OC-DA-123

jun. 22 (Rev.)
OC-22-12

Estado Libre Asociado de Puerto Rico
OFICINA DEL CONTRALOR
San Juan, Puerto Rico

Certificación de Cumplimiento con la *Ley 273-2003*, según enmendada; y de Notificación de Envío de Cartas de Recomendaciones (*Management Letters*), Informes de Auditoría, Estados Financieros Auditados y Otros[1]

Yo, Hon. Jorge A. Morales (nombre del funcionario principal) Funcionario Principal de Municipio de Cabo Rojo (nombre de la entidad)

#4012 (número de entidad) certifico a la Oficina del Contralor de Puerto Rico (Oficina) que relacionado con el año fiscal terminado al 30 de junio de 2021 :

1. Recibimos fondos públicos por $7,671,463 .
2. Efectuamos desembolsos de fondos federales por $5,906,894 . No aplica ☐.
3. Tenemos la obligación de cumplir con ☒ la *Ley 273-2003, Ley de Normas Contractuales sobre Independencia en las Auditorías de Entidades Gubernamentales*[2], según enmendada, y con ☒ el *Single Audit Act*. En cumplimiento de estos:

   a. El 30 de junio de 2021 formalizamos el contrato número 2022-000040 para realizar la auditoría de los ☐ Estados Financieros y/o el ☒ *Single Audit Report*.

   b. El 20 de diciembre de 2022 recibimos el *Informe de Auditoria* del 30 de junio de 2021 de los auditores externos.

   c. El 20 de diciembre de 2022 los auditores externos comparecieron para presentar el informe final y comunicar los hallazgos y las recomendaciones.

[1] La entidad debe remitir a esta Oficina, en formato **PDF** y no más tarde del 31 de mayo siguiente al año fiscal auditado, el *Formulario OC-DA-123* firmado por el funcionario principal, con los documentos que se especifican en el Apartado 3-e y f del mismo. Esto, mediante la aplicación *Certificaciones Anuales de la Oficina del Contralor*. La aplicación se encuentra disponible en la sección de Contraloría Digital en nuestra página en Internet: *www.ocpr.gov.pr*.

[2] En el Artículo 1 de la *Ley 273-2003* se establece que, para propósitos de esta *Ley*, la frase *cualquier entidad de gobierno* incluye a todos los organismos con facultad de contratar, de las ramas Ejecutiva, Legislativa y Judicial tales como: departamentos, dependencias, municipios, corporaciones públicas y sus subsidiarias, afiliadas o cualesquiera entidades gubernamentales que tengan personalidad jurídica propia.

d. Relacionado con las cartas finales de recomendaciones (*Management Letters*):

☒ El 20 de diciembre de 2022 recibimos las cartas finales de recomendaciones (*Management Letters*) emitidas por los auditores externos el 25 de noviembre de 2022. El archivo electrónico, en formato **PDF**, de las mismas fue remitido a su Oficina el ____ de _____ de _____.

☐ Los auditores externos no emitieron las cartas finales de recomendaciones (*Management Letters*).

e. Se incluye el archivo electrónico, en formato PDF, de los siguientes documentos e informes:

☒ Informes de auditorías emitidos en forma final

☒ Estados financieros auditados

☒ Informes de Control Interno sobre Cumplimiento y la Opinión sobre Cumplimiento

☒ *Single Audit Report*

☐ Copia del *Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*, y del recibo de envío al *Federal Audit Clearinghouse*.

☐ Otros (especifique): N/A

f. Relacionado con el *Informe Especial Sobre el Cumplimiento de las Recomendaciones Contenidas en los Informes de Auditoría de la Oficina del Contralor de Puerto Rico y la Corrección de las Situaciones Comentadas en sus Informes Previos (Informe Especial)*:

☐ Se incluye el archivo electrónico, en formato **PDF**, del *Informe Especial* emitido por los auditores externos el ____ de _____ de _____.

☒ No aplica, ya que no tenemos recomendaciones pendientes de cumplimentar relacionadas con los informes publicados al 28 de febrero del año fiscal auditado.

4. ☐ No tenemos la obligación por ley, reglamento o acuerdo financiero, de contratar auditores externos para realizar la auditoría de los estados financieros del año fiscal terminado al ____ de _____ de _____.

En Cabo Rojo, Puerto Rico, hoy 21 de diciembre de 2022.

Jorge A. Morales Wiscovitch

Firma del Funcionario Principal

STRATEGIC CPAs
CONSULTING GROUP LLC

20 de diciembre de 2022.

Carta a la Gerencia
Municipio de Cabo Rojo

En la planificación y realización de la auditoría del Municipio de Cabo Rojo para el año fiscal que finalizó el 30 de junio de 2021; se consideró el sistema de controles internos sobre los estados financieros para poder determinar los procedimientos de auditoría necesarios, con el propósito de poder expresar una opinión sobre los estados financieros como un todo y no para dar fe del uso y aplicación de los mismos.

Sin embargo, se encontraron ciertos hallazgos relacionados a los controles internos sobre los estados financieros y sus operaciones que se consideraron "Deficiencias Significativas".

Deficiencias Significativas envuelven situaciones que vinieron a nuestra atención relacionadas a deficiencias en el diseño y operación de los controles internos sobre los reportes financieros que a nuestro juicio podrían afectar adversamente el Municipio de Cabo Rojo en su capacidad de registrar, procesar, resumir y reportar información financiera consistentemente como lo diseñó la gerencia del municipio.

Una deficiencia material es una condición en la cual el diseño u operación de más de un control interno, no reduce la capacidad de que pueda ocurrir una situación y no ser detectada en un periodo determinado por los empleados en la ejecución de sus labores normales. Nuestras pruebas fueron realizadas basadas en muestras, por lo cual no reflejan todas las deficiencias significativas o materiales; sin embargo, no consideramos que los hallazgos señalados a continuación tengan características de deficiencias materiales.

A continuación, señalamos las situaciones reportadas que vinieron a nuestra consideración:

Hallazgos de años anteriores:

1. Control sobre la documentación de activos capitalizables ($67,385,098)- Los activos capitalizables del Municipio de Cabo Rojo representa el 64% de todos sus activos. No se demostró ninguna documentación que demuestre la actividad de último año, inclusive no se tiene inventario sobre la propiedad.

Recomendación: El municipio debe tomar inventario físico y actualizar información en sistema de contabilidad.

Levittown 1818 Ave Del Valle, Toa Baja, P.R. 00949 * 787-784-2255 * strategiccpas@gmail.com

STRATEGIC CPAs
CONSULTING GROUP LLC

2. Falta de documentación en los expedientes de los empleados- Este hallazgo fue evaluado con su reglamento denominado como Reglamento Recursos Humanos en servicio de carrera, aprobado el 15 de junio de 2020. Se revisaron 40 expedientes de los cuales faltaba la siguiente información:

(7) sin certificado de salud
(3) sin evidencia del seguro social
(6) sin certificado de exención (R499)
(16) sin I-9
(17) sin ASUME
(23) sin evidencia de adiestramiento para prevenir el hostigamiento en el empleo.
(21) sin evidencia de adiestramiento para prevenir el uso de sustancias controladas.
(23) sin evidencia de adiestramiento de Ética Gubernamental.

Recomendación: el Departamento de Recursos Humanos debe hacer una verificación de todos los expedientes de empleados para cumplir con la ley y reglamento establecidos.

3. Expedientes de compras- En una muestra de 40 expedientes no se encontró evidencia de orden de compra ni contrato en (3) expedientes.

Recomendación: el Departamento de Compras debe hacer una verificación de todos los expedientes de contratistas y suplidores para cumplir con la ley y reglamento establecidos.

Cualquier ayuda que podamos brindar para corregir o ampliar los hallazgos antes mencionados estamos a su disposición.

CPA Juan Rivera
Secretario de la Corporación

FORM SF-SAC (02/08/2022) U.S. Dept. of Commerce - Economics and Statistics Administration - U.S. Census Bureau

OMB No. 0607-0518. Approval Expires 02/28/2025 ACTING AS THE COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, INDIAN TRIBES, INSTITUTIONS OF HIGHER EDUCATION, AND NONPROFIT ORGANIZATIONS for Fiscal Period Ending Dates in 2019, 2020, or 2021

PART I: GENERAL INFORMATION

REPORT ID: **965912** VERSION: **2**

1. Fiscal Period

a. Start Date: 7/1/2020 (MM/DD/YYYY)

b. End Date: 6/30/2021 (MM/DD/YYYY)

2. Type of Uniform Guidance Audit

[X] Single audit

[ ] Program-specific audit

3. Audit Period Covered

[X] Annual

[ ] Biennial

[ ] Other: Number of Months [ ]

4. Auditee Identification Numbers

a. Auditee Employer Identification Number (EIN): 66-0433575

b. Are multiple EINs covered in this report? [ ] Yes [X] No

c. If Part I, Item 4b is Yes, complete the attached Auditee EIN Continuation Sheet

d. Auditee Data Universal Numbering System (DUNS) Number: 13-105-2107

e. Are multiple DUNS numbers covered in this report? [ ] Yes [X] No

f. If Part I, Item 4e is Yes, complete the attached Auditee DUNS Continuation Sheet

5. Auditee Information

a. Auditee Name: MUNICIPALITY OF CABO ROJO

b. Auditee Address

Number and Street: APARTADO 1308

City: CABO ROJO State: PR Zip Code: 00623-1308

c. Auditee Contact

Name: WARYNEX CARLO HERNANDEZ

Title: FINANCE DIRECTOR

d. Auditee Contact Telephone: (787)851-1025

e. Auditee Contact E-mail: WCARLO@CABOROJOPR.NET

6. Primary Auditor Information

a. Audit Firm/Organization Name: STRATEGIC CPAS CONSULTING GROUP LLC

b. Audit Firm/Organization EIN: 66-0916151

c. Audit Firm/Organization Address

Number and Street: AVE DEL VALLE 1818

City: TOA BAJA State: PR Zip Code: 00949

d. Auditor Contact

Name: EDWIN REYES

Title: OFFICE MANAGER

e. Auditor Contact Telephone: (787)754-2255

f. Auditor Contact E-mail: STRATEGICCPAS@GMAIL.COM

g. Was a secondary auditor used? [ ] Yes [X] No

h. If Part I, Item 6g is Yes, complete the attached Secondary Auditors' Contact Information Sheet

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FORM SF-SAC

Report ID: 965912 Version: 2

PART II: FEDERAL AWARDS

1. Federal Awards Expended During Fiscal Period

Schedule of Expenditures of Federal Awards

PART III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS

1. Major Program Information and Audit Findings

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	a	b	c
	CFDA #								Loan Programs		Federal Award Source			Passed Through		Major Program		
Row Number (auto-generated)	Federal Awarding Agency Prefix [1]	CFDA Three-Digit Extension [2]	Additional Award Identification [3]	Federal Program Name	Amount Expended ($)	Cluster Name	Federal Program Total [4] (auto-generated) ($)	Cluster Total [5] (auto-generated) ($)	Loan/Loan Guarantee (Loan) Y/N	If Loan, the End of the Audit Period Outstanding Loan Balance [6] ($)	Direct Award (Direct) Y/N	If not Direct, list Name of Pass-through Entity	If not Direct, list Identifying Number Assigned by the Pass-through Entity, if assigned [7]	Federal Award Passed Through to Subrecipients Y/N	If Passed Through, provide Amount Passed Through ($)	Major Program (MP) Y/N	If MP, Type of Audit Report [8]	Number of Audit Findings
1	10	558		CHILD AND ADULT CARE FOOD PROGRAM	$6,547	N/A	$6,547		N		N	DEPARTMENT OF EDUCATION	CCC-110	N		N		0
2	14	218		COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	$953,566	CDBG - DISASTER RECOVERY GRANTS - PUB. L. NO. 113-2 CLUSTER	$953,566	$953,566	N		Y			N		N		0
3	14	871		SECTION 8 HOUSING CHOICE VOUCHERS	$599,023	SECTION 8 PROJECT-BASED CLUSTER	$599,023	$599,023	N		Y			N		N		0
4	14	241		HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS	$28,051	N/A	$28,051		N		N	PR DEPARTMENT OF HEALTH	N/A	N		N		0
5	21	019		CORONAVIRUS RELIEF FUND	$1,129,020	TESTING AND CONTACT TRACING PROGRAM	$1,129,020	$1,129,020	N		N	PR DEPARTMENT OF TREASURY	N/A	N		Y	U	0
6	93	044		SPECIAL PROGRAMS FOR THE AGING_TITLE III, PART B_GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	$174,580	N/A	$174,580		N		N	PR OFFICE OF OMBUSMAN FOR THE ELDERY	N/A	N		N		0
7	93	575		CHILD CARE AND DEVELOPMENT BLOCK GRANT	$158,587	N/A	$158,587		N		N	PR ADMINISTRATION OF FAMILYES AND CHILDREN	N/A	N		N		0
8	97	030		COMMUNITY DISASTER LOANS	$2,765,812	EARTHQUATE	$2,765,812	$2,765,812	Y	$5,000,000	Y			N		Y	U	0

9	97	067		HOMELAND SECURITY GRANT PROGRAM	$42,683	N/A	$42,683		N		N	PR CENTRAL RECOVERY RECONSTRUCTION AND RESILENCY OFFICE	N/A	N		N		0
10	97	036		DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	$49,025	N/A	$49,025		N		Y			N		N		0
				Total Federal Awards Expended =	$5,906,894													

1. See Appendix I of instructions for valid Federal awarding agency two-digit prefixes.
2. Three-digit CFDA extensions listed in the Catalog of Federal Domestic Assistance (CFDA - beta.sam.gov). If the extension is unknown, see instructions.
3. Used to collect other data or information to identify the award which is not a CFDA number (e.g., program year, contract number). This item is optional if Part II, Item 1(b) has a valid CFDA extension.
4. The system will provide total Federal awards expended for each Federal program by summing the individual CFDA lines which have the same CFDA number.
5. The system will provide total Federal awards expended for each cluster of programs by summing the individual CFDA lines which have the same Cluster Name.
6. Used to collect the loan or loan guarantee (loan) balances outstanding at the end of the audit period for loan programs as identified in Part II, Item 1(i) (2 CFR 200.510(b)(5)). Enter "N/A" for loans made to students of an institution of higher education (IHE) where the IHE does not make the loans (2 CFR 200.502(c)).
7. If no identifying number was assigned, enter "N/A".
8. If Major Program is marked "Y", enter only one letter (U = Unmodified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report. If Major Program is marked "N", leave item blank.

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PART II: FEDERAL AWARDS - Continued

2. Notes to the Schedule of Expenditures of Federal Awards (SEFA)

Note 1: Describe the significant accounting policies used in preparing the SEFA. (2 CFR 200.510(b)(6))

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred, following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for the following programs are recognized based on other unique requirements:¿ Section 8 Housing Choice Voucher Program (HCV). Expenditures are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHAs fiscal period.¿ Public assistance grants (FEMA). Expenditures are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.¿ Loans or loans guarantee programs. Expenditures equal the value of new loans made or received during the audit period plus the beginning of the audit period balance of outstanding loans from previous years for which the federal government imposes continuing compliance requirements. For loans with no imposed continuing compliance requirements, expenditures are recognized when the related costs financed with loan proceeds are incurred.

4,000 characters

Note 2: Did the auditee use the de minimis cost rate? (2 CFR 200.414(f))

- [ ] Yes
- [x] No
- [ ] Both

Please explain.

The auditee did not use the de minimis cost rate.

4,000 characters

Additional Notes

All additional notes included in the reporting package must be entered in this section and will be automatically numbered sequentially by the IDES system as they are entered.

Note 3:

Loan/loan guarantee outstanding balances

75 characters

COMMUNITY DISASTER LOANS (97.030) - Balances outstanding at the end of the audit period were 5000000.

4,000 characters

Note 4:

3. Other long-term liabilities

75 characters

Note payable to FEMA Community Disaster Loan Program (CDL-Hurricane Maria) On May 17, 2018 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $5,000,000 for financial assistance under the Community Disaster Loan Program (CDL), bearing interest at 3.00% annually. The program provides assistance to local governments to overcome a loss in revenues as a result of Hurricane Marias disaster, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity. The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. This note was subsequently cancelled by the federal government. Refer to Note V.$ 5,000,000Note payable to FEMA Community Disaster Loan Program (CDL) On September 10, 2020 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $4,687,497 for financial assistance under the Community Disaster Loan Program (CDL), bearing interest at .250% annually. The program provides assistance to local governments to overcome a loss in revenues as a result of Earthquakes disaster of January 2020, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity. The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. This note was subsequently cancelled by the federal government. Refer to Note V.

4,000 characters

PART III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

2. Financial Statements

a. What were the results of the auditor's determination of whether the financial statements of the auditee were prepared in accordance with generally accepted accounting principles (GAAP)?

Select any combination of the following five options:

- [X] Unmodified opinion
- [ ] Qualified opinion
- [ ] Adverse opinion
- [ ] Disclaimer of opinion
- [ ] Financial statements were not prepared in accordance with GAAP but were prepared in accordance with a special purpose framework

If the financial statements of the auditee were prepared in accordance with GAAP, proceed to question b.

i. What was the special purpose framework used? (Select only one)

- [ ] Cash basis
- [ ] Tax basis
- [ ] Regulatory basis
- [ ] Contractual basis
- [ ] Other basis

ii. Was the special purpose framework used as a basis of accounting required by state law? [ ] Yes [ ] No

iii. What was the auditor's opinion on the special purpose framework? (Select any combination)

- [ ] Unmodified opinion
- [ ] Qualified opinion
- [ ] Adverse opinion
- [ ] Disclaimer of opinion

b. Is a "going concern" emphasis-of-matter paragraph included in the auditor's report? [ ] Yes [X] No

c. Is a significant deficiency in internal control disclosed? [X] Yes [ ] No

d. Is a material weakness in internal control disclosed? [ ] Yes [X] No

e. Is a material noncompliance disclosed? [X] Yes [ ] No

3. Federal Programs

a. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending Federal awards which are not included in this audit? (AICPA Audit Guide) [ ] Yes [X] No

b. What is the dollar threshold used to distinguish Type A and Type B programs? (2 CFR 200.518(b)(1)) $750,000

c. Did the auditee qualify as a low-risk auditee? (2 CFR 200.520) [ ] Yes [X] No

d. Indicate which Federal Agency(ies) have prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. *List the appropriate Federal agency prefix(es), or enter "None".*

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PART III: INFORMATION FROM THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

4. Federal Award Audit Findings

Schedule of Findings and Questioned Costs

Row Number from Part II, Item 1	a	b	c	d	e	f	g	h	i	j	k	l	m	n
	CFDA Number [1]	Additional Award Identification	Federal Program Name	Amount Expended	Audit Finding Reference Number	Type(s) of Compliance Requirement(s) [2]	Type of Audit Finding [3]					Questioned Costs	Repeat Audit Finding	
							Compliance Audit Findings		Internal Control Audit Findings		Other Audit Findings		Repeat Audit Finding from Prior Year	If Repeat Finding, provide Prior Year Audit Finding Reference Number(s)
							Modified Opinion	Other Matters	Material Weakness	Significant Deficiency				
	XX.XXX			($)	YYYY-###		Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	YYYY-###,YYYY-###,etc.

1. A CFDA Number consists of the Federal agency two-digit prefix and CFDA three-digit extension (from Part II, Items 1(a) and 1(b)) separated by a period.
2. Enter the letter for each type of compliance requirement that applies to the audit findings (i.e., noncompliance, significant deficiency, material weakness, questioned costs, fraud, and other items reported under 2 CFR 200.516(a)) reported for each Federal program. Only enter the type(s) of compliance requirement(s) the auditor was testing which generated the audit finding.

A. Activities allowed or unallowed
B. Allowable costs/cost principles
C. Cash management
D. Reserved
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of performance (or availability) of Federal funds
I. Procurement and suspension and debarment
J. Program income
K. Reserved
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
P. Other

3. There are 9 valid combinations of "Compliance Audit Findings", "Internal Control Audit Findings", and "Other Audit Findings" for each Federal program with audit findings. *(See chart in instructions after Part III, Item 4(k))*

Part V: CERTIFICATIONS

1. Auditee Certification Statement

I certify that, to the best of my knowledge and belief, the auditee has:

[X] ensured that the Form SF-SAC data and reporting package do not include protected personally identifiable information (Protected PII)[1], **or if they do**, the Federal Audit Clearinghouse (FAC) is authorized to publicly post all information contained in the Form SF-SAC data and the reporting package;

[X] ensured that the Form SF-SAC data and reporting package do not include business identifiable information (BII)[2], **or if they do**, the FAC is authorized to publicly post all information contained in the Form SF-SAC data and the reporting package;

[X] complied with the requirements of 2 CFR Part 200 Subpart F specific to the auditee;

[X] prepared the data in this Form SF-SAC in accordance with 2 CFR Part 200 Subpart F and the accompanying instructions to this Form SF-SAC;

[X] included all information required to be reported in this Form SF-SAC in its entirety and such information is accurate and complete;

[X] engaged an auditor to perform an audit in accordance with 2 CFR Part 200 Subpart F for the period described in Part I, Items 1 and 3;

[X] ensured the auditor has completed such audit and issued the signed audit report required by 2 CFR 200.515 which states that the audit was conducted in accordance with the audit requirements of the Uniform Guidance; and

[X] authorized the FAC to make the Form SF-SAC data and reporting package publicly available on a website.

