OC-DA-123

may. 23 (Rev.)
OC-23-31

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. Karina Nieves Serrano (nombre del funcionario principal) Funcionario Principal de Aguas Buenas (nombre de la entidad)

4004 (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 2022 :

1. Recibimos fondos públicos por $ 8,247,433 .
2. Efectuamos desembolsos de fondos federales por $ 6, 929,965 . 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 15 de marzo de 2022 formalizamos el contrato número 2023-00001 para realizar la auditoría de los ☒ Estados Financieros y/o el ☒ *Single Audit Report*.

   b. El 5 de abril de 2023 recibimos el *Informe de Auditoria* del 30 de junio de 2022 de los auditores externos.

   c. El 30 de marzo de 2023 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 30 de marzo de 2023 recibimos las cartas finales de recomendaciones (*Management Letters*) emitidas por los auditores externos el 30 de marzo de 2023. El archivo electrónico, en formato **PDF**, de las mismas fue remitido a su Oficina el 16 de junio de 2023.

☐ 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): _____

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 31 de marzo de 2023.

☐ 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 Aguas Buenas, Puerto Rico, hoy 16 de junio de 2023.

_____
Firma del Funcionario Principal

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS

BASIC FINANCIAL STATEMENTS
(WITH ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENTAL AUDITING STANDARDS AND THE UNIFORM GUIDANCE)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

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ORR & Co.
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AICPA's Private Companies Practice Section (PCPS)
Puerto Rico Board of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Aguas Buenas (Municipality), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
American Rescue Plan Act (ARPA) Fund	Unmodified
FEMA Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on Governmental Activities

In our opinion, except for the possible effects of the matters described in the Basis for Qualified and Unmodified Opinions sections of our report, the financial statements referred to above present fairly, in all material respect, the respective financial position of the governmental activities of the Municipality of Aguas Buenas, as of June 30, 2022, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Business-type Activities, General Fund, Debt Service Fund, American Rescue Plan Act (ARPA Fund), FEMA Fund, and the Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Business-type Activities, General Fund, Debt Service Fund, American Rescue Plan Act (ARPA Fund), FEMA Fund, and the aggregate remaining fund information of the

Municipality of Aguas Buenas, as of June 30, 2022, and the respective changes in the financial position and, where applicable, cash flows, thereof and for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Espiritu Santo Project, which represents 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the Business Type Activities as of June 30, 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for Espiritu Santo Project, is bases solely on the report of the other auditors.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

The financial and technical information provided by the Puerto Rico Government Employees Retirement System (PRGERS) to the Municipality to implement of requirements set forth by GASB Statement No. 73 and GASB Statement No. 75, was not audited by the external auditors contracted by the PRGERS. Such information is based on actuarial reports issued to the agency on January 17, 2023. However, the scope of the external audit contracted by the PRGERS was limited to examine only information pertaining to employees of the central government agencies, excluding the municipalities. However, the information provided to the Municipality was useful in recognizing the total pension debt of both the employees' defined benefit plan and Other Postemployment Benefit (OPEB) and to include the related note in the audit report.

Amounts reported in the government-wide financial statements as deferred outflows of resources, deferred inflows of resources, total pension liability, and to total other postemployment benefits liability were derived from the application of the proportional share include in the unaudited Schedules of Employer Allocations, and Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer Allocations, and Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer, published by the PRGERS, for the fiscal year ended June 30, 2022.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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

Required Supplementary Information Omitted

Management did not have available from PRGERS the historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and the GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part

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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. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 6 to 13, and budgetary comparison information on pages 62-63, be presented to supplement the basic financial statements. Such information is responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in the pages 64 thru 67 is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award*, on pages 68 and 69, is presented for purposes of additional analysis and is not required part of the basic financial statements.

The accompanying Financial Data Schedule and 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2023, on our consideration of the Municipality's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's 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's internal control over financial reporting and compliance.

Ortiz, Rivera, Rivera & Co., LLC

San Juan, Puerto Rico
March 31, 2023

The stamp E525355 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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The **Municipality of Aguas Buenas'** (the "Municipality") Management's Discussion and Analysis has been designed with the following goals:

a) Assist the reader in focusing on significant financial issues,

b) Provide an overview of the Municipality's financial activity,

c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),

d) Identify any material deviations from the financial plan (the approved budget), and;

e) Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets of the Municipality amounted to $49,760,367 which represents an increase of 10.0% compared to prior fiscal year.

- At the end of fiscal year 2022, total liabilities amounted to $16,966,293. Out of said amount, $14,439,756 corresponded to long-term liabilities. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.

- Total net position of the Municipality amounted to $29,407,930 which represents an increase of 96% compared to prior fiscal year.

- Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $22,232,282, derived from the following sources: $562,776 from charges for services; $3,972,175 from operating grants and contributions, and $17,697,331 from general revenues.

- Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $7,835,842.

