of Certified Public Accountants were 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
10.558	Child and Adult Care Food Program
14.871/14.879	Housing Voucher Cluster Programs
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B Programs:	$1,846,943			
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	**2023-001**
FEDERAL PROGRAM	**(ALN 14.871) SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**RQ007**
COMPLIANCE REQUIREMENT	**ELIGIBILITY**
TYPE OF FINDING	**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**
CRITERIA	24 CFR Section 982.551 (b) (1) establishes that the family must supply any information that the PHA or HUD determines is necessary in the administration of the program, including submission of required evidence of citizenship or eligible immigration status (as provided by 24 CFR Part 5). “Information” includes any requested certification, release, or other documentation. In 24 CFR Section 982.553 (c) establishes the evidence of criminal activity. The PHA may terminate assistance for criminal activity by a household member as authorized in this section if the PHA determines, based on a preponderance of the evidence, that the household member has engaged in the activity, regardless of whether the household member has been arrested or convicted for such activity. In addition, the Municipal Administrative Plan establishes that the family is responsible for a breach of the HQS that is caused by any of the following: (a) the family fails to pay for any utilities that the owner is not required to pay for, but is necessary in the administration of the program, including submission of required evidence of citizenship or eligible which are to be paid by the tenant. And for the verification requirements for individual items, they must receive from a third party a letter from school to know that the children are attending school.
STATEMENT OF CONDITION	During our audit procedures over eligibility, from our sample selected, we noted that in four (4) instances, the participant didn't provide evidence of the utilities. According to the participants' contracts, the rent to the owner does not include utilities such as water and electricity, therefore the participants must provide evidence to the Municipality that they are paying the bills. In addition, one participant didn't provide the Negative Certificate of Penal Record to validate criminal record and the School Certification to validate that the children are attending school.
QUESTIONED COSTS	Not Applicable
PERSPECTIVE INFORMATION	This deficiency is a systemic problem, they have a monitor position that was created to review the HCV program for compliance with HUD requirements and make the Caguas PHA aware of any program problems, deficiency, fraud, abuse, and/or omissions, to maintain program integrity, but at this time, no person has been hired for this position affecting the effectiveness of the monitoring internal controls. The sample selected were 90 participant files.
STATEMENT OF CAUSE	The **Municipality** did not review the required information for the reexamination process prior to the approval of the contract.
POSSIBLE ASSERTED EFFECT	The **Municipality** can be providing assistance to a participant that is not complying with the program requirements, such as not paying utilities, which according to the Administrative Plan is a violation of the contract.
IDENTIFICATION OF REPEAT FINDING	This is not a repeated Finding.
RECOMMENDATIONS	We recommend management verify the required information for the participants in order to ensure compliance with this requirement.

continue

VIEWS OF RESPONSIBLE OFFICIALS

The Municipality of Caguas PHA will implement internal controls which ensure that the families files conform to the program requirements for the annual recertifications.

Each month the Program Manager or the employee assigned by the Director, will select a sample of files of each zone and verify the following: Voucher Size, Family Composition, Income., Inspection Documents, Payment Standards, Utilities, and the rent calculation in the Form HUD-50058, Family Report and other required documents.

Files without all the required documentation will be assigned to the respective Housing Office (HO). The HO must contact the family and request the necessary documentation in order to complete the tenant file. The HO will be required to complete all corrective actions within 15 days upon assignment. If additional time is needed, the Director or the person assigned will evaluate the case and may provide an additional 15 days for a maximum of 30 days.

IMPLEMENTATION DATE November 1, 2023

RESPONSIBLE PERSON Lizzette Serrano, Program and Project Manager

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2022

Findings Related to the Federal Programs:

Finding Reference Number	**2022-001**	**Noncompliance / Significant Deficiency – Reporting**
Assistance Listing Number	14.218	Community Development Block Grants/Entitlement Grants
Statement of Condition		As part of our audit procedures, the Municipality includes information from contractors instead of subrecipient in the report submitted June 30, 2022.
Recommendations		We recommend that the Municipality provide training and technical assistance to the personnel that prepare and submit 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.
Questioned Cost	Not Determined.	
Current Status	No final determination has been received from awarding agency.	

Finding Reference Number	**2022-002**	**Noncompliance / Significant Deficiency – Reporting**
Assistance Listing Number	21.027	Coronavirus State and Local Recovery Funds
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.
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.
Questioned Cost	None	
Current Status	No final determination has been received from awarding agency.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

FISCAL YEAR 2021

Finding Reference Number **2021-001** **Noncompliance / Significant Deficiency – 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 the 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