2. Auditor Statement

I acknowledge that:

[X] the data elements and information included in this Form SF-SAC are limited to those prescribed by the Office of Management and Budget;

[X] the information in Part II of this Form SF-SAC is the responsibility of the auditee and is based on information included in the reporting package required by the Uniform Guidance;

[X] the information included in Part III of this Form SF-SAC, except for Part III, Item 3(d), and Items 4(a)-(d) (when there are audit findings), was transferred by the auditor from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports;

[X] the auditor has not performed any auditing procedures since the date of the auditor's report(s) or any additional auditing procedures in connection with the completion of this Form SF-SAC; and

[X] a copy of the reporting package required by the Uniform Guidance, which includes the complete auditor's report(s), may be made available by the Federal Audit Clearinghouse (FAC) on the FAC website or from the auditee at the address listed in Part I of this Form SF-SAC.

Auditee Certification Date

1/18/2023

(MM/DD/YYYY)

Name of certifying official

WARYNEX CARLO HERNANDEZ

Title of certifying official

FINANCE DIRECTOR

Auditor Signature Date

1/18/2023

(MM/DD/YYYY)

1. 2 CFR 200.79 and 2 CFR 200.82.
2. BII consists of information defined in the Freedom of Information Act (FOIA) as "trade secrets and commercial or financial information obtained from a person [that is] privileged or confidential." (5 U.S.C.552(b)(4)). This information is exempt from automatic release under the (b)(4) FOIA exemption. "Commercial" is not confined to records that reveal "basic commercial operations" but includes any records or information in which the submitter has a commercial interest, and can include information submitted by a nonprofit entity.

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Part 1: GENERAL INFORMATION - Continued

4.c. Auditee EIN Continuation Sheet

1.	41.	81.	121.	161.
2.	42.	82.	122.	162.
3.	43.	83.	123.	163.
4.	44.	84.	124.	164.
5.	45.	85.	125.	165.
6.	46.	86.	126.	166.
7.	47.	87.	127.	167.
8.	48.	88.	128.	168.
9.	49.	89.	129.	169.
10.	50.	90.	130.	170.
11.	51.	91.	131.	171.
12.	52.	92.	132.	172.
13.	53.	93.	133.	173.
14.	54.	94.	134.	174.
15.	55.	95.	135.	175.
16.	56.	96.	136.	176.
17.	57.	97.	137.	177.
18.	58.	98.	138.	178.
19.	59.	99.	139.	179.
20.	60.	100.	140.	180.
21.	61.	101.	141.	181.
22.	62.	102.	142.	182.
23.	63.	103.	143.	183.
24.	64.	104.	144.	184.
25.	65.	105.	145.	185.
26.	66.	106.	146.	186.
27.	67.	107.	147.	187.
28.	68.	108.	148.	188.
29.	69.	109.	149.	189.
30.	70.	110.	150.	190
31.	71.	111.	151.	191.
32.	72.	112.	152.	192.
33.	73.	113.	153.	193.
34.	74.	114.	154.	194.
35.	75.	115.	155.	195.
36.	76.	116.	156.	196.
37.	77.	117.	157.	197.
38.	78.	118.	158.	198.
39.	79.	119.	159.	199.
40.	80.	120.	160.	200.

Part 1: GENERAL INFORMATION - Continued

4.f. Auditee DUNS Continuation Sheet

1.	41.	81.	121.	161.
2.	42.	82.	122.	162.
3.	43.	83.	123.	163.
4.	44.	84.	124.	164.
5.	45.	85.	125.	165.
6.	46.	86.	126.	166.
7.	47.	87.	127.	167.
8.	48.	88.	128.	168.
9.	49.	89.	129.	169.
10.	50.	90.	130.	170.
11.	51.	91.	131.	171.
12.	52.	92.	132.	172.
13.	53.	93.	133.	173.
14.	54.	94.	134.	174.
15.	55.	95.	135.	175.
16.	56.	96.	136.	176.
17.	57.	97.	137.	177.
18.	58.	98.	138.	178.
19.	59.	99.	139.	179.
20.	60.	100.	140.	180.
21.	61.	101.	141.	181.
22.	62.	102.	142.	182.
23.	63.	103.	143.	183.
24.	64.	104.	144.	184.
25.	65.	105.	145.	185.
26.	66.	106.	146.	186.
27.	67.	107.	147.	187.
28.	68.	108.	148.	188.
29.	69.	109.	149.	189.
30.	70.	110.	150.	190.
31.	71.	111.	151.	191.
32.	72.	112.	152.	192.
33.	73.	113.	153.	193.
34.	74.	114.	154.	194.
35.	75.	115.	155.	195.
36.	76.	116.	156.	196.
37.	77.	117.	157.	197.
38.	78.	118.	158.	198.
39.	79.	119.	159.	199.
40.	80.	120.	160.	200.

Part 1: GENERAL INFORMATION - Continued

6.h. Secondary Auditors' Contact Information Sheet

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Audit Firm/ Organization Name	Audit Firm/ Organization EIN	Audit Firm/ Organization Address (Number and Street)	Audit Firm/ Organization City	Audit Firm/ Organization State	Audit Firm/ Organization Zip Code	Contact Name	Contact Title	Contact Phone Number	Contact E-mail

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COMMONWEALTH OF PUERTO RICO

AUTONOMOUS MUNICIPALITY OF CABO ROJO

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT

AND SCHEDULES AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE

YEAR ENDED JUNE 30, 2021

Hon. Jorge A. Morales-Wiscovitch
Mayor

Mr. Warynex Carlo-Hernández
Finance Director

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

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CONSULTING GROUP LLC

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and the Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Cabo Rojo, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments; the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Commonwealth Legislature Resolutions	Unmodified
Governmental Fund- General Fund	Unmodified
Coronavirus Relief Fund- CRF	Unmodified
FEMA	Unmodified
Governmental Fund- Debt Service Fund	Unmodified
Governmental Fund- Other Fund	Unmodified
American Rescue Plan	Unmodified

Basis for Qualified Opinion on Governmental Activities
As shown in note E (Capital Assets), the Municipality did not recognize any increase or decrease capital assets, as well as the capital projects for the year, nor did it calculate the depreciation of both the assets acquired during the year and the previously acquired assets.

For these reasons, the departure of the effect that these assets could affect the area of capital assets, as well as the expense that would be reflected in the financial statements, is unknown.

Qualified Opinion
In our opinion, except for the matters described in the "Basis for Qualified Opinion on Governmental Activities" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Cabo Rojo, as of June 30, 2021, and the respective changes in the financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Cabo Rojo, as of June 30, 2021, and the respective changes in the financial position thereof and for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Matters
As shown in Note T, the Municipality of Cabo Rojo made changes to the Fund Balances at the beginning of the year to correct some issues. Our opinion on the basics financial statements are not modified with respect to this matters.

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Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 to 16 and 79 to 81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge we obtained during my 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 on the information.

Other 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 Schedule of Expenditures of Federal Awards on pages 90 - 93 are presented for purposes of additional analysis as required by Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards, are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards are 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Financial Data Schedule 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued my report dated November 25, 2022, on our consideration of the Municipality of Cabo Rojo internal control over financial reporting and on our tests 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considering Municipality of Cabo Rojo internal control over financial reporting and compliance.

Strategic CPA
Consulting Group, LLC
Strategic CPAs Consulting Group, LLC
Certified Public Accountants & Consultants
License Number 342
Expiration Date December 1st, 2022

Toa Baja, Puerto Rico
November 25, 2022.

Strategic CPA Consulting Group, LLC
CPA'S
Lic.# LLC-342
Puerto Rico

Stamp No. E502579 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

The Management Discussion and Analysis (MD&A) provides an overview of the Municipality of Cabo Rojo's (the Municipality) financial activities and performance for the fiscal year ended June 30, 2021. Please read this information in conjunction with the basic financial statements that follow this section. The MD&A includes comparative data for 2020.

FINANCIAL HIGHLIGHTS

Government-wide

- Total assets and deferred outflows of the Municipality exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2021 by $2,048,100 (net position). Of this amount, $(60,714,755) represents the unrestricted net deficit.
- Municipality's total primary government revenues increased 29% and expenses decreased .48%.

Fund level

- A positive net change in the fund balances of the Municipality's governmental funds of $4,254,946 in the fiscal year 2021 resulted in reported ending fund balances of $11,053,505.
- For the fiscal year 2021, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of $2,915,051, increasing its fund balance to $274,941. Total fund balance amounts to $11,053,505, an increase of 63% as compared to 2020.

Capital assets and long-term debt

- The investment in capital assets (total primary government) as of June 30, 2021, was $67,385,098 (net of depreciation).
- Long-term debt increased to $79,311,669.

Budgetary basis

- On a budgetary basis, actual revenues exceeded actual expenditures by $3,666,288.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information:

Basic Financial Statements

- ***Government-Wide Financial Statements***

  The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, the s*tatement of net position,* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities,* presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid. The government-wide statements are divided into two categories:

Governmental Activities: Most of the Municipality's basic services are reported here including: public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Business-type Activities: Business-type activities charges fees to customers to finance the costs of their activities. The activities of *Municipal Enterprise "Empresa Municipal para el Desarrollo Económico, Cultural y Recreativo del Municipio de Cabo Rojo, Inc." and Municipal Enterprise "Empresa Municipal para el Desarrollo del Deporte Caborrojeño, Inc."* (EM-Teatro and EM-Gimnasio) are included here.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants. The Municipality has two kinds of funds: governmental and proprietary funds.

Governmental funds: The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

Proprietary funds: Services for which the Municipality charges customers a fee are generally reported as proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information and are accounted for using the economic resources measurement focus and the accrual basis of accounting. The Municipality's proprietary funds consist of an enterprise funds, the same as the business-type activities. The Municipality reports the activities of EM-TEATRO and EM-GIMNASIO as enterprise funds.

The fund statements focus on major funds. The Municipality's major governmental and enterprise funds are funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds or other nonmajor enterprise funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information.

The statements and notes are followed by required supplementary information that contains the Budgetary Comparison Schedule – General Fund, information related to **GASB Statements No. 73 and 75** and the related notes.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position - the following table presents a summary of the Statements of Net Position as of June 30, 2021 and 2020:

TABLE 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020 (as restated)	2021	2020 (as restated)	2021	2020 (as restated)
Assets						
Current and other assets	$ 37,988,278	$ 13,545,512	$ 36,881	$ 57,795	$ 38,025,159	$ 13,603,307
Total capital assets, net	67,385,098	67,385,097	932	1,973	67,386,030	67,387,070
Total assets	105,373,376	80,930,609	37,813	59,768	105,411,188	80,990,377
Deferred outflows of resources	5,617,999	2,265,892	-	-	5,617,999	2,265,892
Liabilities						
Current and other liabilities	23,505,370	5,466,953	8,358	3,415	23,513,727	5,470,368
Long-term liabilities:	79,311,669	75,213,958	-	-	79,311,669	75,213,958
Total liabilities	102,817,039	80,680,911	8,358	3,415	102,825,396	80,684,326
Deferred inflows of resources	6,155,691	3,635,052	-	-	6,155,691	3,635,052
Net position						
Net investment in capital assets	48,004,225	77,945,155	932	-	48,005,157	77,945,155
Restricted	14,757,699	10,633,032	-	-	14,757,699	10,633,032
Unrestricted	(60,743,278)	(89,697,649)	28,523	56,353	(60,714,755)	(89,641,296)
Total net position	$ 2,018,646	$ (1,119,462)	$ 29,455	$ 56,353	$ 2,048,100	$ (1,063,109)

Over time, net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) may serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2021, assets and deferred outflows exceeded its liabilities and deferred inflows by $2,048,100 a total for the entire primary government.

Of this amount, $(60,714,755) represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. This unrestricted deficit is the part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation or other legal requirements.

The largest portion of the Municipality's net position reflects its investment of $48,005,157 in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

The second component of the Municipality's net position, is restricted net position which totals $14,757,699. This amount represents resources that are subject to external restrictions on how they may be used. By definition, the Municipality cannot remove these restrictions as they are imposed by parties outside the Municipality.

The remaining balance is an unrestricted net position deficit of $(60,714,755). This unrestricted deficit is the part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation or other legal requirements. This deficit primarily arises from the recognition of the total pension liability as of measurement date of June 30, 2020 of $29,704,664, in accordance with requirements of **GASB Statement No. 73**, from the recognition of the general and special obligation bonds and notes liability of $20,233,891, and from the recognition of the landfill closure and post closure care costs of $11,875,000.

Changes in net position - The Municipality (total primary government) reported a positive change in net position of $2,781,533, resulting from the net effect of an increase of 28% in revenues and a .48% decrease in expenses. The following table summarizes the changes in net position for the fiscal years ended 2021 and 2020:

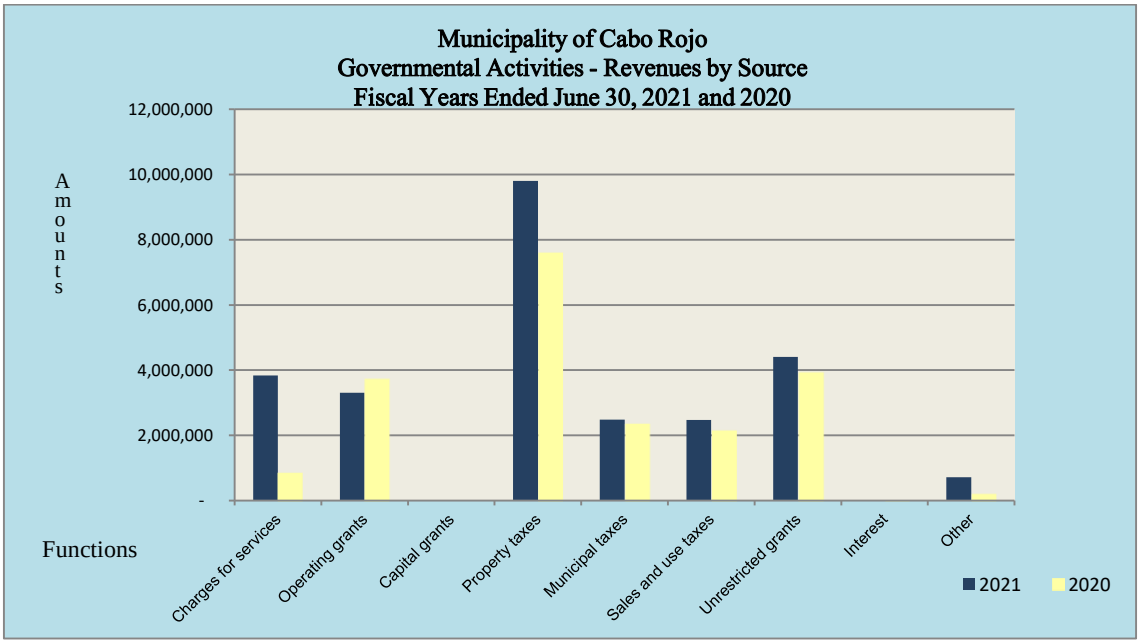
TABLE 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020 (as restated)	2021	2020 (as restated)	2021	2020 (as restated)
Program revenues:						
Fees, fines and charges for services	$ 3,837,135	$ 868,129	$ 152,118	$ 197,255	$ 3,989,253	$ 1,065,384
Operating grants and contributions	3,307,012	3,745,492	-	-	3,307,012	3,745,492
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	9,805,019	7,589,717	-	-	9,805,019	7,589,717
Municipal license taxes	2,481,120	2,373,090	-	-	2,481,120	2,373,090
Sales and use taxes	2,468,142	2,170,420	-	-	2,468,142	2,170,420
Grants and contributions not restricted to specific programs	4,405,334	3,944,491	-	-	4,405,334	3,944,491
Interest and other	716,063	226,147	198	110,389	716,261	336,536
Total revenues	27,019,825	20,917,486	152,315	307,644	27,172,141	21,225,129
Expenses:						
General government	9,193,565	13,589,653	-	-	9,193,565	13,589,653
Public works & Sanitation	7,327,383	3,745,218	-	-	7,327,383	3,745,218
Public safety	1,334,440	1,873,554	-	-	1,334,440	1,873,554
Culture and recreation	645,153	915,014	179,214	335,827	824,366	1,250,841
Health	1,445,658	1,419,504	-	-	1,445,658	1,419,504
Welfare & Community Development	2,688,101	1,823,366	-	-	2,688,101	1,823,366
Education	31,762	-	-	-	31,762	-
Interest on long-term debt	1,215,656	631,121	-	-	1,215,656	631,121
Total expenses	23,881,718	23,997,430	179,214	335,827	24,060,931	24,333,257
Change in net position	3,138,107	(3,079,944)	(26,898)	(28,183)	3,111,209	(3,108,127)
Net position at beginning of year, as restated	(1,119,462)	1,960,482	56,353	84,536	(1,063,109)	2,045,017
Net position at end of year	$ 2,018,646	$ (1,119,462)	$ 29,455	$ 56,353	$ 2,048,100	$ (1,063,109)

Net position at beginning of year was restated to recognize the cumulative effect of **GASB Statement No. 73** adjustments by recording net pension liabilities, deferred outflows and inflows of resources as of measurement date of June 30, 2020 and to record the total OPEB liability of the Municipality as of measurement date of June 30, 2020, in accordance with **GASB Statement No. 75**.

The following **FIGURE 1** illustrates the Municipality's revenues comparison between 2021 and 2020:

FIGURE 1



Revenues, governmental activities – As shown in **TABLE 2 and FIGURE 1,** the four major sources of revenues of the governmental activities of the Municipality in fiscal year 2021 are: property taxes (37%), sales and use taxes (17%), charges for services (14%), and operating grants (12%). Revenues reported a net increase of 28% with respect to prior year:

Most significant increases are in:

- Charges for services (342%) mostly affected by the recognition in the current year of $2,181,801 in electricity charges as reported by the Puerto Rico Electric Power Authority (PREPA). There was also a significant increase of $625,108 revenues from construction excise taxes.

- Property taxes (29%) due to a significant increase of $1,807,648 in revenues received through CAE, and an increase in revenues received through the general fund and informed through the property tax liquidation.

- Unrestricted grants (12%), due to a $301,484 increase in revenues as reported through the property tax liquidation.

These increases were partially offset by a decrease of 12% in revenues from operating grants.

Revenues, business-type activities – revenues of EM-TEATRO and EM-GIMNASIO, consists mainly from charges for services (in the form of entrance fees). During 2021 and 2020 the amounts of $152,118 and $197,255 from revenues from charges for services were recorded by the Municipal Enterprises, respectively.

Expenses, <u>governmental activities</u> - The Municipality's government-wide expenses cover a range of services. The largest expenses are general government with 38%, public works and sanitation with 31% and housing, welfare and community development with 11%, as illustrated in the following chart:

FIGURE 2

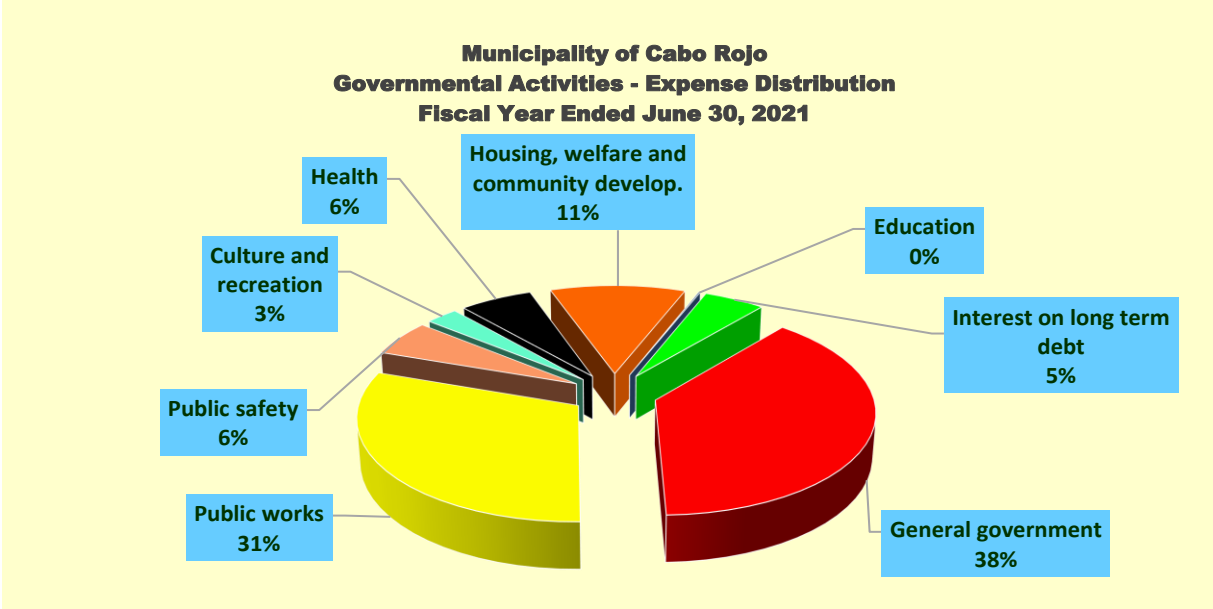
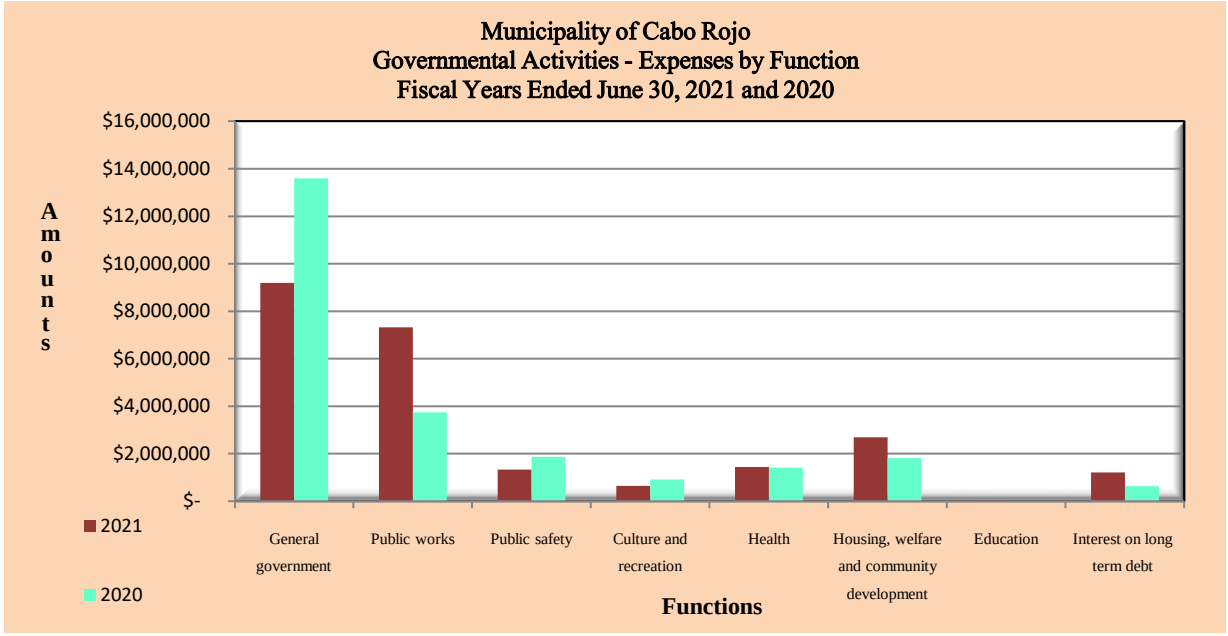


FIGURE 3



Total expenses of governmental activities reported a net decrease of .48% when compared with fiscal year 2020. The most significant variances among the expense components include:

- Public Works, increased by 96%, due to $2,181,801 in electricity expenses as reported by the Puerto Rico Electric Power Authority (PREPA), due to $924,000 in non-recurrent expenses financed by Community Disaster Loan (Earthquake) and by an increase of $258,095 in expenses related to waste disposal.