- As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balance of $10,220,180.

- At the end of the current fiscal year, the Municipality's general fund superavit amounted to $2,019,616 compared to prior year fund of $2,097,952.

- The actual General Fund budgetary activities resulted in an unfavourable balance of $457,217.

USING THIS ANNUAL REPORT

The focus of these financial statements is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to that of private-sector companies.

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

The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. The Statement of Activities is focused on both the gross and net cost of various activities, which is covered by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, the governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's nears term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's nears term financial decisions. Both, the governmental funds Balance Sheet and the

USING THIS ANNUAL REPORT (CONTINUED)

Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position totaled $29.4 and $15.0 million at the end of 2022 and 2021, respectively.

The largest portion of the Municipality's net position consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net position and these are resources subject to external restrictions for the purposes explained above. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the $14,396,440 increase reflected in the Net Position figure.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Municipality of Aguas Buenas
Condensed Statement of Position
June 30, 2022 and 2021

	2022	2021	Change	%
Current assets	$17,704,145	$14,902,618	2,801,527	19%
Capital assets	32,056,222	30,176,793	1,879,429	6%
Deferred outflow of resources	$816,694	$816,694	-	-
Total assets	50,577,061	45,896,105	4,680,956	10%
Current liabilities	2,526,537	2,312,483	214,054	9%
Noncurrent liabilities	14,439,756	27,820,595	(13,380,839)	(48%)
Deferred inflow of resources	4,202,838	751,538	3,451,300	459%
Total liabilities	21,169,131	30,884,616	(9,715,485)	(31%)
Invested in capital assets, net of related debt	29,024,128	26,581,063	2,443,065	9%
Restricted	8,200,564	7,909,002	291,562	4%
Unrestricted	(7,816,762)	(19,478,576)	11,661,814	(60%)
Total net position	$29,407,930	$15,011,489	14,396,441	96%

Changes in Net Position

The Municipality's net position increased by $14.4. Approximately 60 percent of the Municipality's total revenues came from grants and contributions, including federal aid, while 40 percent resulted from taxes and other revenues. The Municipality's expenses cover a range of services. The largest expenses were for 1) general government, 2) public works and 3) Health & Welfare. The following table and graphic presentation include in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2022 and 2021. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Municipality of Aguas Buenas
Condensed Statement of Activities
June 30, 2022 and 2021

	2022	2021	Change	%
Program revenues				
Charges for services	$ 562,776	$ 541,980	$ 20,796	4%
Operating grants and contributions	3,972,175	3,791,490	180,685	5%
General revenues				
Property taxes	3,312,283	3,247,443	64,840	2%
Municipal license tax	823,211	777,711	45,500	6%
Sales and use tax	1,963,019	1,630,321	332,698	20%
Grants and contributions not restricted to specific programs	9,278,022	10,152,772	(874,750)	(9%)
Interest	11,337	2,679	8,658	323%
Miscellaneous	2,309,459	477,257	1,832,202	384%
Total revenues	**22,232,282**	**20,621,653**	**1,610,629**	8%
Expenses				
General government	8,264,804	5,959,734	2,305,070	39%
Public safety	229,112	264,945	(35,833)	(14%)
Health and welfare	3,169,577	4,165,655	(996,078)	(24%)
Public works	4,249,645	3,826,555	423,090	11%
Culture and recreation	723,349	709,343	14,006	2%
Community development	335,618	359,694	(24,076)	(7%)
Economic Development	84,203	96,032	(11,829)	(12%)
Education	63,968	36,728	27,240	74%
Interest on long-term debt	163,824	172,544	(8,720)	(5%)
Housing	327,258	-	327,258	100%
Total pension liability	(9,775,516)	-	(9,775,516)	100%
Total expenses	**7,835,842**	**15,591,230**	**(7,755,388)**	(50%)
Change in net position	14,396,440	5,030,423	9,366,017	186%
Net position at beginning of year, as restated	15,011,490	9,981,066	5,030,424	50%
Net position at end of year	**$ 29,407,930**	**$ 15,011,490**	**$ 14,396,440**	96%

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS (CONTINUED)

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported a combined fund balance of $10.2 million compared to a fund balance of $11.7, in the prior year.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2022, the general fund has a superavit of approximately $2.0 million. The superavit decrease by $.1 million during fiscal year 2022.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Mayor and the Municipality Legislature revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

Actual revenues and expenditures were mostly on line with budgeted due to fiscal control measures established by the current Mayor. The actual General Fund budgetary activities resulted in an unfavorable balance of $457,217.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2022, amounts to $57 million, net of accumulated depreciation of $25.4 million, leaving a net book value of $31.7 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual expenditures to purchase or construct capital assets were $3.4 million for the year. Depreciation charges for the year totaled $1.5 million.

Debt Administration

The Commonwealth Legislature has established a limit for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, were not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available, but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the 2022-2023 fiscal year.