- Housing, Welfare & Community Development, increased by 47%, mostly by a combined increase of $512,234 in the expenses of its welfare programs financed by Community Development Block Grants, Child Care and Development Block Grants and by Grants for Supportive Services and Senior Centers.

- Interest on long-term debt (increase of $584,535 or 93%), due to the increased balance of the overall long-term debt.

These increases were partially offset by a significant decrease of 32% in the general government function (mostly affected by the elimination of the prior year $1,348,484 contribution to the equalization fund and by a decrease of $1,162,095 in the use of FEMA CDL funds for administrative purposes) and by a 29% decrease in public safety expenses (mostly due to reclassification of some of these expenses to the health function due to all the work done in relation to the COVID 19 pandemic).

Expenses, business-type activities - expenses of EM-TEATRO and EM-GIMNASIO consists mostly of salaries, fringe benefits, professional services and other operational expenses. Expenses decreased $156,613 or -47% with respect to 2020.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following **TABLE 3** discloses 2021 and 2020 governmental activities expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

Net Cost of Municipality's Governmental activities For the years ended June 30,	Net Costs of Services	
	2021	**2020 (as restated)**
Governmental activities:		
General government	$ (5,429,301)	$ (11,501,589)
Public works	(6,107,352)	(2,625,066)
Public safety	(1,291,757)	(1,599,776)
Culture and recreation	(644,276)	(838,991)
Health	(295,807)	(1,312,718)
Welfare and community development	(1,721,659)	(874,548)
Education	(31,762)	-
Interest on long-term debt	(1,215,656)	(631,121)
Total expenses, net of program revenues	(16,737,571)	(19,383,809)
General revenues and transfers		
Taxes	14,754,281	12,133,227
Grants and contributions not restricted to specific programs	4,405,334	3,944,491
Interest and other	386,387	226,147
Total general revenues	19,546,002	16,303,865
Change in net position	$ 2,808,431	$ (3,079,944)

Some of the costs of governmental activities were paid by those who directly benefited from fees and charges for services $(3,837,135) and other governments and organizations that subsidized certain programs with operating grants $(3,307,012). The net cost of services $(16,737,571) was covered by other general revenues.

Expenses of the business-type activities were also not fully covered by charges for services and transfers of funds from the Municipality, with a negative change in net position of $(26,898).

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds - The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party.

For the fiscal year ended June 30, 2021, the governmental funds reported ending fund balances of $11,053,505, a net increase of $4,254,946 in comparison with the prior year. Total fund balances include an unassigned deficit of $3,220,034 (or -29%). The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

- ***General Fund***
  The general fund is the operating fund of the Municipality. The fund balance of the general fund of $274,241 represents approximately 2% of total ending fund balances and increased by $2,915,051 in comparison with the prior year, as a result of a net increase of 28% in revenues, a net increase of 50% in expenditures, and a net increase of other financing sources of 121%.

  The increase in revenues is mostly affected by increases in decreases in fees, fines and charges for services of $2,978,755 (due mainly to an increase in the compensation in lieu of taxes received from the Puerto Rico Electric Power Authority-PREPA). There were also small increases in intergovernmental revenues ($352,955), sales and use taxes revenues ($226,265) and municipal license taxes revenues ($108,030).

  The increase in expenditures is mostly affected by an increase of $5,564,185 in public works and sanitation function, mostly due to increased electricity expenditures and increased waste disposal expenditures. Other notable increases are the $1,477,791 increase in general fund expenditures (due to a combination of a significant increase in the retirement System's PayGo payments and a decrease in the contribution to the equalization fund), and small increases in the public safety, welfare and culture and recreation expenditures. These increases were partially offset by a decrease in the health expenditure function.

  The most significant other financing sources in the General Fund are the $4,687,497 proceeds from a Community Disaster Loan (Earthquake) and a transfer of $1,369,961 from the debt service fund from excess CAE funds.

- ***Debt Service Fund***
  The debt service fund accounts for the resources of two individual funds including "Fondo 10 - CAE Municipal Redemption Fund" (a 2% special property tax surtax redemption fund) and "Fondo 12 - SUT Municipal Redemption Fund" (.2% of the .5% from sales and use taxes). Year-end fund balance increased by $1,389,196. Revenues increased $1,879,105 or 54% with respect to the prior fiscal year due to significant increases of $1,807,648, or 57% in the property taxes collected by the CAE Municipal Redemption Fund, and $71,457, or 24% in the sales and use taxes collected by the SUT Municipal Redemption Fund. Expenditures increased $1,091,265 or 72% with respect to the prior fiscal year.

- ***Commonwealth Legislature Resolutions Fund***

  The Fund reports transactions from grants provided by the Commonwealth's Legislature that are restricted, committed, or assigned for specific purposes. The fund reported revenues of $108,084 and expenditures in the amount of $237,642 bringing the ending fund balance to $4,570,164.

- ***Coronavirus Relief Fund***

  This fund, established in 2020, is a new major fund in 2021. It is being used to account for and report revenue sources from the U.S. Department of Treasury to cover costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19. The fund reported revenues of $1,149,851 and expenditures for $1,129,020, and reported unearned revenues of $2,976,401.

- ***American Rescue Plan (ARPA) Fund***

  This fund, which receives grants from the Coronavirus Local Fiscal Recovery Fund (also known as the Coronavirus State and Local Fiscal Recovery Fund, "CSLFRF"), is intended to provide support responding to the impact of COVID-19 and to finance the efforts to contain COVID-19 on the communities, residents, and businesses within the Municipality's boundaries. As of June 30, 2021 the Municipality had received $15,140,851 in ARPA funds, but they were reported as unearned revenues.

- ***FEMA Hurricane Maria Fund***

  This fund is used to account for and report revenue sources from the Federal Emergency Management Agency ("FEMA") for assistance in debris removal, emergency protective measures and the repair, restoration, reconstruction or replacement of public facilities or infrastructure damaged or destroyed by the devastating effects the of Hurricane Maria. The fund reported revenues of $181,775 and expenditures for $48,338, and reported unearned revenues of $884,690.

Proprietary fund - The Municipality's proprietary fund provides the same type of information found in the government-wide statements but in more detail. The net position of EM-TEATRO and EM-GIMNASIO at the end of the fiscal year amounted to $29,455. In 2021 expenses were financed through fees, fines and charges for services. Expenses consists of salaries and fringe benefits, professional services and other operational expenses. The fund reported a negative change in net position of $29,898 in the statement of revenues, expenses and changes in net position.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipal budget applicable to the fiscal year ending June 30, 2021 was prepared for the General Fund following the requirements of Article 7.001 of Act No. 81 of 1991, as amended. In order to demonstrate compliance with budget regulations and accounting standards, the Municipality presents a budgetary comparison schedule of the general fund as a required supplementary information. This schedule is prepared under a budgetary basis of accounting, which is different from accounting principles generally accepted in the United States of America ("US GAAP"). Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered.

The general fund original budget for the fiscal year 2020-2021 presented an increase of $1,072,723 (or 7%), with respect to the prior year original budget. Actual revenues exceeded actual expenditures by $3,666,288 (net), due to current year increase in general fund revenues combined with control of expenditures during the year. The Municipality reported a negative variance of $2,493,831 between actual revenues versus revised budgetary revenues and a positive variance of $6,160,119 between revised budgeted appropriations and actual expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets, governmental activities. At the end of the fiscal year, the Municipality has invested $67,385,098 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, licensed vehicles and equipment. The following **TABLE 4** discloses the capital assets balances as of June 30, 2021 and 2020:

TABLE 4

Capital Assets, net As of June 30,	Governmental Activities	
	2021	2020
Nondepreciable assets:		
Land	$ 10,381,090	$ 10,381,090
Construction in progress	1,961,854	1,961,854
Depreciable assets (net):		
Land improvements	4,830,099	4,830,099
Buildings and buildings improvements	32,053,256	32,053,256
Infrastructure	16,544,723	16,544,723
Machinery and equipment	417,119	417,119
Licensed vehicles	1,196,957	1,196,957
Total:	$ 67,385,098	$ 67,385,098

Capital assets, business-type activities. EM-TEATRO and EM-GIMNASIO operates in facilities owned by the Municipality, at no rent charge. The equipment used in the facilities are property of the business-type activities.

More detailed information about the Municipality's capital assets is presented in **Note E** to the financial statements.

Long-term debt, governmental activities – The Municipality increased its total long-term debt by 5%.

The most significant change in total long-term debt was the issuance of a Community Disaster Loan (Earthquake) of $4,687,497. Furthermore, there was also a $2,221,156 (or 8%) net increase in the Municipality's total pension liability. These increases were partially offset by a $1,280,000 (or 6%) decrease in the General and Special Obligation Bonds and Notes for actual payments.

Amounts reported in the Municipality's financial statements as total pension liability, deferred outflows and inflows of resources related to pensions, and total OPEB liability were recorded from the most *recent* ***GASB Statements No. 73 and 75 unaudited*** reports issued by the ERS's actuaries on July 6, 2022. The reports covered the reporting period ending June 30, 2021 with a measurement date of June 30, 2020.

Pursuant to the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43). According to P.L. 117-43 SEC. 1601 the outstanding balance of principal and interest of the Community Disaster Loans outstanding as of September 30, 2021 were cancelled.

The note payable to the Retirement Board for the fiscal year 2019-2020 of $329,676 was paid in full during current year from various sources including the CRIM final liquidation of fiscal year 2019-2020. Notes payable to CRIM - Law No. 42 and financing of delinquent accounts, were paid in full subsequent to June 30, 2021 as a result of a property tax amnesty performed by the CRIM. More detailed information is presented in **Note U** of the financial statements.

The following table is a summary of the Municipality's outstanding debt as of June 30, 2021 and 2020:

TABLE 5

Outstanding Long-term debt Fiscal years ended June 30,	Governmental Activities	
	2021	2020, as restated
General and special obligation bonds and notes	$ 20,233,891	$ 21,513,891
Note payable to:		
FEMA - Community Disaster Loan advances - Hurricane Maria	5,000,000	5,000,000
FEMA - Community Disaster Loan advances - Earthquake	4,687,497	-
Notes payable - Retirement Board	816,812	1,410,656
Notes payable to CRIM - Financing of delinquent accounts	146,659	159,992
Note payable - landfill services supplier	252,895	404,623
Note payable - waste collection supplier	2,776,908	3,225,180
Note payable - HUD disallowed costs	81,145	121,718
Compensated absences	2,524,501	2,689,343
Christmas bonus payable	143,979	244,021
Landfill closure and post closure care costs	11,875,000	11,875,000
Total OPEB liability	1,067,718	1,086,026
Total pension liability	29,704,664	27,483,508
Total:	$ 79,311,669	$ 75,213,958

Business-type activities – EM-TEATRO and EM-GIMNASIO has no long-term debt outstanding as of June 30, 2021.

More detailed information about the Municipality's long-term liabilities is presented in **Note F** of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

Elimination of Commonwealth's subsidy transfer

The Commonwealth's Fiscal Plan, implemented in accordance with requirements of PROMESA, provides for the reduction and eventual elimination of a substantial portion of the Commonwealth's subsidy transfer to the municipalities, which may adversely affect the ability of municipal governments to continue providing essential services and servicing their debt obligations. The reduction will be gradually implemented by 20% on each successive year starting at $44M in fiscal year 2018-2019, ultimately phasing-out in fiscal year 2024-2025.

Impact of COVID-19

As a result of the impact of the spread of COVID-19 and executive orders issued by the Governor of the Commonwealth of Puerto Rico, the Municipality experienced reductions in certain operating (tax) revenues and receipts causing, among other situations, cash flow problems. The Municipality at this time cannot predict with any certainty the actual impact COVID-19 may have on revenues in the upcoming fiscal years. While the impact on the Municipality is uncertain at this time, the Municipality is monitoring the impact and taking several measures to ensure continuity of services of the general public while protecting employees from this virus.

In order to mitigate the negative economic situation, during the fiscal years 2019-2020 and 2020-2021 the Municipalities received grants and support from the Commonwealth and Federal Government, including funds under COVID-19 Emergency Measures Support Package, Coronavirus Relief Funds to cover COVID-19 related costs, including funds for testing and tracing and additional COVID-19 funds as part of existing grants including Section 8 Housing Choice Voucher and Child Care Development Block Grant.

Furthermore, On March 11, 2021 the U.S. President signed into law the American Rescue Plan Act (ARPA), which establishes the Coronavirus Local Fiscal Recovery Fund (together, known as the Coronavirus State and Local Fiscal Recovery Funds, "CSLFRF"). The CSLFRF are intended to provide support to State, local, and Tribal governments in responding to the impact of COVID–19 and in their efforts to contain COVID–19 on their communities, residents, and businesses. The Municipality was awarded a total amount of $30,281,701 from which $15,141,851 have been already received at June 30, 2021.

Next year's budget

In addition to the fiscal factors discussed above, the Municipality's officials considered certain economic factors such as estimates for the growth or decline in population, personal income, housing statistics and unemployment rates when establishing the fiscal year's 2021-2022 budget. The Municipality's unemployment rate at the end of fiscal year 2021 stands at 8.9%, and the Commonwealth rate stands at 8.3%. For year 2021-2022 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are $17,531,304, representing an increase of only .35% with respect to prior year estimates. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Finance Department at the Municipality of Cabo Rojo at P.O. Box 1308, Cabo Rojo, Puerto Rico 00623.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents in commercial bank	$ 4,845,860	$ 33,717	$ 4,879,577
Receivables, net:			
Municipal license taxes	7,230	-	7,230
Others	7,948	-	7,948
Due from:			
Commonwealth Government	593,292	-	593,292
Federal Government	248,104	-	248,104
Restricted assets:			
Cash and cash equivalents in commercial bank	25,901,486	-	25,901,486
Cash in fiscal agent in commercial bank	6,384,359	-	6,384,359
Other assets	-	3,163	3,163
Capital assets:			
Land and construction in progress	12,342,944	-	12,342,944
Other capital assets, net	55,042,154	932	55,043,086
Total capital assets, net	67,385,098	932	67,386,030
Total assets	105,373,376	37,813	105,411,189
DEFERRED OUTFLOW OF RESOURCES			
Related to pensions	5,502,777	-	5,502,777
Related to OPEB	115,222	-	115,222
Total Deferred outflows of Resources	5,617,999	-	5,617,999
LIABILITIES			
Accounts payable and accrued liabilities	1,904,195	8,358	1,912,553
Interest payable	949,966	-	949,966
Due to:			
Commonwealth Government	1,582,758	-	1,582,758
Unearned revenues:			
Intergovernmental-Federal grants	19,068,449	-	19,068,449
Long-term liabilities:			
Due within one year	4,067,090	-	4,067,090
Due in more than one year	75,244,580	-	75,244,580
Total liabilities	102,817,039	8,358	102,825,396
DEFERRED INFLOW OF RESOURCES			
Municipal license taxes received in advance	1,777,030	-	1,777,030
Related to pensions	4,378,661	-	4,378,661
Total Deferred Inflows of Resources	6,155,691	-	6,155,691
NET POSITION			
Net investment in capital assets	48,004,225	932	48,005,157
Restricted for:			
Debt service	4,581,375	-	4,581,375
Capital Projects	5,703,989	-	5,703,989
Other specified purposes	4,472,335	-	4,472,335
Unrestricted (deficit)	(60,743,278)	28,523	(60,714,755)
Total net position	$ 2,018,646	$ 29,455	$ 2,048,100

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2021

		Program revenues			Net (expense) revenue and changes in net position		
Functions\Programs	**Expenses**	**Fees, Fines and Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental Activities:							
General government	$ 9,193,565	$ 3,764,264	$ -	$ -	$ (5,429,301)	$ -	$ (5,429,301)
Public works and sanitation	7,327,383	71,995	1,148,036	-	(6,107,352)	-	(6,107,352)
Public safety	1,334,440	-	42,683	-	(1,291,757)	-	(1,291,757)
Culture and recreation	645,153	876	-	-	(644,276)	-	(644,276)
Health	1,445,658	-	1,149,851	-	(295,807)	-	(295,807)
Welfare and community development	2,688,101	-	966,443	-	(1,721,659)	-	(1,721,659)
Education	31,762	-	-	-	(31,762)	-	(31,762)
Interest on long-term debt	1,215,656	-	-	-	(1,215,656)	-	(1,215,656)
Total governmental activities	$ 23,881,718	$ 3,837,135	$ 3,307,012	$ -	(16,737,571)	-	(16,737,571)
Governmental Activities:							
Cabo Rojo Municipal Enterprises	179,214	152,118	-	-	-	(27,096)	(27,096)
Total business-type activities	179,214	152,118	-	-	-	(27,096)	(27,096)
Total activities:	$ 24,060,931	$ 3,989,253	$ 3,307,012	$ -	(16,737,571)	(27,096)	(16,764,667)
		General revenues :					
		Taxes:					
		Property taxes			9,805,019	-	9,805,019
		Municipal license taxes			2,481,120	-	2,481,120
		Sales and use taxes			2,468,142	-	2,468,142
		Grants and contributions not restricted to specific programs			4,405,334	-	4,405,334
		Interest			2,251	30	2,281
		Other			713,812	168	713,980
		Transfers			-	-	-
		Total general revenues:			19,875,678	198	19,875,876
		Change in net position			3,138,107	(26,898)	3,111,209
		Net position at beginning of fiscal year, as restated			(1,119,462)	56,353	(1,063,109)
		Net position at end of fiscal year			$ 2,018,646	$ 29,455	$ 2,048,100

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
BALANCE SHEET - GOVERNMENTAL FUNDS
GOVERNMENTAL FUNDS
JUNE 30, 2021

	Major Funds							
	General	**Debt Service**	**Commonwealth Legislature Resolutions**	**Coronavirus Relief Fund (CRF)**	**American Rescue Plan (ARPA)**	**FEMA - Hurricane Maria**	**Other Governmental Funds**	**Total Governmental Funds**
ASSETS								
Cash and cash equivalents in commercial bank	$ 4,845,860	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,845,860
Receivables, net:								
Municipal license taxes	7,230	-	-	-	-	-	-	7,230
Other	-	-	-	-	-	-	7,948	7,948
Due from:								
Commonwealth Government	593,292	-	-	-	-	-	-	593,292
Federal Government	-	-	-	-	-	103,589	144,515	248,104
Other funds	1,538,933	-	3,717,925	-	-	-	809,931	6,066,789
Restricted assets:								
Cash and cash equivalents in commercial bank	3,527,242	-	1,083,613	3,041,067	15,140,851	1,789,927	1,318,786	25,901,486
Cash with fiscal agent in commercial bank	-	5,531,341	-	-	-	-	853,018	6,384,359
Total assets	$ 10,512,556	$ 5,531,341	$ 4,801,538	$ 3,041,067	$ 15,140,851	$ 1,893,516	$ 3,134,198	$ 44,055,067
LIABILITIES								
Accounts payable and accrued liabilities	$ 1,799,087	$ -	$ 7,518	$ 36,640	$ -	$ 24,812	$ 36,139	$ 1,904,195
Matured bonds and interest payable	-	1,999,432	-	-	-	-	-	1,999,432
Due to:								
Commonwealth Government	1,582,758	-	-	-	-	-	-	1,582,758
Other funds	4,527,856	-	223,856	28,027	-	850,577	436,473	6,066,789
Unearned revenues:								
Federal grants received in advance	-	-	-	2,976,401	15,140,851	884,690	66,508	19,068,449
Total liabilities	7,909,702	1,999,432	231,374	3,041,067	15,140,851	1,760,079	539,120	30,621,624
DEFERRED INFLOWS OF RESOURCES								
Municipal License taxes received in advance	1,777,030	-	-	-	-	-	-	1,777,030
Unavailable revenues:								
Commonwealth Government	550,884	-	-	-	-	-	-	550,884
Federal Grants	-	-	-	-	-	-	52,024	52,024
Total deferred inflow of resources	2,327,913	-	-	-	-	-	52,024	2,379,937
FUND BALANCES (DEFICIT):								
Restricted	3,078,333	3,847,105	4,570,164	-	-	133,437	2,644,501	14,273,539
Unassigned	(2,803,392)	(315,196)	-	-	-	-	(101,447)	(3,220,034)
Total fund balances (deficit)	274,941	3,531,909	4,570,164	-	-	133,437	2,543,054	11,053,505
Total liabilities, deferred inflows of resources and fund balances (deficit)	$ 10,512,556	$ 5,531,341	$ 4,801,538	$ 3,041,067	$ 15,140,851	$ 1,893,516	$ 3,134,198	$ 44,055,067

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total fund balances - governmental funds		**$ 11,053,505**
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet		67,385,098
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Commonwealth Government:		
Property taxes- General Fund	$ 550,884	550,884
Due from Federal Government:		
Federal grant - Child Care Program	23,410	
Federal grant - Operation Stone Garden	28,614	52,024
Deferred outflows of resources related to pensions and OPEB not recognized in the governmental funds balance sheet:		5,617,999
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds		(320,534)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(18,863,891)	
Note payable - Solid waste supplier	(2,776,908)	
Note payable - ERS PayGo	(816,812)	
Note payable - Landfill supplier	(252,895)	
Note payable to CRIM - financing of delinquent accounts	(146,659)	
Note payable to FEMA - CDL Hurricane Maria	(5,000,000)	
Note payable to FEMA - CDL Earthquake	(4,687,497)	
Compensated absences	(2,524,501)	
Christmas Bonus	(143,979)	
Landfill closure and post-closure care costs	(11,875,000)	
Total pension liability	(29,704,664)	
Total OPEB liability	(1,067,718)	
Due to HUD - disallowed costs	(81,145)	(77,941,669)
Deferred inflows of resources related to pensions not recognized in the governmental funds balance sheet:		(4,378,661)
Net position of governmental activities:		**$ 2,018,646**

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2021

	Major Funds							
	General	Debt Service	Commonwealth Legislature Resolutions	Coronavirus Relief Fund (CRF)	American Rescue Plan (ARPA)	FEMA - Hurricane Maria	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes:								
Property taxes	$ 4,599,790	$ 4,986,963	$ -	$ -	$ -	$ -	$ -	$ 9,586,754
Municipal license taxes	2,481,120	-	-	-	-	-	-	2,481,120
Sales and use taxes	2,098,208	369,934	-	-	-	-	-	2,468,142
Intergovernmental:								
Commonwealth Government	4,314,334	-	91,000	-	-	-	11,141	4,416,475
Federal Government	-	-	-	1,149,851	-	181,775	1,923,362	3,254,988
Fees, fines and charges for services	3,837,135	-	-	-	-	-	14,000	3,851,135
Interest	2,115	-	-	-	-	-	136	2,251
Other	299,412	-	17,084	-	-	-	53,640	370,135
Total revenues	17,632,113	5,356,897	108,084	1,149,851	-	181,775	2,002,279	26,431,000
Expenditures:								
Current:								
General government	9,958,133	-	-	-	-	-	27,516	9,985,649
Public works and sanitation	6,986,984	-	237,642	-	-	48,338	24,718	7,297,681
Public Safety	1,271,672	-	-	-	-	-	42,683	1,314,355
Culture and recreation	645,020	-	-	-	-	-	-	645,020
Health	316,638	-	-	1,129,020	-	-	-	1,445,658
Welfare and community development	731,906	-	-	-	-	-	1,951,345	2,683,251
Education	-	-	-	-	-	-	30,029	30,029
Capital outlays	-	-	-	-	-	-	-	-
Debt Service:								
Principal	-	1,370,000	-	-	-	-	-	1,370,000
Interest	-	1,227,741	-	-	-	-	-	1,227,741
Total expenditures	19,910,353	2,597,741	237,642	1,129,020	-	48,338	2,076,290	25,999,384
Excess (deficiency) of revenues over expenditures	(2,278,239)	2,759,157	(129,558)	20,831	-	133,437	(74,011)	431,617
Other financing sources (uses):								
Proceeds from Community Disaster Loan - Earthquake	4,687,497	-	-	-	-	-	-	4,687,497
Payment of debt - Solid waste supplier plan	(448,272)	-	-	-	-	-	-	(448,272)
Payment of debt - ERS payGo plan	(264,168)	-	-	-	-	-	-	(264,168)
Payment of debt - Landfill supplier plan	(151,728)	-	-	-	-	-	-	(151,728)
Transfers in	1,369,961	-	-	-	-	-	-	1,369,961
Transfers (out)	-	(1,369,961)	-	-	-	-	-	(1,369,961)
Total other financing sources (uses)	5,193,290	(1,369,961)	-	-	-	-	-	3,823,329
Net change in fund balances (deficit)	2,915,051	1,389,196	(129,558)	20,831	-	133,437	(74,011)	4,254,946
Fund balances (deficit) at beginning of fiscal year, as restated	(2,640,110)	2,142,713	4,699,722	(20,831)	-	-	2,617,065	6,798,559
Fund balances (deficit) at end of fiscal year	$ 274,941	$ 3,531,909	$ 4,570,164	$ (0)	$ -	$ 133,437	$ 2,543,054	$ 11,053,505

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2021

Net change in fund balances (deficit) - total governmental funds:		**$ 4,254,946**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes- General Fund (current year)	$ 550,884	
Federal grant - Child Care Program	23,410	
Federal grant - Operation Stone Garden	28,614	
Other	329,677	932,585
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Property taxes-General Fund (prior year)		(332,618)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)	90,000	
Paygo and OPEB - actual benefit payments in current year	1,304,417	1,394,417
Proceeds from debt issuances are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position:		
Community Disaster Loan - Earthquake		(4,687,497)
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	1,280,000	
Other long term liabilities	1,421,678	2,701,678
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued interest (net change)	12,084	
Compensated absences	(94,741)	
Christmas bonus	(143,979)	
OPEB expense (actuarial GASB 75)	(91,068)	
Pension expense (actuarial GASB 73)	(807,699)	(1,125,403)
Change in net position of governmental activities:		**$ 3,138,108**

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF POSITION - PROPRIETARY FUND
JUNE 30, 2021

	Business-type Activities - Enterprise Funds		
	EM - Teatro (Teatro Excelsior)	**EM - Gimnasio (Gimnasio Nestor Nazario)**	**Total**
Assets			
Current assets:			
Cash	$ 22,578	$ 11,139	$ 33,717
Inventory	2,844	296	3,139
Prepaid taxes	-	24	24
Total Current Assets	25,422	11,458	36,881
Property and equipment:			
Equipment	14,889	1,872	16,761
Less: Accumulated depreciation	(14,889)	(940)	(15,829)
Total property and equipment	-	932	932
Total assets	25,422	12,391	37,813
Liabilities and net position			
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	3,874	4,484	8,358
Total current liabilities	3,874	4,484	8,358
Total liabilities	3,874	4,484	8,358
Net position			
Net investment in capital assets	-	932	932
Unrestricted	21,548	6,975	28,522
Total net position	$ 21,548	$ 7,907	$ 29,455

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FISCAL YEAR ENDED JUNE 30, 2021

	Business-type Activities - Enterprise Funds		
Operating revenues	**EM - Teatro (Teatro Excelsior)**	**EM - Gimnasio (Gimnasio Nestor Nazario)**	**Total**
Admissions and concessions	$ 35,160	$ -	$ 35,160
Concessions stand	16,693	-	16,693
Professional fees	-	100,265	100,265
Other	-	168	168
Total operating revenues	51,853	100,433	152,285
Cost of sales	10,349	5,413	15,761
Gross Profit	41,504	95,020	136,524
Operating expenses			
Salaries	32,427	62,894	95,321
Payroll taxes and related	3,849	8,512	12,361
Professional services - movies	7,267	-	7,267
Advertising	2,760	-	2,760
Other taxes	1,032	226	1,258
Bank charges	940	2,400	3,341
Depreciation	1,473	240	1,713
Insurance	2,969	1,279	4,249
State insurance fund	1,200	1,900	3,100
Legal and other professional	5,307	4,764	10,071
Maintenance and repairs	3,134	10,302	13,435
Office	592	1,705	2,297
Other	5,917	363	6,280
Total operating expenses	68,867	94,585	163,452
Operating income (loss)	(27,363)	435	(26,928)
Nonoperating revenues (expenses)			
Interest income	30	-	30
Total nonoperating revenues (expenses)	30	-	30
Income (loss) before transfers and contributions	(27,333)	435	(26,898)
Change in net position	(27,333)	435	(26,898)
Net position at beginning of year, as restated	48,881	7,472	56,353
Net position at end of year	$ 21,548	$ 7,907	$ 29,455

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FISCAL YEAR ENDED JUNE 30, 2021

	Business-type Activities - Enterprise Funds		
	EM - Teatro (Teatro Excelsior)	EM - Gimnasio (Gimnasio Nestor Nazario)	Total
Cash flows from operating activities:			
Receipts from customers	$ 51,853	$ 100,562	$ 152,415
Payments to suppliers	(44,259)	(27,871)	(72,130)
Payments to employees	(33,563)	(67,663)	(101,226)
Net cash (used) in operating activities	(25,969)	5,028	(20,941)
Cash flows from investing activities:			
Interest collected on deposits	30	-	30
Purchase of equipment	-	(672)	(672)
Net cash provided by investing activities	30	(672)	(642)
Net increase in cash	(25,939)	4,356	(21,583)
Cash at beginning of year	48,517	6,783	55,300
Cash at end of year	$ 22,578	$ 11,139	$ 33,717
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ (27,363)	$ 435	$ (26,928)
Adjustments to reconcile change in net position to net cash provided by operating activities:			
Depreciation	1,473	240	1,713
Changes in operating assets and liabilities:			
Decrease in accounts receivable	-	129	129
Decrease in inventory	(1,332)	309	(1,023)
Decrease in prepaid taxes	52	173	225
Increasee in accounts payable and accrued liabilities	1,201	3,742	4,943
Total adjustments	1,394	4,593	5,987
Net cash used in operating activities	$ (25,969)	$ 5,028	$ (20,941)

The accompanying notes are an integral part of this statement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo (the Municipality) was founded in 1771. The Municipality is governed by the executive and the legislative branch elected for a four-year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen members of the Municipal Legislature. The Municipality engages in comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The Municipality's significant accounting policies are described below:

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Cabo Rojo (the primary government) and component units. A primary government is any state government or general-purpose local government (the Municipality). All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government. Component units are legally separate organizations for which the primary government is financially accountable or organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A component unit may be a governmental organization, a nonprofit corporation or a for-profit corporation. The following circumstances set forth a primary government's financial accountability for a legally separate organization:

a. The primary government appoints a voting majority of the entity's governing body, and either:
   - A financial benefit/ burden exists between the primary government and the entity or
   - The primary government can impose its will on the entity.

b. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

In addition, as described above, it would be necessary to include other legally separate, tax-exempt organizations as a component unit if the exclusion would cause the primary government's financial statements to be misleading or incomplete.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government (*blended component units*). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as *blended* if meets any of the following criteria:

a. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
   - A financial benefit/ burden relationship between the primary government and the entity or
   - Management of the primary government has operational responsibility for the component unit.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

c. The component unit's debt is expected to be paid by the primary government.

Based on the above criteria the following component units, while legally separate from the Municipality, meet the blending criteria to be reported as part of the primary government financial statements:

Component Unit	Brief description of Entity, relationship to the Municipality and key inclusion criteria
Empresa Municipal para el Desarrollo Economico, Cultural y Recreativo del Municipio de Cabo Rojo, Inc. P.O. Box 1308 Cabo Rojo, P.R. 00623	Empresa Municipal para el Desarrollo Economico, Cultural y Recreativo del Municipio de Cabo Rojo, Inc. (EM-Teatro) is a for-profit legally separated corporation organized pursuant Article 2.004 (u) of the Autonomous Municipalities Act No. 81 of 1991, as amended. It was created as a Municipal Enterprise through the Municipal Legislature Ordinance No. 27, Series 2014-2015, to promote arts, theatre, education and film industries for the benefit of the people of the Municipality of Cabo Rojo and the general public. It operates the "Teatro Excelsior", located in the Municipality. As required by law, it is governed by a Board of Directors composed of five (5) members (all Municipal officer's members of the executive branch) appointed by the Mayor (except for the Finance Director whose membership is compulsory). The Municipality appoints a voting majority of the EM-Teatro board of directors, has the ability to impose its will on the organization and provides significant financial support to finance its operating expenses. The financial statements of EM-Teatro are blended into the Municipality's financial statements as an enterprise fund since (1) the governing body of EM-Teatro is in substance the same as that of the Municipality and (2) the significant financial support the Municipality provides to EM-Teatro to finance its operating expenses.
Empresa Municipal para el Desarrollo del Deporte Caborrojeño, Inc. P.O. Box 1308 Cabo Rojo, P.R. 00623	Empresa Municipal para el Desarrollo del Deporte Caborrojeño, Inc. (EM-Gimnasio) is a for-profit legally separated corporation organized pursuant Article 2.004 (u) of the Autonomous Municipalities Act No. 81 of 1991, as amended. It was created as a Municipal Enterprise through the Municipal Legislature Ordinance No. 18, Series 2016-2017, to promote sports development for the benefit of the people of the Municipality of Cabo Rojo and the general public. It operates the "Gimnasio Nestor Nazario", located in the Municipality. As required by law, it is governed by a Board of Directors composed of five (5) members (all Municipal officer's members of the executive branch) appointed by the Mayor (except for the Finance Director whose membership is compulsory). The Municipality appoints a voting majority of the EM-Gimnasio board of directors, has the ability to impose its will on the organization and provides significant financial support to finance its operating expenses. The financial statements of EM-Gimnasio are blended into the Municipality's financial statements as an enterprise fund since (1) the governing body of EM-Gimnasio is in substance the same as that of the Municipality and (2) the significant financial support the Municipality provides to EM-Gimnasio to finance its operating expenses.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Otherwise, the component unit should be presented as *discrete*. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government (*discretely component units*), including other legally separate, tax-exempt organizations that meet the applicable criteria, as described above.

2. Basis of presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus. Following is a summary presentation of each, including the measurement focus and basis of accounting:

Required Supplementary Information - Management's Discussion and Analysis

This consists of a narrative that introduces the basic financial statements and provides and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide statements

The government-wide statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. Property taxes are considered imposed non-exchange transactions since they are based on assessments imposed by the Municipality that are not based on

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

exchange transactions. Property taxes are recognized as revenues in the year for which the taxes are levied. Municipal license taxes and sales and use taxes are considered derived tax revenues since they are taxes imposed by the Municipality based on exchange transactions. Municipal license taxes are recorded as revenues in the period the Municipality has an enforceable legal claim and time requirements are met; sales and use taxes are recognized as revenues in the period when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports a liability for unearned revenues in the government-wide statements. Unearned revenues arise when (1) resources are received in advance of an exchange transaction, (2) resources are received in advance in relation to a derived tax revenue, and (3) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after the related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

The government-wide statements are divided into two categories:

Governmental Activities: Most of the Municipality's basic services are reported here including: public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Business-type Activities: Business-type activities charges fees to customers to finance the costs of their activities. The activities of EM-Teatro and EM-Gimnasio are included here.

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. The fund financial statements provide more detailed information about the Municipality's most significant funds.

The Municipality has two kinds of funds, governmental and proprietary funds, as follows:

Governmental Funds – governmental funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. The Municipality reports the following major governmental funds:

General Fund: this is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Debt Service Fund: this fund is used to account for and report financial resources that are restricted for payment of principal and interest on long-term debt. This fund accounts for the resources of two individual funds: "Fondo 10 - CAE Municipal Redemption Fund" (a 2% special property tax surtax redemption fund) and, "Fondo 12 - SUT Municipal Redemption Fund" (.2% of the .5% from sales and use taxes).

Commonwealth Legislature Resolutions Fund - this fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature that are restricted, committed, or assigned for specific purposes which include, among others, acquisition, development and improvements of capital assets, public works, welfare and other community development projects.

Coronavirus Relief Fund (CRF): this fund is used to account for and report revenue sources from the U.S. Department of Treasury to cover costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19. Funds are received through the P.R. Department of Treasury and the P.R. Department of Health.

American Rescue Plan Act Fund (ARPA): this fund is used to account for and report revenue sources of the Coronavirus Local Fiscal Recovery Fund (CSLFRF) received from the U.S. Department of Treasury to provide resources to respond to the COVID–19 public health emergency and its economic impacts.

FEMA – Hurricane Maria Fund: this fund is used to account for and report revenue sources from the Federal Emergency Management Agency (FEMA) for assistance in debris removal, emergency protective measures and the repair, restoration, reconstruction or replacement of public facilities or infrastructure damaged or destroyed by the devastating effects of Hurricane Maria. Funds are received through the Central Office for Reconstruction and Recovery of P.R., the grantee for FEMA State Agreement DR-4339.

The Municipality also reports other nonmajor governmental funds in a single column, which includes the following:

Special Revenue Funds: this type of fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The core revenue source of the fund must represent a substantial portion of the fund's total inflows. The limitation on spending (specific purpose) may be imposed by external parties (creditors, grantors, contributors, other governments), by constitutional provisions, by enabling legislation or by action taken by the government's own highest level of decision-making authority.

Capital Projects Funds: this type of fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital projects. Typically, the fund is not used for routine or minor capital outlays (equipment, vehicles, furniture, among others) which are reported instead in the fund from which financial resources were expended. Rather, the fund is used primarily for major projects and acquisitions financed with borrowed or contributed resources. The use of a capital project fund frequently is required by debt covenants, grant contracts, laws or regulations.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenues susceptible to accrual include property taxes (recognized as revenues in the year for which the taxes are levied), municipal license taxes (recognized in the period the Municipality has an enforceable legal claim and time requirements are met), sales and use taxes (recognized when the underlying exchange has occurred) and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports a liability for unearned revenues in the governmental fund statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction, (2) resources received in advance in relation to a derived tax revenue, and (3) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, the liability for unearned revenues is removed from the balance sheet and revenue is recognized after related exchange transactions occur or applicable eligibility requirements are met.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Proprietary funds – Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting, as the business-type activities in the government-wide financial statements. Under this method of accounting, revenues are recorded when earned, independently of when they are collected, and expenses are recorded when incurred, independently of when they are paid. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Municipality's proprietary funds consist of two enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services be financed or recovered primarily through user charges. Major enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. The Municipality reports the following major enterprise fund:

Empresa Municipal Teatro Excelsior Fund: This fund, a blended component unit, is used to account for the activities of the Teatro Excelsior, operated by "Empresa Municipal para el Desarrollo Economico, Cultural y Recreativo del Municipio de Cabo Rojo, Inc." (EM-Teatro), as previously disclosed.

Empresa Municipal Gimnasio Nestor Nazario Fund: This fund, a blended component unit, is used to account for the activities of the Gimnasio Nestor Nazario, operated by "Empresa Municipal para el Desarrollo del Deporte Caborrojeño, Inc." (EM-Gimnasio), as previously disclosed.

Since EM-Teatro and EM-Gimnasio are tax-exempt organizations, the financial statements do not reflect a provision for income taxes and expenses related to property, municipal license and excise taxes.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information

Other required supplementary information consists of the Budgetary Comparison Schedule – General Fund, information related to **GASB Statements No. 73 and 75** and the related notes. For additional information, refer to **Notes P and Q.**

3. Cash and cash equivalents

Governmental activities – The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. The Municipality invest its available cash in checking bank accounts and in cash equivalents, which consist of nonnegotiable certificates of deposits with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits and are recorded at cost.

Business-type activities – Cash includes cash on hand and cash in bank accounts.

4. Receivables and due from Commonwealth and Federal Governments

Governmental activities – Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

5. Interfund transactions

The Municipality reports inter-fund transactions as follows:

Inter-fund loans: Represent legally advances that are representative of lending/borrowing arrangements from one fund to other fund to finance payroll, payroll taxes and other expenditures. The current portion of such transactions are referred as to either "due from/to other funds" and the noncurrent portion as "advances to/from other funds". Amounts not expected to be collected within a reasonable period of time are reduced to the estimated realizable value and amounts not expected to be repaid are reported as "transfer-out" from the lender fund and "transfer-in" in the borrower fund.

Inter-fund transfers: Represent legally flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as "transfers-out" (other financing uses) in the fund that issues the transfers and as "transfers-in" (other financing sources) in the fund receiving the transfers.

Inter-fund reimbursements: Represent repayment from a fund responsible for particular expenditures or expenses to the fund that initially finance them.

6. Inventories

Governmental activities – The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

7. Capital assets

Governmental activities – Capital assets reported in the governmental activities in the Statement of Net Position include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of $100 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are measured at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service capacity in an orderly market transaction at the acquisition date.

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Years
Buildings and building improvements	10 to 50
Infrastructure and infrastructure improvements	10 to 50
Land improvements	20
Furniture and fixtures	5 to 20
Vehicles	8

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

8. Accounts payable and accrued liabilities

Governmental and business-type activities – Accounts payable and accrued liabilities include general accounts payable to vendors and contractors, retainage payable, deposits payable, payroll taxes payable, and other accrued contingent liabilities not included in short-term or long-term liabilities.

9. Long-term obligations

Governmental activities – Long-term debt and other long-term obligations, which are reported as liabilities in the Statement of Net Position - governmental activities, consist of general and special obligation bonds, net pension liability, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. Compensated absences

Governmental activities – The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The total compensated absences' liability is reported in the government-wide financial statements and includes estimated payments that are related to payroll. A current portion is recognized representing the estimated amount to be used in the following year. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

11. Judgments and claims

The liability and expense amounts for judgments and claims are recorded in the government-wide statements as incurred or when a loss is probable and the amount can be reasonably estimated. Amounts are recorded as liabilities and expenditures in the general fund when they mature (generally, when payment is due).

12. Accounting for pension costs

The Municipality recorded PayGo payments as expenditures in the fund financial statements. Upon implementation of Act 106 of 2017, effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

For government-wide statements, the Municipality recognize pension costs transactions in accordance with the requirements of **GASB Statement No. 73,** *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".* Total pension liability, pension expense and deferred outflows/inflows of resources are recognized based on actuarial calculations. As a result of the conversion to a Paygo system, the actuarial calculation of the total pension liability is based on benefit payments rather than contributions. For further details refer to **Note P.**

13. Accounting for other postemployment benefits (OPEB)

Certain retired employees of the Municipality participate in an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan (OPEB), administered by ERS. The Municipality's contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of Treasury. Paygo payments are recorded as expenditures in the fund financial statements.

For government-wide statements, effective on July 1, 2017 the Municipality accounts for its OPEB transactions in accordance with **GASB Statement No. 75,** *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".* Total OPEB liability, OPEB expense and deferred outflow of resources are recognized based on actuarial calculations. For further details refer to **Note Q.**

14. Deferred outflows / 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 (expense/expenditure) 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.

In the statement of net position certain transactions related to pensions and OPEB are recorded as deferred outflows / inflows of resources. As a result of the application of the modified accrual basis of accounting in the governmental funds balance sheet, unavailable intergovernmental revenues are recognized as deferred inflows of resources until revenue became available. Municipal license taxes and voluntary non-exchange transactions (grants) received in advance are recorded as deferred inflows of resources in both government-wide and fund financial statements until time requirements are met.

15. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

16. <u>Net position flow assumption</u>

Sometimes the government will fund outlays for a particular purpose from both restricted (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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

17. <u>Fund balances</u>

Fund balance classifications on governmental funds comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Assigned: Amounts that are constrained by the Municipality's intent to be used for specific purposes but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts had been restricted, committed or assigned.

18. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of 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.

19. Risk financing

The Municipality carries insurance coverage for professional, public responsibility, property and theft, auto and fidelity bond losses. In addition, the Municipality also obtains medical insurance for its employees. Pursuant to Act No. 63 of June 21, 2010, the municipalities of Puerto Rico procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The total cost of the annual insurance premiums is paid in full and recorded as expense by the Municipality during the fiscal year.

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation, 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 annual cost of insurance is allocated to the Municipality and amounts are retained from monthly advances of property tax and municipal equalization fund sent to the Municipality by the CRIM.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration, a component unit of the Commonwealth of Puerto Rico. The annual premium is paid per licensed motor vehicle.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to the PRDOL on a cost reimbursement basis.

20. Use of estimates

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

21. Adoption of new accounting pronouncements

Effective July 1, 2020 the Municipality adopted the provisions of the following accounting pronouncements:
GASB Statement No. 84, *"Fiduciary Activities"* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

GASB Statement No. 90, *"Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61"* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.

22. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal year ended June 30, 2022), as delayed by ***GASB Statement No. 95.*** Earlier application is encouraged.

GASB Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period"* The objectives of this Statement are **(1)** to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and **(2)** to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (fiscal year ended June 30, 2022), as delayed by ***GASB Statement No. 95.*** Earlier application is encouraged.

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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (fiscal year ended June 30, 2023), as delayed by **GASB Statement No. 95.** Earlier application is encouraged.

GASB Statement No. 92, *"Omnibus 2020"* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of **Statement No. 87**, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports,
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan,
- The applicability of **Statement No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and **Statement No. 74**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits,
- The applicability of certain requirements of ***Statement No. 84***, Fiduciary Activities, to postemployment benefit arrangements,
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature,
- Terminology to refer to derivative instruments.

The requirements of this Statement are effective as follows, as delayed by **GASB Statement No. 95** (earlier application is encouraged and is permitted by topic):

- The requirements related to the effective date of **Statement 87** and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance (issued in January, 2020),
- The requirements related to intra-entity transfers of assets and those related to the applicability of **Statements 73 and 74** are effective for fiscal years beginning after June 15, 2021 (fiscal year ended June 30, 2022),
- The requirements related to application of **Statement 84** to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021 (fiscal year ended June 30, 2022),
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021 (fiscal year ended June 30, 2022).

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

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment,
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate,
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable,
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap,
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap,
- Clarifying the definition of *reference rate,* as it is used in Statement 53, as amended.

As delayed by **GASB Statement No. 95,** the removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022 (fiscal year ended June 30, 2023). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal year ended June 30, 2022). Earlier application is encouraged.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, (fiscal year ended June 30, 2023) and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *"Subscription-Based Information Technology Arrangements"* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after December 15, 2022 (fiscal year ended June 30, 2024). Earlier application is encouraged.

GASB Statement No. No. 97, *"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"* 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.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of ***Statement 84*** to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of ***Statement 67*** or paragraph 3 of ***Statement 74***, respectively, were effective on June of 2020,

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021 (fiscal year ended June 30, 2022). For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provides that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (fiscal year ended June 30, 2022).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

GASB Statement No. 98, *"The Annual Comprehensive Financial Report".* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021(fiscal year ended June 30, 2022). Earlier application is encouraged.

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

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. (April 2022)
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. (fiscal year ended June 30, 2023).
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. (fiscal year ended June 30, 2024).

GASB Statement No. 100, *"Accounting Changes and Error Corrections—an amendment of* ***GASB Statement 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. In addition, prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter (fiscal year ended June 30, 2024). Earlier application is encouraged.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB Statement No. 101, *"Compensated Absences".* The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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. In addition, requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences and requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. 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, and all reporting periods thereafter (fiscal year ended June 30, 2025). Earlier application is encouraged.

The impact of these statements on the Municipality's financial statements has not yet been determined.

NOTE B – DEPOSITS

Cash and cash equivalents – unrestricted and restricted

1. Governmental activities

The Municipality maintains cash deposits in commercial banks located in Puerto Rico. Cash and cash equivalents in the general fund are unrestricted to be used for general operational purposes. Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in commercial bank: (1) in the debt service fund consists of the undisbursed balance of some of the property and sales and use tax collections restricted for the repayment of the Municipality's general and special obligation bonds and notes, which are under the custody of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) (the Municipalities' fiscal agent) and held at a commercial bank, (2) in other governmental funds consists of cash balance of bonds and notes payable held by the Municipal Finance Agency in a commercial bank.

The Municipality follows the practice of pooling cash which includes unrestricted deposits of the general fund and other certain restricted non-federal special and capital project funds. Any unrestricted excess in the pooled cash account is available to meet is generally invested in certificates of deposits with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

NOTE A - DEPOSITS – Continued

Deposits are exposed to custodial credit risk, that is, the risk that in the event of a bank failure, the Municipality's deposits might not be recovered. Under the laws and regulations of the Commonwealth of Puerto Rico, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Municipality are held by agents designated by the Puerto Rico Secretary of Treasury, but not in the Municipality's name. The following discloses the Municipality's bank balance of deposits in commercial banks at-year-end:

	Commercial banks			
Funds	Unrestricted	Restricted	Restricted with Fiscal Agent	Total
General fund	$ 4,892,412	$ 3,541,554	$ -	$ 8,433,966
Debt Service	-	5,531,341	-	5,531,341
Commonwealth Legislative Resolutions	-	2,089,143	-	2,089,143
Coronavirus Relief Fund (CRF)	-	2,064,980	-	2,064,980
American Rescue Plan Act (ARPA)	-	15,140,851	-	15,140,851
FEMA - Hurricane Maria	-	1,789,927	-	1,789,927
Other governmental funds	-	1,340,858	853,018	2,193,876
	$ 4,892,412	**$ 31,498,653**	**$ 853,018**	**$ 37,244,083**

Business-type activities

At year-end, the EM-Teatro's and EM-Gimnasio's bank balances of deposits in commercial banks amounting to $23,351 and $11,527, respectively, were covered by the FDIC.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

Amounts due from (to) governmental entities as of June 30, 2021, follows:

	Due from		Due to
	Commonwealth Government	Federal Government	Commonwealth Government
Major fund – General fund:			
CRIM – property taxes	$550,884	$ -	$ -
P.R. Department of Labor	42,408	-	126,015
P.R. Health Insurance Administration (ASES)	-	-	1,063,150
P.R. Aqueduct and Sewer Authority (PRASA)	-	-	250,319
P.R. Employees Retirement System (ERS) – Paygo charges and withholdings Act No. 3	-	-	138,968
Others	-	-	4,306
Major fund – FEMA-Hurricane Maria fund:			
U.S. Department of Homeland Security - FEMA	-	103,589	-
Other governmental funds:			
U.S. Department of Homeland Security - Operation Stone Garden Program	-	45,511	-
U.S Department of Health and Human Services - Child Care	-	23,410	-
Community Development Block Grants/Entitlement Grant	-	61,803	-
U.S. Department of Agriculture - Housing Prevention Grant	-	13,791	-
	$ 593,292	**$ 248,104**	**$ 1,582,758**

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related **Note H**.

NOTE D - INTERFUND TRANSACTIONS

1. Due from/to other funds

Amounts due from/to other funds represent temporary advances to other funds by the general fund to finance payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Funds	Amount
Major funds:	**Major funds:**	
General fund	Commonwealth Legislative Resolutions	$ 223,856
	FEMA – Hurricane Maria	850,577
	Coronavirus Relief Fund	28,027
		1,102,460
	Other governmental funds:	
	CDBG	204,833
	School's maintenance program	150,304
	Section 8	8,861
	Operation Stone Garden	45,534
	Municipal Child Care	3,531
	Child Care	23,410
		436,473
		1,538,933
Other Governmental Funds:	**Major Funds:**	
Commonwealth Legislative Resolutions	General fund	3,717,925
Public Improvement Funds		689,656
School's maintenance program		120,275
		4,527,856
TOTAL:		**$ 6,066,789**

2. Transfers in (out)

Transfers among individual funds were made for operational purposes. Transfers during current year include:

a) a transfer-out from debt service fund to the general fund of $1,369,961 from excess funds in CAE Municipal redemption fund,

b) a transfer of $334,855 was recorded in the debt service fund from the CAE Municipal redemption fund to the SUT Municipal redemption fund for payment of long-term bonds and notes.

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NOTE E - CAPITAL ASSETS

1. Governmental activities

Capital assets and depreciation activity as of and for the year ended June 30, 2021 is as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 10,381,090	$ -	$ -	$ 10,381,090
Construction in progress	1,961,854			1,961,854
Total capital assets not being depreciated:	12,342,944			12,342,944
Capital assets, being depreciated:				
Building and improvements	51,826,566	-	-	51,826,566
Land improvement	9,870,058	-	-	9,870,058
Infrastructure	39,553,071	-	-	39,553,071
Machinery and equipment	4,260,865	-	-	4,260,865
Vehicles	10,233,603	-	-	10,233,603
Total capital assets being depreciated	115,744,163	-	-	115,744,163
Less accumulated depreciation for:				
Building and improvements	19,773,310	-	-	19,773,310
Land improvement	5,039,959	-	-	5,039,959
Infrastructure	23,008,348	-	-	23,008,348
Machinery and equipment	9,036,646	-	-	9,036,646
Vehicles	3,843,746	-	-	3,843,746
Total accumulated depreciation	60,702,009	-	-	60,702,009
Total capital assets being depreciated, net	55,042,154	-	-	55,042,154
Governmental activities capital assets, net	**$ 67,385,098**	$ -	$ -	**$ 67,385,098**

2. Business-type activities

Capital assets of EM-Teatro and EM-Gimnasio as of June 30, 2021 consists of equipment of $16,761, net of accumulated depreciation of $15,829.

NOTE F - LONG-TERM DEBT

1. Summary of long- term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2021:

NOTE F - LONG-TERM DEBT – Continued

	Balance at June 30, 2020 (as restated)	Increases	Decreases	Balance at June 30, 2021	Due within one year
General and special obligations bonds and notes	$ 21,513,891	$ -	$ 1,280,000	$ 20,233,891	$ 1,370,000
Note payable to FEMA:					
Community Disaster Loan - Hurricane Maria	5,000,000	-	-	5,000,000	-
Community Disaster Loan - Earthquake	-	4,687,497	-	4,687,497	-
Notes Payable to Retirement Board:					
PayGo, fiscal years 2018 and 2019	1,080,980	-	264,168	816,812	264,168
PayGo, fiscal year 2020	329,676	-	329,676	-	-
Note payable to CRIM - Financing of delinquent accounts (Law No. 146)	159,992	-	13,333	146,659	146,659
Note payable - landfill services supplier	404,623	-	151,728	252,895	151,728
Note payable - waste collection supplier	3,225,180	-	448,272	2,776,908	448,272
Note payable to U.S. HUD – disallowed costs	121,718	-	40,573	81,145	40,573
Compensated absences	2,689,343	94,741	259,583	2,524,502	197,294
Christmas Bonus	244,021	143,979	244,021	143,979	143,979
Landfill closure and post-closure costs	11,875,000	-	-	11,875,000	-
Total OPEB Liability	1,086,026	-	18,308	1,067,718	115,222
Total pension liability	27,483,508	2,221,156	-	29,704,664	1,189,195
	$ 75,213,958	**$ 7,147,373**	**$ 3,049,662**	**$ 79,311,670**	**$ 4,067,090**

2. General and special obligation bonds and notes

Pursuant to Act No. 64 of July 3, 1996 as amended, known as the Puerto Rico Municipal Financing Act of 1996 the Municipality is subject to a legal limitation on the total amount of indebtedness for general obligation bonds or notes, special obligation bonds, notes or instruments. The legal debt limitation of the Municipality for general obligation bonds or notes or notes in advance of general obligation bonds is equal to 10% of the total appraised value of the property located in the Municipality, should be as said appraisal values are determined by the CRIM. For special obligation bonds, notes or instruments, the Municipality is prevented to incur in additional obligations if the annual payment of principal and interest on said bonds, notes or instruments, together with the annual payment of principal and interest of the outstanding ones at that time, exceeds 10% of the average recurrent operating income of the Municipality of the 2 fiscal years immediately preceding the current fiscal year. These limitations are not applicable to obligations or loans whose source of repayment is the SUT Municipal Redemption Fund. Debt margin for these obligations is based on the Municipality's repayment capacity.

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2021 amount to $20,233,891. The Municipality levies an annual additional special ad valorem tax of 2% of the assessed value of personal and real property which is collected by the CRIM and deposited in the CAE Municipal Redemption Fund at a private commercial bank. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in the SUT Municipal Redemption Fund at a private commercial bank. Debt service funds has been established for the bonds and notes managed by AAFAF with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. The outstanding balance of bonds at year-end will be paid through the CAE Municipal Redemption Fund, except special obligation bonds of $4,530,000 and $2,556,000 which are paid through SUT Municipal Redemption Fund. A detail of the general and special obligation bonds and notes as of June 30, 2021 follows:

NOTE F - LONG-TERM DEBT – Continued

	Outstanding Amount
1999 general obligation bonds of $830,000 due in annual installments of $10,000 to $70,000 through July 1, 2023; bearing interest at rates ranging from 4.87% to 6.56% (6.56% at June 30, 2021)	$ 195,000
2002 general obligation bonds of $4,425,000 due in annual installments of $75,000 to $345,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (5.39% at June 30, 2021)	1,760,000
2004 general obligation bonds of $505,000 due in annual installments of $10,000 to $40,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.02% (4.80% at June 30, 2021)	235,000
2004 general obligation bonds of $545,000 due in annual installments of $10,000 to $35,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.02% (4.80% at June 30, 2021)	245,000
2004 special obligation note of $1,000,000 due in annual installments of $20,000 to $75,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.02% (4.80% at June 30, 2021)	485,000
2006 special obligation note of $355,000 due in annual installments of $5,000 to $25,000 through July 1, 2030; bearing interest at rates ranging from 4.17% to 5.02% (4.80% at June 30, 2021)	210,000
2010 special obligation note of $9,405,000 due in annual installments of $135,000 to $774,388 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (7.50% at June 30, 2021)	7,154,388
2011 special obligation note of $4,530,000 due in annual installments of $100,000 to $368,150 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50% (7.50% at June 30, 2021)	3,013,150
2012 special obligation note of $3,255,000 due in annual installments of $45,000 to $125,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50% (7.50% at June 30, 2021)	597,609
2012 special obligation note of $2,556,000 due in annual installments of $100,000 to $250,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50% (7.50% at June 30, 2021)	1,136,945
2014 special obligation note of $5,985,000 due in annual installments of $90,000 to $465,000 through July 1, 2038; bearing interest at rates ranging from 6.00% to 7.50% (7.50% at June 30, 2021)	5,201,799
	$ 20,233,891

NOTE F - LONG-TERM DEBT – Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2021 follows:

June 30,	Principal	Interest
2022	$ 1,370,000	$ 1,406,270
2023	1,460,000	1,308,989
2024	1,575,000	1,203,999
2025	1,620,000	1,093,042
2026	1,730,000	976,394
2027-2031	6,522,704	3,385,960
2032-2036	4,564,388	1,309,076
2037-2039	1,391,799	161,587
Totals	**$ 20,233,891**	**$ 10,845,317**

3. Other long-term liabilities

	Outstanding Amount
Note payable to FEMA – Community Disaster Loan Program (CDL-Hurricane Maria) – On May 17, 2018 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $5,000,000 for financial assistance under the Community Disaster Loan Program (CDL), bearing interest at 3.00% annually. The program provides assistance to local governments to overcome a loss in revenues as a result of Hurricane Maria's disaster, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity. The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. This note was subsequently cancelled by the federal government. Refer to **Note V**.	**$ 5,000,000**
Note payable to FEMA – Community Disaster Loan Program ("CDL") – On September 10, 2020 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $4,687,497 for financial assistance under the Community Disaster Loan Program ("CDL"), bearing interest at .250% annually. The program provides assistance to local governments to overcome a loss in revenues as a result of Earthquake's disaster of January 2020, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity. The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. This note was subsequently cancelled by the federal government. Refer to **Note V**.	**$ 4,687,497**

NOTE F - LONG-TERM DEBT – Continued

Note payable to Retirement Board, PayGo Charges years 2018 and 2019 - on August 14, 2019, the Municipality entered into a financial agreement with the Retirement Board to refinance on a long-term basis a matured debt of PayGo charges for the fiscal years 2017-2018 and 2018-2019 through a payment plan in the amount of $1,255,332. The balance was financed through a non-interest-bearing note, payable in 72 monthly installments of $17,435 through August 20, 2025. The note is currently being repaid with unrestricted funds. On June 19, 2020, the Municipality entered into a financial agreement with the Retirement Board to refinance on a long-term basis a matured debt of PayGo charges for the fiscal year 2019-2020 through a payment plan in the amount of $329,675. The balance was financed through a non-interest-bearing note, payable in 72 monthly installments of $4,579. During the fiscal year 2020-2021 the note was paid from various sources including the CRIM final liquidation of fiscal year 2019-2020. The monthly payments of $4,579 were applied to the FY 2020 note. Debt service requirements in future years are as follows: **$ 816,812**

June 30,	Principal
2022	$ 264,168
2023	264,168
2024	264,168
2025	24,308
Totals	**$ 816,812**

Note payable to CRIM (Financing of delinquent accounts)– On 2001 the Municipality entered into a financing agreement with the CRIM in the amount of $333,358 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.22% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on March 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years, any collection from those delinquent accounts was credited to the loan principal. After the five-year period, the loan outstanding balance was restructured for a twenty-five-year period. Refer to **Note V.** **$ 146,659**

Note payable, landfill services supplier - The Municipality entered into a financial agreement with a landfill services supplier as part of a Sentence for Stipulation and Transaction Agreement in January 2017. Through this agreement, the Municipality financed on a long-term basis a matured debt in the amount of $910,383 for the administration of the municipal landfill. The balance was financed through a .50% interest bearing note, payable in 72 monthly installments of $12,644 (including interest), through fiscal year 2022-2023. The note is currently being repaid with unrestricted funds. Debt service requirements in future years are as follows:

$ 252,895

June 30,	Principal	Interest
2022	$ 151,728	$ 759
2023	101,167	506
Totals	**$ 252,895**	**$ 1,265**

NOTE F - LONG-TERM DEBT – Continued

	Outstanding Amount
Note payable, waste collection supplier – On May 4, 2017 the Municipality entered into a financial agreement with a waste collection services supplier as part of a Sentence for Stipulation and Transaction Agreement. Through this agreement, the Municipality financed on a long-term basis a matured debt in the amount of $4,569,996. The balance was financed through a 10- year noninterest bearing note, payable in 71 monthly installments of $37,356, an installment payment of $37,341, 37 installments of $50,000 and a final payment of $30,379, through 2027 year. The note is currently being repaid with unrestricted funds. Debt service requirements in future years are as follows:	**$ 2,776,908**

June 30,	Principal
2022	$ 448,272
2023	448,272
2024	600,000
2025	600,000
2026	600,000
2027	80,364
Totals	**$ 2,776,908**

Note payable, U.S. HUD - on February 28, 2020 the Municipality entered into a financial agreement with the U.S. Department of Housing and Urban Development in the amount of $121,718, for repayment of disallowed CDBG costs. The balance was financed through a 3-year noninterest bearing note, payable in 3 installment payments of $40,573 due on October 1, 2022. The note is currently being repaid with unrestricted funds.	**$ 81,145**
Compensated absences – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. The amount is paid with unrestricted funds.	**$ 2,524,501**
Christmas Bonus – represents the accrued portion corresponding to fiscal year 2021 of the Christmas bonus to be paid in December 2021. The amount is paid with unrestricted funds.	**$143,979**
Estimated landfill closure and post-closure care costs– As described in **Note G**, **t**he Municipality owns municipal solid waste landfill. The Municipality has recognized an estimated liability for future closure and post-closure care costs.	**$ 11,875,000**
Total OPEB Liability – represents the balance of the liability for the medical insurance plan for Municipality's retirees in accordance with **GASB 75**, calculated by ERS actuaries for the measurement date June 30, 2020 (Refer to **Note Q**)	**$ 1,067,718**
Total pension liability – represents the balance of the total pension liability the Municipality in accordance with **GASB 73**, calculated by ERS actuaries for the measurement date of June 30, 2020 (Refer to **Note P**)	**$ 29,704,664**

NOTE G - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Municipality owns a solid waste landfill, which is operated by a private landfill operator. For those municipalities that own a solid waste landfill, the Commonwealth and Federal laws and regulations require to place a final cover on its landfill when it ceases or discontinue accepting waste or close its landfill. Accordingly, the Municipality is required to perform certain maintenance and monitoring activities at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste.

The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs. The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of $11,875,000 as of June 30, 2021, which is based on 100% usage of the landfill and based on the amount that would be paid if all the equipment, facilities and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2021. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. At present the Municipality's landfill is not receiving solid domestic waste, which is being transported and deposited in another Municipality.

NOTE H - DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

1. Government wide and governmental funds:

Municipal license taxes ("patentes en suspenso") are due on July 1 and January 1 of the subsequent fiscal year. Taxes may be paid in advance to the due dates. These taxes paid in advance are recorded as revenues or inflows of resources in the following fiscal period. Due to this time requirement, the amount paid in advance of $1,777,030 is recognized as deferred inflows of resources as of June 30, 2021.

2. Governmental funds – unavailable revenues:

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	Commonwealth Government	Federal Government
Major fund – General fund: CRIM – property taxes	$ 550,884	$ -
Other governmental funds:		
U.S. Department of Homeland Security - Operation Stone Garden Program	-	28,614
U.S. Department of Health and Human Services - Child Care	-	23,410
	$ 550,884	**$ 52,024**

NOTE I - FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2021 are shown in the following table:

	General	Commonwealth Legislative Resolutions	Debt Service	FEMA-Hurricane Maria	Other Governmental Funds	Total
Restricted:						
General public works and sanitation	$ -	$ -	$ -	$ 133,437	$ -	$ 133,437
Public safety	-	-	-	-	14,000	14,000
Housing, welfare and community development	-	-	-	-	777,095	777,095
Debt service - principal and interest on bonds and notes payable	-	-	3,847,105	-	-	3,847,105
Capital outlays	-	4,570,164	-	-	1,853,406	6,423,570
General government and other purposes	3,078,333	-	-	-	-	3,078,333
	3,078,333	4,570,164	3,847,105	133,437	2,644,501	14,273,539
Unassigned	(2,803,392)	-	(315,196)	-	(101,447)	(3,220,034)
	$ 274,941	**$ 4,570,164**	**$ 3,531,909**	**$ 133,437**	**$ 2,543,054**	**$ 11,053,505**

2. Fund balance deficits

Certain other governmental funds included in the fund statements disclosed fund balance deficits. The most significant balances are as follows:

Funds	Amount
Other Governmental Funds:	
School maintenance fund	$ 30,029
Operation Stone Garden	$ 28,614
Child Care	$ 26,176
Landfill Cell	$ 16,315

These deficits result from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements 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.

NOTE J - NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets component of net position (governmental activities) consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to significant unspent proceeds should not be included in the calculation. The amount of net investment in capital assets as of June 30, 2021 of governmental activities is comprised of the following:

Description	Amount
Capital assets, net of accumulated depreciation	$ 67,385,098
Outstanding balance on capital related debt	(19,380,873)
	$ 48,004,225

NOTE K - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes.

Real property valuations for tax assessments are based on the property's replacement cost value as if it were constructed in 1957, which was the last time a valuation assessment was performed on the real property in Puerto Rico. Structures built after 1957 are assessed for tax purposes as if they were built in 1957. Land is valued by January 1st of each year based on land area, land characteristics and prices that existed in 1957. Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value. Taxes on real property may be paid on two equal installments, July 1st and January 1st.

The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. A complete exemption from personal property taxes is granted up to an assessment value of $50,000 to retailers with annual net sales of less than $150,000. The tax is due with the return filed on or before May 15. Total tax rates in force as of June 30, 2021 are 7.03% for personal property and 10.28% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate	4.00%	6.00%
Plus: State redemption fund tax	1.03%	1.03%
Plus: Municipal CAE Tax	2.00%	3.25%
Total tax rate:	7.03%	10.28%
Discount granted by law to the taxpayers	(.20%)	(.20%)
Total rate to be paid by taxpayers:	**6.83%**	**10.08%**

Property tax collections are deposited by the CRIM and municipalities with collaborative collection agreements in a General Trust where AAFAF serves as trustee, the CRIM as a settlor and a commercial bank serves as the custodian. Collections are distributed based on a formula calculated by AAFAF and CRIM as follows: (1) the basic tax and equalization funds received from the P.R. Department of Treasury (PRDT) to the municipalities general fund, (2) the State Redemption tax to the PRDT for payment of GO bond claims and the Municipal CAE Tax to the Municipal CAE Redemption Fund maintained by AAFAF.

The Municipal CAE Redemption Fund is a trust fund in which AAFAF serves as trustee and a commercial bank serves as the custodian. Pursuant to the Trust Deed, the Municipal CAE Redemption Fund is composed of: (1) the MFA/Private Sector Sub-Fund, which accounts for revenues necessary to meet annual debt service on bonds, notes and loans issued or bought by the Municipal Finance Agency (MFA), the federal government or private banks and, (2) the GDB Sub-Fund, which accounts for revenues necessary to meet annual debt service on bonds, notes and loans issued by GDB.

Once a reserve equivalent to twelve months of debt service on all outstanding general obligations is funded, any surplus in the Municipal CAE Redemption Fund is placed at the disposal of the Municipality. Upon request and approval of AAFAF, once in a year these surplus funds, known as "excess CAE funds" are distributed to the Municipality net of withdrawal for payment of debts to governmental agencies, if any. Generally, these funds are transferred to the Municipality's general fund. The Municipality recorded these excess CAE funds as transfers-out in the debt service fund and as transfers-in the general fund.

NOTE K - PROPERTY TAXES – Continued

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM 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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable of $550,884 from the final settlement for fiscal year 2020-2021 is recorded as deferred inflows of resources since is not available are required by current standards.

NOTE L - MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before five (5) business days after April 15. During the fiscal year ended June 30, 2021, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

Tax payment is due 15 days after each period due date or on July 15 and January 15 of the subsequent fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made along with tax return submission on or before five (5) business days after April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $1,777,030 are recorded as deferred inflows of resources.

NOTE M - SALES AND USE TAXES

As imposed by Commonwealth and Municipal laws and regulations, the citizens of Puerto Rico are subject to sales and use taxes ("SUT") on a broad range of goods and services. The total tax is imposed at a combined 11.5% rate of which 10.5% belongs to the Commonwealth (collection process administered through the PRDT) and 1% for the municipalities (collection process administered through the Municipal Finance Corporation – COFIM). The tax is due the 20th day of each month based on tax collected in the preceding month. Merchants at the Municipality of Cabo Rojo render their tax return and payment directly at the Municipality, through COFIM's web site or through a bank institution.

Acts No. 18 and No. 19 of 2014, as amended by Act No. 84 of 2016, provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. Act No. 18 created a special fund called "Municipal Administration Fund" (FAM) administered by COFIM and a commercial bank serving as the custodian. The FAM permits the Municipalities to guarantee and pay long-term debt and provide funds for its general operations. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities.

Act No. 19 created COFIM, a public corporation, to issue bonds and use other financing mechanisms to pay or refinance all or a portion of the municipalities' debt obligations payable from the 1% municipal SUT. The Act includes provisions for municipalities that do not want to be covered by Act No. 18. Special rules apply for those municipalities. The non-participating municipalities will receive the full collection of the 1.0% of municipal sales and use tax but must relinquish their participation on the Municipal Development Fund created by Act No. 18. The Municipality of Cabo Rojo decided to not be a participating entity of these processes.

NOTE M - SALES AND USE TAXES – Continued

The Municipality's debt service fund reported revenues of $369,934 corresponding to the SUT Municipal Redemption Fund for the year then ended. Pursuant to Act no. 19 as amended, the 1% municipal SUT (the 1% Municipal Transfer) is transferred by COFIM to the general fund of the Municipality. For the fiscal year ended June 30, 2021 the Municipality recorded as revenue $2,098,208 in the general fund.

NOTE N – INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

1. Intergovernmental revenues in the General Fund are comprised of Commonwealth subsidies and equalization fund of $4,226,005 and other miscellaneous revenues of $88,329 for a total amount of $ 4,314,334.

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	Amount
PREPA - Compensation in lieu of tax (CELI) and municipal public lightning charges	$ 2,181,801
Construction excise tax	1,156,008
Rental income	183,855
Licenses and permits	44,025
Fines	5,065
Other	266,381
	$ 3,837,135

The Municipality reported as electric power revenues and expense the CELI and the municipal public lightning as reported by PREPA. PREPA's most recent revised Fiscal Plan was certified by the Oversight Board on June 29, 2020. As part of the implementation of the Fiscal Plan and applicable legislation (Act No. 57 of 2014 and Act No. 4 of 2016) one of the primary goals is the full recovery by PREPA of CILT and public lighting costs. Measures include moving all the municipal public lighting to the subsidies' rider in the customer bill, removal of all municipal for-profit entities from receiving an electric service credit from the CILT, establishing a maximum consumption cap on the municipal CILT (which will also be reduced by 15% in a three-year period) providing that the municipalities will pay for any excess and establishing a mechanism that promotes efficiency and additional savings above the mandated consumption cap. The Municipality reported an outstanding debt of $2,281 at year-end for energy consumption of municipal for-profit entities.

NOTE O – TAX ABATEMENTS

As established by **GASB Statement No. 77,** *"Tax Abatement Disclosures",* a tax abatement is a reduction in tax revenues or exemption from tax expense that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action that after the agreement has been entered into, it contributes to economic development or otherwise benefits the governments or the citizens of those governments. The Municipality's tax revenues may be reduced not only as a result of tax abatement agreements it enters into but also as a result of tax abatement agreements entered into by other governments, including the Commonwealth of Puerto Rico and its instrumentalities.

On July 1, 2019 the Commonwealth approved Act No. 60 (Act 60) which establishes the new Puerto Rico Incentives Code. It consolidates in one place dozens of previously approved incentive Acts, harmonizing and standardizing as much as possible, tax incentives applied to income, royalties, dividends and distribution of interest, and profits from capital.

NOTE O – TAX ABATEMENTS – Continued

It also adjusts municipal contributions to provide more participation to municipalities and increase their capacity to generate income. All changes are forward looking and do not apply to existing incentive contracts. Act 60 includes certain transitional measures between the Act's effective date and December 31, 2019. Effective on January 1, 2020, every incentive or tax benefit application shall be filed in accordance with the provisions of Act 60.

Agreements outstanding during fiscal year 2020-2021 are as follows:

		Tax abated			
Government instrumentality awarding the agreement	**Authority in law**	**Municipal license taxes**	**Real property tax**	**Personal property tax**	**Total**
P.R. Tourism Company	Act No 74 of 2010-TourismDevelopment Act	$ 23,690	$ 10,635	$ 47,386	$ 81,710
PR Department of Treasury	Act No. 168 of 1968 - Tax Incentives Act for Hospitals	35,689	27,692	37,511	100,892
Department of State	Act No. 135 of 1997	382,186	-	649,373	1,031,559
PR Department of Economic Development and Commerce	Act No. 335 of 1997 - Tax Incentives Act, Act No. 73 of 2008 - Economic Incentives Act for the Development of P.R	14,884	-	86,588	101,472
Department of Economic Development and Commerce Incentives Office	Act No 20-2012	6,447	-	-	6,447
U.S. Government Federal Communications Act	Federal Communications Act of 1996 Pub. Law 104-104, 47 Section 602	11,359	15,729	50,098	77,186
		$ 474,254	**$ 54,056**	**$ 870,956**	**$ 1,399,266**

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NOTE P – RETIREMENT PLANS

1. Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities

A. *Plan Description*

General - Prior to July 1, 2017, the Municipality was a participating employer in a retirement plan administered through a pension trust known as the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. During that period, ERS operated a pension plan under three benefits structures:

- a cost-sharing multiple employer's defined benefit plan under Act No. 447 of 1951 (Act 447) effective on January 1, 1952 for members hired up to March 31, 1990, and Act No. 1 of 1990 (Act 1) for members hired on or after April 1, 1990 and ending on or before December 31, 1999;

- a defined contribution plan known as System 2000 under Act No. 305 of 1999 (Act 305) for members hired from January 1, 2000 up to June 3, 2013;

- a defined contribution hybrid plan under Act No. 3 of 2013 (Act 3), for members hired after July 1, 2013, the Act's effective date. Furthermore, Act 3 moves all participants under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to the new defined contribution hybrid plan.

On September 30, 2016, ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

Benefit terms - the following is a general description of the benefit terms under the different benefit structures:

1) Service Retirement Eligibility Requirements
   a) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013, would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service; (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service; and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013, would be eligible to retire at any time.

      Act No. 447-1951 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

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

NOTE P – RETIREMENT PLANS – Continued

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

b) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 65 with 10 years of credited service; (3) for public officers in high-risk positions, any age with 30 years of credited service; and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 public officers in high-risk positions who were not eligible to retire as of June 30, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

c) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for public officers in high-risk positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for public officers in high-risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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

d) Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

2) Service Retirement Annuity Benefits

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

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

NOTE P – RETIREMENT PLANS – Continued

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

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

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for the Commonwealth Police and Firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for police and firefighters, the benefit was actuarially reduced for each year payment commences prior to age 58. For Act No. 447-1951, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit was 90% of highest compensation as a Mayor.

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

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

NOTE P – RETIREMENT PLANS – Continued

For all other Act No. 1-1990 members, the accrued benefit equaled 1.5% of average compensation multiplied by years of credited service. The benefit was actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit was not to be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service included service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

3) Compulsory Retirement

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

4) Termination Benefits

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

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

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

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

5) Death Benefits

a) Pre-retirement Death Benefit
Eligibility: Any current nonretired member was eligible.

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

NOTE P – RETIREMENT PLANS – Continued

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

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

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

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

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 may the benefit be less than $1,000. Either the Commonwealth for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. ERS pays for the rest. See Article 2-113 of Act No. 447- 1951, as amended by Act No. 524-2004.

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

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

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

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

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

6) <u>Disability Benefits</u>

a) Disability

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

NOTE P – RETIREMENT PLANS – Continued

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

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

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

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

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

7) Special Benefits

a) Minimum Benefits

i. Minimum Benefit for Members Who Retired before July 1, 2013 (Act No. 156- 2003, Act No. 35-2007, and Act No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013, is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007, and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month was paid by the Commonwealth for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month was to be paid by ERS for former government and certain public corporations without their own treasuries' employees or by certain public corporations with their own treasuries or municipalities for their former employees.

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

b) Cost of Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries were not entitled to COLAs granted after the retiree's death. Under the Eight Amended POA, upon its effective date of March 15, 2022, these COLA benefits will be eliminated.

NOTE P – RETIREMENT PLANS – Continued

c) Special "Bonus" Benefits

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

ii. Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Before July 1, 2017, the Commonwealth made contributions to the ERS for the special benefits granted by special laws. Special benefits to eligible Act 447-1951 participants are being paid by each employer as they become due since July 1, 2017.

Employees covered by benefit terms - identification of employees included in the actuarial valuation (measurement date June 30, 2020) by categories:

Category	Total members	Total members, Municipality
Active members	96,001	282
Inactive members in pay status (retirees, disabled members, beneficiaries)	123,784	168
TOTAL:	219,785	450

Pension reform, termination of Trust and implementation of GASB Statement No. 73 - On August 23, 2017 the Commonwealth enacted Act No. 106 (Act 106-2017) to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the reform of ERS's governance and administration and the creation and transition to a new defined contribution plan:

1) Act 106 created a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems.

2) Effective July 1, 2017, the Trust is terminated as a pension trust fund, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. All benefits including retirement, disability, death, and other pensioner additional benefits will be determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3, as discussed above.

   After that date, retirement benefits for retirees of the Commonwealth, the Municipalities and other participants of the ERS are guaranteed through a PayGo funding system. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. Payments are made by the Commonwealth and reimbursed by the employers (the Municipality) through a PayGo fee. During the fiscal year 2020-2021 the Municipality recorded as PayGo expenditures the amount of $1,304,417 of which $105,220 was recorded as due to Commonwealth Government as of June 30, 2021 and subsequently paid. The Paygo expenditures of $1,304,417 include approximately $1,189,195 of pension benefits and $115,222 of OPEB benefits.

NOTE P – RETIREMENT PLANS – Continued

3) The reform included the creation and procedures for transition to a new defined contribution plan. Act 106-2017 terminated the previous pension programs as of June 30, 2017. The members of the prior programs and the new system members hired on or after July 1, 2017 will be enrolled in the new program. (Discussed later in section 2 of this Note**. (Note P(2))**

As disclosed above, pursuant to Act 106-2017, the previous ERS's pension programs were terminated as of June 30, 2017 and effective July 1, 2017 the benefit payments are made through a PayGo funding system. The Trust was terminated as a pension trust fund and was required by Act 106-2017 to liquidate its assets and transfer the net proceeds to the PRDT. Paragraph 4 of GASB Statement No. 68 establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which the following criteria are met:

a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Since no assets are accumulated in a Trust that meet the above GASB 68 criteria, the Municipality follows the guidance of GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68"*.

The Municipality's GASB Statement 73 information for reporting period ending on June 30, 2021, is based on an actuarial valuation report dated July 6, 2022, prepared for ERS by Milliman, Inc.

B. ***Significant assumptions***

The actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	July 1, 2019, projected forward to June 30, 2020
Measurement date	June 30, 2020
Actuarial cost method	Entry age normal method
Actuarial assumptions:	
Compensation increases	3.0% per year, no compensation increases are assumed until July 1, 2021 as a result of the Act 3-2017 four-year extension of the Act 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.
Discount rate	2.21%
Municipal bond rate	2021%, based on Bond Buyer General Obligation 20-Bond Municipal Bond Index

NOTE P – RETIREMENT PLANS – Continued

Mortality

Pre-retirement mortality:

For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

Post-retirement retiree mortality:

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 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 MP-2020 on a generational basis. As a 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

C. ***Changes in Total pension liability***

Changes in total pension liability as of June 30, 2021 (measurement date June 30, 2020) was as follows:

	Amount
Balance at July 1, 2019	$ 27,483,508
Changes for the measurement year:	
Service cost	109,466
Interest on total pension liability	946,202
Effect of plan changes	(234,953)
Effect of economic / demographic gains and losses	(1,619,341)
Effect of assumptions changes or inputs	4,146,727
Benefit payments	(1,126,945)
Net changes	2,221,156
Balance at June 30, 2020 (measurement date)	**$ 29,704,664**

NOTE P – RETIREMENT PLANS – Continued

D. ***Sensitivity analysis***

The following presents the total pension liability calculated using the discount rate of 2.21%, as well as what the total pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate:

	1% Decrease 1.21%	Discount rate 2.21%	1% Increase 3.21%
Total pension liability as of June 30, 2020 (measurement date)	$ 34,375,868	$ 29,704,664	$ 25,977,141

E. ***Changes in assumptions***

Following is a description of changes in assumptions that affected measurement of the total pension liability since the prior measurement date:

1) The index rate and resulting discount rate decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020 (measurement date)

2) The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013 through June 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public plan experience. For healthy retirees and beneficiaries prior to the member's death, the postretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disabled retiree mortality table for males and females, respectively. For beneficiaries after the retiree's death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

3) The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.

4) The projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020.

F. ***Pension expense***

Following are the components of the Municipality's pension expense recognized in the accompanying statement of activities for the year ended June 30, 2021 (measurement period ending June 30, 2020):

	Amount
Service cost	$ 109,466
Interest on total pension liability	946,202
Effect of plan changes	(234,953)
Recognition (amortization) of deferred inflows/outflows of resources	
Effect of economic / demographic gains and losses	(732,194)
Effect of assumptions changes or inputs	719,178
Pension expense	**$ 807,699**

NOTE P – RETIREMENT PLANS – Continued

G. ***Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities***

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Municipality in the statement of net position as of June 30, 2021(measurement date as of June 30, 2020) follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 3,660,975
Changes in assumptions	4,313,582	717,686
Benefit payments made subsequent to measurement date	1,189,195	-
	$ 5,502,777	**$ 4,378,661**

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date of June 30, 2020 (year ended June 30, 2021) were approximately $1,189,195 and will be recognized as a reduction of the total pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows/inflows of resources from pension activities are scheduled to be recognized in pension expense as follows:

Year ended June 30,	Amount
2022	$ (13,016)
2023	(13,016)
2024	(13,016)
2025	(13,016)
2026	(13,015)
Totals	**$ (65,079)**

2. Defined Contribution Plan

As discussed above, the retirement systems' reform included the creation and procedures for transition to a new defined contribution plan. Act 106-2017 terminated the previous pension programs as of June 30, 2017. The members of the prior programs and the new system members hired on or after July 1, 2017 will be enrolled in the new program. Effective June 20, 2020, the participants have on-line access to their accounts and may manage their investment options. The following description provides general information of the new Plan:

General - Effective August 23, 2017, a new defined contribution plan (the Plan) was created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board is responsible for oversight of the Plan. A third-party plan administrator has been appointed by the Retirement Board, which will perform the Plan's recordkeeping and Management functions. The Retirement Board also appointed the Plan's trustee and the custodian of the Plan assets.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants have the opportunity to gain on-line access to their accounts and select and manage their investment options. The accumulated balance on the accounts of the prior program (Act 3) were transferred to the participant accounts.

NOTE P – RETIREMENT PLANS – Continued

Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions up to 20% of annual earnings up to $15,000, as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). The Plan permit additional catch-up contributions of $1,500 to participants that are 50 years and older in accordance with the 2011 PR Code. As stated by the Plan documents, the Employer (the Municipality) is not required and is not making matching contributions.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the Act 106-2017 Retirement Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the Act 106-2017 Retirement Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

NOTE Q – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution

1. Plan description

General - The Municipality is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (OPEB Plan). The OPEB Plan is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. It covers fulltime employees of the Commonwealth's primary government, certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan retired before July 1, 2013.

Benefits provided – The OPEB Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member, provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Funding - This OPEB Plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year. After benefits are funded, the Commonwealth claims reimbursement from each employer. The Municipality's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded.

Employees covered by benefit terms - identification of employees included in the actuarial valuation (measurement date June 30, 2020) by categories:

Category	Total members	Total members, Municipality
Active members	-	-
Retirees members	94,590	118

The Municipality's GASB Statement 75 information for reporting period ending on June 30, 2021, is based on an actuarial valuation report dated July 6, 2022, prepared for ERS by Milliman, Inc.

NOTE Q – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

2. Significant assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	July 1, 2019, projected forward to June 30, 2020
Measurement date	June 30, 2020
Actuarial cost method	Entry age normal method
Actuarial assumptions:	
Discount rate	2.21%, based on Bond Buyer General Obligation 20-Bond Municipal Bond Index
Mortality	Pre-retirement mortality: For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958. Post-retirement retiree mortality: The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 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 MP-2020 on a generational basis. As a 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

3. Changes in Total OPEB liability of OPEB Plan

Changes in total OPEB liability as of June 30, 2021 (measurement date June 30, 2020) was as follows:

NOTE Q – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

	Amount
Balance at July 1, 2019	$ 1,086,026
Changes for the measurement year:	
Interest on total OPEB liability	36,113
Effect of economic / demographic gains and losses	(31,580)
Effect of assumptions changes or inputs	86,535
Benefit payments	(109,376)
Net changes	(18,308)
Balance at June 30, 2020 (measurement date)	**$ 1,067,718**

4. Sensitivity analysis

The following presents the total OPEB liability calculated using the discount rate of 2.21%, as well as what the total OPEB liability would be if it was calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate:

	1% Decrease 1.21%	Discount rate 2.21%	1% Increase 3.21%
Total OPEB liability as of June 30, 2020 (measurement date)	$ 1,155,883	$ 1,067,718	$ 990,906

5. OPEB expense

Following are the components of the Municipality's OPEB expense recognized in the accompanying statement of activities for the year ended June 30, 2021 (measurement period ending June 30, 2020):

	Amount
Interest on total OPEB liability	$ 36,113
Recognition of deferred inflows/outflows of resources	
Effect of economic / demographic gains and losses	(31,580)
Effect of assumptions changes or inputs	86,535
OPEB expense	**$ 91,068**

6. Deferred Outflow of Resources related to OPEB

Deferred outflow resources related to OPEB pension activities reported by the Municipality in the statement of net position as of June 30, 2021(measurement date as of June 30, 2020) follows:

	Deferred Outflow of Resources
Benefit payments made subsequent to measurement date (approximately)	$ 115,222

NOTE Q – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – Continued

Deferred outflows of resources related to pensions resulting from the payment of benefits subsequent to the measurement date of June 30, 2020 (year ended June 30, 2021) were approximately $44,023 and will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022. Because all participants of ERS-OPEB are inactive, there are no deferred outflows or inflows of resources for changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share since these factors are recognized immediately during the measurement year.

NOTE R - COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to $26,280. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

2. Encumbrances

As of June 30, 2021, the Municipality has encumbrances outstanding which represent the estimated expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2021, are reported as assigned amounts in the general fund. Purpose classification follows:

Purpose	General Fund-assigned fund balance
General government	$ 163,471
Public works and sanitation	199,984
Public safety	2,803
Sports, culture and recreation	3,930
Health	870
Welfare and community development	10,188
	$ 381,246

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

NOTE S – CONTINGENCIES

1. Federal and Commonwealth Grants

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

NOTE S – CONTINGENCIES – Continued

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

NOTE T – RESTATEMENT OF FUND BALANCES \ NET POSITION

1. **Governmental activities \ governmental funds:** the following table disclose the net change in fund balances\net position at beginning of year as previously reported in the financial statements. The beginning balance has been restated as follows:

	Fund Balance					Net Position
Description	General	Debt Service	Commonwealth Legislature Resolutions	Coronavirus Relief Fund (CRF)	Other Governmental Funds	Governmental Activities
Fund balance \ net position at beginning of year, as previouly reported:	**$ (1,518,764)**	**$ 590,247**	**$ 4,699,722**	**$ -**	**$ 2,560,888**	**$ (29,474,251)**
Overstatement (understatement) of interfund loan payable	-	1,142,177	-	(20,831)	-	-
(Overstatement) of interfund loan receivable	(1,121,346)	-	-	-	-	-
Overstatement of accounts payable	-	410,289	-	-	-	410,289
Add: net effect of corrections - Section 8 Program		-	-	-	56,177	56,177
Overstatement of property taxes receivable	-	-	-	-	-	(2,270,767)
Overstatement of accounts payable	-	-	-	-	-	5,644
Overstatement of unearned revenues - Federal	-	-	-	-	-	46,250
Overstatement of compensated absences debt reported as of June 30, 2020	-	-	-	-	-	136,761
Understatement of HUD disallowed costs debt not accrued as of June 30, 2020	-	-	-	-	-	(121,718)
Add: net effect of GASB Statement No. 73 adjustments to record total pension liability, deferred outflows and inflows of resources balances for reporting period ending June 30, 2020 (measurement date June 30, 2019):	-	-	-	-	-	31,068,803
Add: net effect of GASB Statement No. 75 adjustment to record total OPEB liability and deferred outflow of resources for reporting period ending June 30, 2020 (measurement date June 30, 2019):	-	-	-	-	-	(976,650)
Fund balance \ net position at beginning of year, as restated:	**$ (2,640,110)**	**$ 2,142,713**	**$ 4,699,722**	**$ (20,831)**	**$ 2,617,065**	**$ (1,119,462)**

NOTE T – RESTATEMENT OF FUND BALANCES \ NET POSITION – Continued

2. **Business-type activities \ proprietary funds:** the beginning net position of EM-Teatro and EM-Gimnasio of $58,628 has been restated to correct an understatement of accounts payable of $1,512 in EM-Teatro and an overstatement of accounts receivable of $763 in EM-Gimnasio. Total restated beginning net position amounts to $56,353.

NOTE U – FISCAL AND ECONOMIC CONDITIONS

The Municipality faces fiscal and economic risks and challenges due to different conditions including, among others, the elimination of the Commonwealth subsidy transfer to the Municipalities, natural disasters, and the impact of COVID-19:

1. Elimination of Commonwealth's subsidy transfer

On May 3, 2017, a petition of relief was filed by the Oversight Board on behalf of the Commonwealth under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan, the most recent certified by the Oversight Board on April 23, 2021.

The Commonwealth provide to the Municipalities subsidy transfers of funds from the 35% of net revenues from the lottery system and 2.5% of net internal revenues from the Commonwealth's General Fund. The latest certified Fiscal Plan provides for the reduction and eventual elimination of the 2.5% Commonwealth transfer. Starting in fiscal year 2017-2018, the total municipal appropriations were reduced by $150 million, bringing a new baseline of $220 reduction in the Commonwealth's subsidies to the municipalities. The reduction will be gradually implemented by 20% on each successive year starting at $44M in fiscal year 2018-2019. However, due to the COVID-19 pandemic, the transfer of fiscal year 2020-2021 was kept to provide financial support to the municipalities during the crisis. The reduction will resume in fiscal year 2021-2022 to fiscal year 2023-2024, before ultimately phasing-out in fiscal year 2024-2025. The Fiscal Plan propose incentivizing consolidations of municipal services and a property tax reform to help the Municipalities to offset the reduction and become more solvent. The Municipality cannot adequately estimate the possible effects of the elimination of the 2.5% Commonwealth transfer on its operations in future fiscal years.

2. Impact of COVID-19

On March 2020, the World Health Organization declared the outbreak of a new coronavirus (COVID-19) as a pandemic that continues to spread. The United States Government declared a nationwide public health emergency in order to make efforts to contain the virus and provide measures to mitigate the negative effect on the economy. Also starting on March 2020, the Governor of the Commonwealth of Puerto Rico issued various executive orders which, among other things, imposed an overnight curfew, ordered schools, non-essential businesses, nonprofit entities and Commonwealth and Municipal governmental organizations to close or partially operate.

As a result of the impact of the spread of the outbreak and these executive order measures, the Municipality experienced reductions in certain operating (tax) revenues and receipts causing, among other situations, cash flow problems. The Municipality at this time cannot predict with any certainty the actual impact COVID-19 may have on revenues in the upcoming fiscal years. While the impact on the Municipality is uncertain at this time, the Municipality is monitoring the impact and taking several measures to ensure continuity of services of the general public while protecting employees from this virus. The occurrence and extent of such an impact will depend on future developments, including the duration and future spread of the outbreak. Businesses, the Commonwealth, Municipal governments and people of Puerto Rico were granted with financial assistance in order to alleviate the economic impact of the virus. The Municipality was awarded with the following financial support during fiscal year 2020-2021:

NOTE U – FISCAL AND ECONOMIC CONDITIONS – Continued

Grantor	Description
Federal Government: COVID-19 Coronavirus Relief Fund - (passed-through the P.R. Department of Health)	Grant for COVID Testing and Contact Tracing Program: Original contract of $400,000, plus $276,619 on October 2021.
Federal Government: COVID-19 Coronavirus Relief Fund - (passed-through the P.R. Department of Treasury)	Transfer grant to Municipalities: ✓ Transfer agreement #1 dated July 13, 2020 for $1,395,845. ✓ Transfer agreement #2 dated December 23, 2020 for $1,520,020. ✓ Transfer agreement #3 for $1,000,000.

Additional COVID-19 funds were received during fiscal year as part of existing grants including Section 8 Housing Choice Voucher and Child Care Development Block Grant.

On March 11, 2021 the U.S. President signed into law the American Rescue Plan Act (ARPA). Section 9901 of ARPA amended Title VI of the Social Security Act 17 (the Act) to add section 602, which establishes the Coronavirus State Fiscal Recovery Fund, and section 603, which establishes the Coronavirus Local Fiscal Recovery Fund (together, known as the Coronavirus State and Local Fiscal Recovery Funds, "CSLFRF"). The CSLFRF are intended to provide support to State, local, and Tribal governments in responding to the impact of COVID–19 and in their efforts to contain COVID–19 on their communities, residents, and businesses. Through Section 603 of the Act, funds were allocated through three different units of government: counties, metropolitan cities and to non-entitlement units. The Municipality was awarded $9,229,232 through funds allocated to Counties and $21,052,469 through funds allocated to metropolitan units of government, for a total amount of $ 30,281,701. During fiscal year the Municipality received in advance 50% of the total grant or $15,140,851.

Due to the economic and financial uncertainties described, the extent to which COVID-19 may impact the Municipality's future financial condition or results of operations is undeterminable.

NOTE V - SUBSEQUENT EVENTS

The Municipality has evaluated subsequent events through November 25, 2022 which is the date the financial statements were available to be issued. Management is not aware of any subsequent events that requires adjustment or disclosure in the financial statements or its related notes, except for the facts disclosed in accompanying **Note U** and the following:

Governmental activities

1. Foregiveness – Community Disaster Loan

As disclosed in **Note F**, as of June 30, 2021 the Municipality recorded an outstanding principal balance of $5,000,000 related to the CDL – Hurricane Maria and $4,687,497 for the CDL – Earthquake.

On September 30, 2021, the United States Congress passed the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43). According to P.L. 117-43 SEC. 1601. (a): "Repayments of the remaining balances of all loans, as of September 30, 2021, by the Federal Emergency Management Agency under section 417 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5184) are hereby cancelled". Accordingly, the outstanding balance of principal and interest of the referenced loans as of September 30, 2021 was cancelled.

NOTE V – SUBSEQUENT EVENTS – Continued

2. Implementation of Eight Amended POA

The "Modified Eight Amended Title III Joint Plan of Adjustment" of the Commonwealth of Puerto Rico (the Eight Amended POA) became effective on March 15, 2022. The conditions precedent to that date were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Eight Amended POA has been confirmed and is currently effective as of the date hereof. Following is a brief description of certain settled agreements:

i. In relation to the Commonwealth:

a) The Eight Amended POA reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%.

b) All of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged.

c) All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws.

d) Effectuating the Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

ii. In relation to pension plan of ERS (municipal employees are participants):

a) Employees who joined ERS on or after January 1, 2000, were enrolled in a hybrid cash balance plan. The hybrid account balances were credited with the employee contributions made to the plan and interest that was connected to the overall ERS trust return. As a result of Act 106-2017, these accounts were frozen as of June 30, 2017, and no longer were credited with either employee contributions or interest. Pursuant to a settlement incorporated into the Eighth Amended POA, on the effective date the System 2000 participants received the value of their contributions and any interest accrued under the terms of the plan through the Commonwealth petition date as a deposit into their Act 106-2017 new defined contribution plan accounts. Upon the payment of these refunds, all claims related to the System 2000 Program were discharged.

b) Funding of the Pension Reserve Trust: On the Effective Date, the Commonwealth shall contribute, or cause to be contributed, to the Pension Reserve Five Million Dollars $5,000,000.00 to fund the initial administrative fees, costs and expenses of the Pension Reserve Trust. This Trust will be established and funded to ensure that future PayGo benefits can be supported regardless of the future economic or political situation in the Commonwealth. The trust will be independently managed by a committee whose members shall meet the independence, professionalism, experience, and qualification standards set forth in the Pension Reserve Deed of Trust. Funding for the pension reserve trust is to be provided according to a formula based on the Commonwealth's annual surpluses. The pension reserve trust is projected to be fully funded by FY2039, at which point withdrawals can be made to fund PayGo pension payments under certain conditions.

NOTE V – SUBSEQUENT EVENTS – Continued

c) For ERS participants hired prior to January 1, 2000, defined benefits accrued and payable under Act 1 and Act 447 were frozen as of June 30, 2013 by Act 3-2013. As a result, from July 1, 2013 through June 30, 2017, these employees also accrued benefits under a hybrid plan from employee contributions and interest associated with ERS trust returns similar to System 2000. These benefits are annuitized and paid out along with the defined benefits calculated under Act 1 / Act 447. Additionally, such individuals employed as of the effective date received a one-time contribution of $2,600 to their Act 106-2017 new defined contribution plan accounts.

d) Elimination of "Cost of Living Adjustments" (COLA) to Pension Benefits upon effective date.

3. Property tax amnesty

As part of the initiatives of the CRIM's Fiscal Plan (certified by the Oversight Board), the CRIM is required to take certain actions with respect to accounts showing outstanding debts on their records. In an effort to search for alternative measures to provide taxpayers with a final opportunity to be compliant and pay any outstanding debts over real property taxes due, "Regulation No. 9323: Taxpayer's Benefit for the Payment of Debts" (Regulation 9323) was approved on September 2021. It established the "Program for the Collection of Outstanding Debts" (the Program), granting discounts over amounts due for certain fiscal years. Regulation No. 9323 grants all taxpayers and the CRIM the opportunity to clarify any situation related to real property including, but not limited to, ownership, taxation, records, among other matters, without losing the benefit of claiming any discounts. Any natural or legal person that owes real property taxes as of fiscal year ending on June 30, 2020 (excluding fiscal years 2020-2021 and 2021-2022) qualifies for the Program.

Amounts collected will be distributed in accordance with the following waterfall payment: a) 5% of the basic contribution to cover the Program's operational costs, then, b) for payments of any outstanding debt related to the nullification of Law No. 29 of 2019, then, c) for payment of any outstanding debt related to Law No. 42 of 2000 and Law No. 146 of 2002 and then, d) the net amount, in any, to the Municipality's general fund.

Phase one of the Program ended on February 28, 2022. Following is the distribution to the Municipality of Cabo Rojo as determined by the CRIM:

	Amount
Total basic contribution (net of CRIM's 5% administrative fee)	$ 2,560,606
Less: amount retained for principal payment of Law No. 146	(146,660)
Net amount to be paid to the Municipality:	**$ 2,413,946**

On May 9, 2022 the CRIM authorized the payment of the 50% of the net amount, or $1,206,973 to the Municipality.

4. Payment plan – unemployment insurance

On March 18, 2022 the Municipality entered into a financial agreement with the Puerto Rico Department of Labor to finance on a long-term basis a matured unemployment debt in the amount of $547,593 as of the fourth trimester of 2021 (December 2021). The balance was financed through a 3-year, 9.409% interest bearing note, payable in 36 monthly installments of $14,420, and a down payment of $109,519 through 2025 year. The note will be repaid with unrestricted funds, financed with monthly property tax advances from the CRIM. The Municipality recorded the matured debt as of June 30, 2021 of $126,015 as due to Commonwealth agencies in the general fund. Refer to **Note C.**

NOTE V – SUBSEQUENT EVENTS – Continued

5. Impact of Hurricane Fiona

On September 18, 2022, Puerto Rico was directly impacted by Hurricane Fiona causing a level of widespread destruction in many areas of the island including infrastructure, housing, environment, and public and private property. The hurricane caused property damages which could not be currently determined. As a result of the massive impact of the hurricane, a series of actions and events have been taken by the Federal Government.

A major disaster declaration, FEMA-4671-DR-PR, was signed by the President of the United States on September 21, 2022. Under this declaration, all 78 Municipalities of the Commonwealth of Puerto Rico have been designated adversely affected by the disaster and eligible for Public Assistance (PA), Hazard Mitigation Grant (HMGP) and Individual Assistance (IA) programs, implemented under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The Municipality of Cabo Rojo has been designated for IA and PA for debris removal and emergency protective measures (Categories A and B) and permanent work (Categories C-G). For a period of 30 days from the start of the incident period, the Municipality is authorized to fund assistance for debris removal and emergency protective measures, including direct Federal assistance, at 100 percent of the total eligible costs, instead of 75 percent.

Furthermore, the U.S. Office of Management and Budget granted a six months extension for all single audits that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022. The Municipality of Cabo Rojo benefited from this extension.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2021

	Budgeted Amounts			
	Original	**Final**	**Actual Amounts (Budgetary Basis)**	**Variance with Final Budget**
REVENUES:				
Taxes:				
Property taxes	$ 7,876,620	$ 7,876,620	$ 8,066,251	$ 189,631
Municipal license taxes	2,882,742	2,882,742	2,476,841	(405,901)
Sales and use taxes	1,405,116	1,405,116	2,098,208	693,092
Intergovernmental	930,851	184,347	170,760	(13,587)
Fees, fines and charges for services	2,801,126	1,507,630	1,645,191	137,561
Interest	1,000	1,000	2,115	1,115
Other	1,572,455	3,612,455	516,713	(3,095,742)
Total revenues	17,469,910	17,469,910	14,976,079	(2,493,831)
EXPENDITURES:				
Current:				
General government	7,979,231	7,434,079	5,431,744	2,002,335
Public works and sanitation	2,958,403	5,729,844	2,988,614	2,741,230
Public safety	1,740,808	1,775,281	1,232,080	543,201
Culture and recreation	818,226	834,015	638,819	195,196
Health	3,172,853	800,489	316,638	483,851
Welfare and community development	800,389	896,202	701,896	194,306
Total expenditures	17,469,910	17,469,910	11,309,791	6,160,119
Excess of revenues over expenditures	-	-	3,666,288	3,666,288
Other financing uses:				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing uses	-	-	-	-
Excess of revenues over expenditures and other financing uses	**$ -**	**$ -**	**$ 3,666,288**	**$ 3,666,288**

The accompanying notes are an integral part of this required supplementary information.

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget applicable to the fiscal year ending June 30, 2021 was prepared for the General Fund following the requirements of Article 7.001 of Act No. 81 of 1991. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget, and the actual results under the budgetary basis of accounting.

The budgetary basis of accounting is different from accounting principles generally accepted in the United States of America ("US GAAP"). Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders or contracts) are considered expenditures when a commitment is made. On a US GAAP basis, encumbrances outstanding at year-end are reported in the governmental fund balance sheet as assigned fund balance since they do not constitute expenditures or liabilities while, on a budgetary basis, encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

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NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	**$ 3,666,288**
Budget to GAAP differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes:	88,329
Non-budgeted funds recorded as expenditures for financial reporting:	(4,527,078)
Non-budgeted transfers in:	1,246,130
Non budgeted other financing sources (uses):	4,687,497
Revenues recorded for financial reporting purposes but not in budgetary basis:	2,674,540
Revenues recorded in budgetary basis purposes but not in financial reporting:	(107,439)
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(3,731,408)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	381,246
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(1,463,055)
Net change in fund balance (GAAP basis):	**$ 2,915,051**

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
REQUIRED SUPPLEMENTARY INFORMATION-
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS
JUNE 30, 2021

Following is a schedule of changes in total pension liability as of the last three reporting period dates:

TOTAL PENSION LIABILITY

Measurement date	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Reporting period date	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**
Balance at beginning of year	$ 27,483,508	$ 26,889,384	$ 34,687,165
Changes for the measurement year:			
Service cost	109,466	96,642	83,497
Interest on total pension liability	946,202	1,022,685	1,092,637
Effect of plan changes	(234,953)	-	(3,702,100)
Effect of economic / demographic gains and losses	(1,619,341)	(595,534)	(3,017,826)
Effect of assumptions changes or inputs	4,146,727	1,201,166	(1,148,300)
Benefit payments	(1,126,945)	(1,130,835)	(1,105,689)
Net changes	2,221,156	594,124	(7,797,181)
Balance at end of year	**$ 29,704,664**	**$ 27,483,508**	**$ 26,889,384**
Covered-employee payroll	$ 4,356,973	$ 6,848,079	$ 5,468,168
Employer's total pension liability as a percentage of covered-employee payroll	681.77 %	401.33 %	491.74 %

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

NOTE A – PRESENTATION

The accompanying schedule of changes in total pension liability and related rations is presented as required by the provisions of GASB Statement No. 73.

The information in the schedule relates solely to the Municipality and not for the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) as a whole.

The schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported. Additional years will be disclosed as they become available.

NOTE B – CHANGES IN BENEFIT TERMS

Pursuant to Act 106-2017, the previous ERS's pension programs were terminated as of June 30, 2017 and effective July 1, 2017 the benefit payments are made through a PayGo funding system. Accordingly, no assets are accumulated in a Trust that meet the criteria of paragraph 4 of GASB Statement No. 68.

The members of the prior programs and the new system members hired on or after July 1, 2017 will be enrolled in a new defined contribution program.

NOTE C – CHANGES IN ASSUMPTIONS

Following is a description of changes in assumptions that affected measurement of the total pension liability since the prior measurement date:

Measurement date	Description
June 30, 2020	The discount rate decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020.
June 30, 2019	The discount rate decreased from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.
June 30, 2018	The discount rate increased from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
REQUIRED SUPPLEMENTARY INFORMATION-
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2021

Following is a schedule of changes in total OPEB liability as of the last three reporting period dates:

TOTAL OPEB LIABILITY

Measurement date	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Reporting period date	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**
Balance at beginning of year	$ 1,086,026	$ 1,107,654	$ 1,226,723	$ 1,582,435
Changes for the measurement year:				
Interest on total pension liability	36,113	40,637	41,788	43,248
Effect of economic / demographic gains and losses	(31,580)	30,266	(12,598)	(4,934)
Effect of assumptions changes or inputs	86,535	23,783	(28,282)	(263,149)
Benefit payments	(109,376)	(116,314)	(119,977)	(130,877)
Net changes	(18,308)	(21,628)	(119,069)	(355,712)
Balance at end of year	**$ 1,067,718**	**$ 1,086,026**	**$ 1,107,654**	**$ 1,226,723**
Covered-employee payroll	N/A	N/A	N/A	N/A
Employer's total OPEB liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A

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

NOTE A – PRESENTATION

The accompanying schedule of changes in total OPEB liability and related rations is presented as required by the provisions of GASB Statement No. 75.

The information in the schedule relates solely to the Municipality and not for the OPEB Plan as a whole.

The schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported. Additional years will be disclosed as they become available.

NOTE B – CHANGES IN BENEFIT TERMS

This OPEB Plan is financed on a pay-as-you-go basis. Accordingly, no assets are accumulated in a Trust that meet the criteria of paragraph 4 of GASB Statement No. 75.

NOTE C – CHANGES IN ASSUMPTIONS

Following is a description of changes in assumptions that affected measurement of the total OPEB liability since the prior measurement date:

Measurement date	Description
June 30, 2020	The discount rate decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020.
June 30, 2019	The discount rate decreased from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.
June 30, 2018	The discount rate increased from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND INCOME STATEMENT
JUNE 30, 2021

Line Item No.	Description	14.871 Housing Choice Vouchers	14.HCC CARES Act - HCV Program Administrative Fees	14.EHV Emergency Housing Vouchers	Total
	Balance Sheet				
Assets					
111	Cash - unrestricted	147,365	-	6,400	153,765
113	Cash - other restricted	36,593	4,745	28,000	69,338
100	**Total cash**	**183,958**	**4,745**	**34,400**	**223,103**
121	Accounts receivable - PHA projects	4,643	-	-	4,643
128	Fraud recovery	25,975	-	-	25,975
128.1	Allowance for doubtful accounts - fraud	(22,670)	-	-	(22,670)
120	Total receivables, net of allowance for doubtful accounts	**7,948**	**-**	**-**	**7,948**
150	**Total Current Assets**	**191,906**	**4,745**	**34,400**	**231,051**
164	Furniture, equipment and machinery - administration	19,120	-	-	19,120
166	Accumulated depreciation	(1,572)	-	-	(1,572)
160	Total capital assets, net of accumulated depreciation	**17,548**	**-**	**-**	**17,548**
180	**Total Non-current Assets**	**17,548**	**-**	**-**	**17,548**
190	**Total Assets**	**209,454**	**4,745**	**34,400**	**248,599**
200	Deferred Outflow of Resources	-	-	-	-
290	**Total Assets and Deferred Outflow of Resources**	**$ 209,454**	**$ 4,745**	**$ 34,400**	**$ 248,599**
Liabilities and net position					
312	Accounts payable <= 90 days	360	-	-	360
322	Accrued compensated absences - current portion	3,342	-	-	3,342
333	Accounts payable - other government	8,861	-	-	8,861
342	Unearned Revenue	-	4,745	28,000	32,745
310	**Total Current Liabilities**	**12,563**	**4,745**	**28,000**	**45,308**
354	Accrued compensated absences - non current	3,273	-	-	3,273
350	**Total Non-current Liabilities**	**3,273**	**-**	**-**	**3,273**
300	**Total Liabilities**	**15,836**	**4,745**	**28,000**	**48,581**
400	Deferred Inflow of Resources	-	-	-	-
508.4	Net Investment in Capital Assets	17,548	-	-	17,548
511.4	Restricted Net Position	39,538	-	-	39,538
512.4	Unrestricted Net Position	136,532	-	6,400	142,932
513	**Total Equity/Net Position**	**193,618**	**-**	**6,400**	**200,018**
600	**Total Liabilities, Deferred Inflows of Resources and Equity/Net Position**	**$ 209,454**	**$ 4,745**	**$ 34,400**	**$ 248,599**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND INCOME STATEMENT
JUNE 30, 2021

Line Item No.	Description	14.871 Housing Choice Vouchers	14.HCC CARES Act - HCV Program Administrative Fees	14.EHV Emergency Housing Vouchers	Total
	Income Statement				
Revenues					
70600-010	Housing assistance payments	$ 485,604	$ -	$ -	$ 485,604
70600-020	Ongoing administrative fees earned	78,702	28,318	-	107,020
70600-050	Total Preliminary Fees Earned	-	-	6,400	6,400
70600	**HUD PHA operating grants**	**564,306**	**28,318**	**6,400**	**599,024**
71100	**Investment income - unrestricted**	110	-	-	110
71500	Other revenue	53,640	-	-	53,640
72000	**Investment income - restricted**	-	-	-	-
700	**Total Revenue**	**618,056**	**28,318**	**6,400**	**652,774**
91100	Administrative salaries	66,492	-	-	66,492
91500	Employee benefit contributions- administrative	10,919	-	-	10,919
91900	Other	1,063	-	-	1,063
91000	**Total Operating - Administrative**	**78,474**	-	-	**78,474**
96200	Other general expenses	5,228	-	-	5,228
96210	Compensated absences	-	-	-	-
96600	Bad debt - other	-	-	-	-
96000	**Total Other General Expenses**	**5,228**	-	-	**5,228**
96900	**Total Operating Expenses**	**83,702**	-	-	**83,702**
97000	**Excess Revenue Over Operating Expenses**	**534,354**	**28,318**	**6,400**	**569,072**
97300	**Housing assistance payments**	**484,671**	-	-	484,671
97350	**HAP Portability-in**	46,572	-	-	46,572
90000	**Total Expenses**	**531,243**	-	-	**531,243**
10000	**Excess (Deficiency) of Revenue Over (Under) Expenses**	**86,813**	**28,318**	**6,400**	**121,531**
11030	Beginning equity	173,987	-	-	173,987
11040	Prior period adjustments, equity transfers, and correction of errors	17,861	-	-	17,861
11170-001	Administrative Fee Equity - Beginning Balance	$ 135,382	$ -	$ -	$ 135,382
11170-010	Administrative Fee Revenue	78,702	-	6,400	85,102
11170-040	Investment Income	110	-	-	110
11170-050	Other Revenue	71,500	-	-	71,500
11170-060	Total Admin Fee Revenues	**150,312**	-	**6,400**	**156,712**
11170-080	Total Operating Expenses	83,702	-	-	83,702
11170-090	Depreciation	1,340			1,340
11170-095	Housing Assistance Portability In	46,572	-	-	46,572
11170-100	Other Expenses	-			
11170-101	Comment For Other Expense				
11170-110	Total Expenses	**131,614**	-	-	**131,614**
11170-002	Net Administrative Fee	**18,698**	-	**6,400**	**25,098**
11170	**Administrative Fee Equity**	**$ 154,080**	**$ -**	**$ 6,400**	**$ 160,480**
11180-001	Housing Assistance Payments Equity - Beginning Balance	$ 38,605	$ -	$ -	$ 38,605
11180-010	Housing Assistance Payments Revenues	485,604	-	-	485,604
11180-030	Total HAP Revenues	**524,209**	-	-	**524,209**
11180-080	Housing Assistance Payments	484,671	-	-	484,671
11180-090	Other Expenses	-	-	-	-
11180-091	Comment For Other Expense				
11180-100	Total Housing Assistance Payments Expenses	**484,671**	-	-	**484,671**
11180-002	Net Housing Assistance Payments	**933**	-	-	**933**
11180	**Housing Assistance Payments Equity**	**$ 39,538**	**$ -**	**$ -**	**$ 39,538**
11190	**Unit Months Available**	**1,238**			
11210	**Unit Months Leased**	**1,238**			

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedules ("FDS") are trial balances of the financial statements of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS were created in order to standardize the financial information reported by Public Housing Authorities ("PHA") to the Real Estate Assessment Center ("REAC"), as required by the Uniform Financial Reporting Standards ("UFRS"). REAC is the US Department of Housing and Urban Development ("HUD") national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD. 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 and changes in net position of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements and is prepared using the accrual basis of accounting, required by REAC regulations.

PART II

SCHEDULES AND REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Pass-through to Subrecipients	Federal Expenditures	
U.S Department of Agriculture					
Passed-through program from:					
P.R. Department of Education					
Child and Adult Care Food Program	10.558	CCC-110	$ -	$ 6,547	
Subtotal U.S. Department of Agriculture			-	6,547	
U.S. Department of Housing and Urban Development					
Direct programs:					
Community Development Block Grants / Entitlement Grants	14.218	N/A	-	937,354	
Community Development Block Grants / Disaster Recovery Grants	14.xxx	N/A	-	16,212	
Section 8 Housing Choice Vouchers Program	14.871	N/A	-	564,306	A
Cares-Act - Section 8 Housing Choice Vouchers Program Administrative Fees	14.HCC	N/A	-	28,318	A
Emergency Housing Vouchers Program - Preliminary Fees	14.EHV	N/A	-	6,400	A
Passed-through program from:					
P.R. Department of Health:					
Housing Opportunities for persons with AIDS (HOPWA)	14.241	N/AV	-	28,051	
Subtotal U.S. Department of Housing and Urban Development			-	1,580,641	
U.S. Department of Treasury					
Passed-through program from:					
P.R. Department of Treasury					
Coronavirus Relief Fund (Transfer Funds)	21.019	N/AV	-	879,704	
P.R. Department of Health					
Coronavirus Relief Fund (Testing and Contact Tracing Program)	21.019	N/AV	-	249,316	
Subtotal Coronavirus Relief Fund			-	1,129,020	
Subtotal U.S. Department of Treasury			-	1,129,020	
U.S. Department of Health and Human Services					
Passed-through programs from:					
P.R. Office of the Ombudsman for the Elderly:					
Aging Cluster:					
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	N/AV	-	174,580	
Total Aging Cluster:			-	174,580	
P.R. Department of Family - Admininstration of Families and Children (ADFAN):					
Child Care and Development Block Grant	93.575	N/AV	-	158,587	
Subtotal U.S. Department of Health and Human Services:			-	333,167	
U.S. Department of Homeland Security					
Direct programs:					
Community Disaster Loans - Hurricane Maria	97.030	N/A	-	1,116,070	B
Community Disaster Loans - Earthquake	97.030	N/A	-	1,649,741	B
Subtotal Community Disaster Loans			-	2,765,812	
Homeland Security Grant Program (Operation Stone Garden Program)	97.067	N/A	-	42,683	
Passed-through program from:					
P.R. Central Recovery, Reconstruction and Resiliency Office (COR3):					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4339	-	49,025	
Subtotal U.S. Department of Homeland Security			-	2,857,519	
Total Expenditures of Federal Awards			$ -	**$ 5,906,894**	

The accompanying notes are an integral part of this schedule.

A As per HUD Account 10 amount expended for subsidy programs per SEFA should be the approved operating grant revenue: "Based upon the Sections of the Circular referred to above, REAC has interpreted federal awards expended for Single Audit determination purposes as follows:
(1) ***For subsidy programs (Low Rent and Section 8)***, federal awards expended would equal the net ACC subsidy for the PHA's fiscal period under audit. Specifically, the net Low Rent operating subsidy received and the net Section 8 (Voucher or Certificate) dollars received, net of year-end adjustments, by the PHA would be the federal awards expended for the fiscal period under audit.

B See detail of special funds tab for reconciliation

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* (CFR Part 200), *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to, and does not present, the financial position and changes in net position of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- **Section 8 Housing Choice Voucher Program (HCV)**. Expenditures are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

- **Public assistance grants (FEMA)**. Expenditures are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

- **Loans or loans guarantee programs**. Expenditures equal the value of new loans made or received during the audit period plus the beginning of the audit period balance of outstanding loans from previous years for which the federal government imposes continuing compliance requirements. For loans with no imposed continuing compliance requirements, expenditures are recognized when the related costs financed with loan proceeds are incurred.

NOTE C – ASSISTANCE LISTING NUMBER AND PASS-THROUGH ENTITY IDENTIFYING NUMBER

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

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

NOTE D – INDIRECT COST RATE

The Municipality has elected not to use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

NOTE E – COMMUNITY DISASTER LOAN PROGRAM (ALN No. 97.030)

On May 17, 2018 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $5,000,000 for financial assistance under the CDL Program, bearing interest at 3.00% and due on May 16, 2023. The program provides assistance to local governments to overcome a loss in revenues as a result of a natural disaster, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity.

Federal statutes and regulations do not impose continuing compliance requirements on the outstanding balance of the loan, other than the repayment of the loan. Therefore, the outstanding balance of the loan is not included in the face of the SEFA. Program transactions during 2020-2021 year are as follows:

Description	Amount
Outstanding note balance, at beginning of year:	$ 5,000,000
Note advances received during fiscal year 2020-2021:	-
Total outstanding note balance, June 30, 2021	**$ 5,000,000**
Current year loan expenditures:	**$ 1,116,070**
Unspent loan proceeds, as of June 30, 2021:	**$ 31,824**

On September 10, 2020 FEMA issued to the Municipality a five-year promissory note for a maximum amount of $4,687,497 for financial assistance under the CDL Program, bearing interest at .250% and due on September 9, 2025. The Community Disaster Loan was issued as a result of the major disaster declaration of January 7, 2020. The program provides assistance to local governments to overcome a loss in revenues as a result of a natural disaster, in order to perform its governmental operational functions. Neither principal nor interest payments are required until maturity.

Federal statutes and regulations do not impose continuing compliance requirements on the outstanding balance of the loan, other than the repayment of the loan. Therefore, the outstanding balance of the loan is not included in the face of the SEFA. Program transactions during 2020-2021 year are as follows:

Description	Amount
Outstanding note balance, at beginning of year:	$ -
Note advances received during fiscal year 2020-2021:	4,687,497
Total outstanding note balance, June 30, 2021	**$ 4,687,497**
Current year loan expenditures:	**$ 1,649,741**
Unspent loan proceeds, as of June 30, 2021:	**$ 3,454,113**

The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. In accordance with the Extending Government Funding and Delivering Emergency Assistance Act (P.L. 117-43) approved by the United States Congress, the outstanding balance of principal and interest accrued of both CDL as of September 30, 2021 were cancelled.

NOTE F – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Following is a reconciliation of the expenditures reported in the SEFA to the expenditures reported in the statement of revenues, expenditures and changes in fund balances:

Description	General Fund (CDL)	Coronavirus Relief Fund (CRF)	FEMA-Hurricane Maria	Other Governmental Funds
Total federal awards expenditures per SEFA:	$ 2,765,812	$ 1,129,020	$ 48,338	$ 1,963,724
Add: additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	-	-	42,762
Add: non-federal awards expenditures:	17,144,541	-	-	69,804
Total expenditures, fund statements:	**$ 19,910,353**	**$ 1,129,020**	**$ 48,338**	**$ 2,076,290**

STRATEGIC CPAs
CONSULTING GROUP LLC

INDEPENDENT AUDITORS' 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 the Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, 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 Municipality of Cabo Rojo of the Commonwealth of Puerto Rico, (from now on the Municipality) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our qualified report thereon dated December 14, 2022. Our report was qualified because the municipality did not recognize capital assets and projects under construction and did not compute depreciation for assets acquired during the year, as well as assets previously acquired and recorded in the books.

Internal Control over Financial Reporting

In planning and performing my audit of the basic financial statements, We considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that are not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item 2021-001 to be significant deficiencies.

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. As part of obtaining reasonable assurance about whether the Municipality's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Findings and questioned costs as item 2021-001.

The Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in a separate document (Corrective Action Plan) prepared by the Municipality. Municipality's responses are not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express did not opinion over responses.

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 Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Strategic CPA
Consulting Group, LLC
Strategic CPAs Consulting Group, LLC
Certified Public Accountants & Consultants
License Number 342
Expiration Date December 1st, 2022

Toa Baja, Puerto Rico
November 25, 2022.

Strategic CPA Consulting Group, LLC
CPA'S
Lic.# LLC-342
Puerto Rico

Stamp No. E502580 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

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

To the Honorable Mayor and the Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Cabo Rojo of the Commonwealth of Puerto Rico, (from now on the Municipality) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Municipality's major federal program for the fiscal year ended June 30, 2021. The Municipality's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Project's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for my opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

Opinion on Each Major Federal Program

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 the major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, We considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

This report is intended solely for the information and use of management, others within the Municipality and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Strategic CPA
Consulting Group, LLC
Strategic CPAs Consulting Group, LLC
Certified Public Accountants & Consultants
License Number 342
Expiration Date December 1st, 2022

Toa Baja, Puerto Rico
November 25, 2022.

Stamp No. E502581 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

Strategic CPA Consulting Group, LLC
CPA'S
Lic.# LLC-342
Puerto Rico

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: *[unmodified]*

Internal control over financial reporting:

- Material weakness(es) identified? _____yes ___x__no
- Significant deficiency(ies) identified That are not considered to be Material of weakness(es)? __x___yes ____none reported

Noncompliance material to financial Statements noted? __x___yes ____no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes __x__no
- Significant deficiency(ies) identified That are not considered to be Material of weakness(es)? _____yes __x___no

Type of auditors' report issued on compliance for major programs: *[unmodified]*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.515(d) _____yes __x___no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
21.019	Coronavirus Relief Fund
97.030	Community Disaster Loans

Dollar threshold used to distinguish Between type A and Type B program: $_750,000_

Identification of major federal programs:

SECTION II - FINANCIAL STATEMENTS FINDINGS

FINDING #2021-001 Category / Requirement
Financial Reporting and Accounting Records Accounting Records - Capital Assets and Subsidiary Ledger.

Condition

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. Except for the disclaimer in relate about the Municipality did not maintain complete, updated and accurate accounting records for the capital assets and its related accumulated depreciation, in the governmental activities, as explained in the finding of prior year, there were no additional findings noted during the fiscal year ended June 30, 2021.

Criteria

Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also, the GASB Statements No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* require that all capital assets, including infrastructure, must be presented in the Statements of Net Position and that these assets must be depreciated during its useful life. Also, provisions of GASB Statement *No. 42, Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries,* requires the Municipality to evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment of capital asset has occurred. Furthermore, provisions of GASB Statement No. *51, Accounting and Financial Reporting for Intangible Assets,* require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets.

Cause

The Municipality did not maintain an adequate control of the accountability and subsidiary ledger of the capital assets presented in the statement of net position.

Effect

The Municipality is not in compliance with Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of August 30, 1991 and the Municipality's Governmental Wide Financial Statements do not present fairly, the financial position of the governmental activities, and changes in financial position of the Municipality.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit 2020-001.

Management Response and Corrective Action

The Municipality it will be trying to obtain a CPA firm or Consultant Firm to update the Capital Assets and Subsidiary Ledger and comply with this requirement.

Implementation Date: July 1, 2022 to June 30, 2023.

Responsible Person: Warynex Carlo - Finance Department Director

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended June 30, 2021.

GOBIERNO DE PUERTO RICO
Municipio Autónomo de Cabo Rojo
Oficina de Finanzas
Hon. Jorge A. Morales Wiscovitch
Alcalde

Apdo. 1308 Cabo Rojo, Puerto Rico 00623 • Tel. (787)•851•1025

CORRECTIVE ACTION PLAN

Single Audit Report: Year ended: June 30, 2021

Section: INDEPENDENT AUDITORS' 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*

Contact person:

Finding Number	Condition	Corrective Action Plan
2021-001	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.	The Municipality is committed with the correction of this internal control deficiency, which has been reported in single audit reports since previous fiscal years. We are in process of obtain from a CPA Firm a proposal to update and restructure the capital assets area of the Municipality. This process will cover existence and valuation of all general classification areas (land and construction in progress, building and improvements, land improvements, infrastructure, machinery and equipment), update of depreciation amounts, evaluation of assets' inventory recording software, evaluation of lease contracts (GASB 87 and 96) and related disclosures in the financial statements.

Implementation date: We expect the corrections will be recognized in the financial statements for the period July 1, 2022 to June 30, 2023

Responsible person: Mr. Warynex Carlo, Finance Director

Warynex Carlo