Fiscal Conditions for Municipalities in Puerto Rico

The Commonwealth of Puerto Rico has faced an increasing deterioration in its economy during the last decade. As a result, all governmental entities economies and fiscal operations has been affected, including the Municipalities.

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.

As a consequence of the Commonwealth's fiscal crisis, the Government Development Bank for Puerto Rico ("GDB") completed its wind-down of its fundamental operations on March 23, 2018. GDB historically served as an important source of liquidity to municipal governments by providing financing to

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

Fiscal Conditions for Municipalities in Puerto Rico (Continued)

such entities. Certain mid-sized and small municipalities were not able to obtain financing from commercial financial institutions to continue funding their public work programs and operations since those institutions have strengthened their requirements for financing. In order to mitigate the impact of these events, the municipalities are obtaining other alternatives of long-term financing including federal loans from Rural Development, HUD (Section 108) and FEMA (CDL Loans).

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Statement of Net Position
June 30, 2022

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Cash	10,336,852	126,503	10,463,355
Cash with fiscal agent	1,774,267	-	1,774,267
Accounts receivable:			
Property taxes	811,706	-	811,706
Federal grant	621,287	-	621,287
Due from agencies	3,319,548		3,319,548
Other assets	-	13,757	13,757
Restricted cash	-	435,005	435,005
Lease receivable	265,220	-	265,220
Capital assets	31,720,069	336,153	32,056,222
Total assets	$ 48,848,949	$ 911,418	$ 49,760,367
DEFERRED OUTFLOWS OF RESOURCES			
Contribution to employee's plan	$ 816,694	$ -	$ 816,694
LIABILITIES			
Accounts payable and accrued liabilities	1,859,613	25,180	1,884,793
Due to other governmental agencies	394,046	-	394,046
Matured interest due and payable	81,111		81,111
Claims and assessments	30,000	-	30,000
Lease liability	136,587		136,587
Noncurrent liabilities:			
Due within one year	503,500	-	503,500
Due in more than one year	13,936,256	-	13,936,256
Total liabilities	$ 16,941,113	$ 25,180	$ 16,966,293
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues:			
Municipal license tax	$ 646,269	$ -	$ 646,269
Federal grant revenues	3,162,261	-	3,162,261
Unamortized investment employee's retirement plan	138,640	-	138,640
Deferred inflows for lease agreements	255,668	-	255,668
Total deferred inflows of resources	$ 4,202,838	$ -	$ 4,202,838
NET POSITION			
Invested in capital assets, net of related debt	28,687,975	336,153	29,024,128
Restricted:			
Capital projects	6,313,180	-	6,313,180
Debt service	1,887,384	-	1,887,384
Net position (Deficit)	(8,366,847)	550,085	(7,816,762)
Total net position	**$ 28,521,692**	**$ 886,238**	**$ 29,407,930**

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS

Statement of Activities
For the year ended June 30, 2022

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (expenses) revenues and changes in net position: Governmental activities	Net (expenses) revenues and changes in net position: Business-type activities	Net (expenses) revenues and changes in net position: Total
Governmental Activities:							
General government	$ 8,264,804	$ 160,827	$ 3,972,175	$ -	$ (4,131,802)	$ -	(4,131,802)
Public safety	229,112	-	-	-	(229,112)	-	(229,112)
Health and welfare	3,169,577	-	-	-	(3,169,577)	-	(3,169,577)
Public works	4,249,645	-	-	-	(4,249,645)	-	(4,249,645)
Culture and recreation	723,349	-	-	-	(723,349)	-	(723,349)
Community development	335,618	-	-	-	(335,618)	-	(335,618)
Economic Development	84,203	-	-	-	(84,203)	-	(84,203)
Education	63,968	-	-	-	(63,968)	-	(63,968)
Interest on long-term debt	163,824	-	-	-	(163,824)	-	(163,824)
Total pension liability	(9,775,516)	-	-	-	9,775,516	-	9,775,516
Total governmental activities	$ 7,508,584	$ 160,827	$ 3,972,175	$ -	$ (3,375,582)	$ -	$ (3,375,582)
Business-type activities:							
Housing	327,258	401,949	-	-	-	74,691	74,691
Total business-type activities	327,258	401,949	-	-	-	74,691	74,691
Total functions/programs	$ 7,835,842	$ 562,776	$ 3,972,175	$ -			
General revenues:							
Property taxes					$ 3,312,283	$ -	$ 3,312,283
Municipal license tax					823,211	-	823,211
Sales tax					1,963,019	-	1,963,019
Grants and contributions not restricted to specific programs					9,278,022	-	9,278,022
Interest, fines and penalties					10,808	529	11,337
Miscellaneous					2,309,459	-	2,309,459
Total general revenues					17,696,802	529	17,697,331
Change in net position					14,321,220	75,220	14,396,440
Net position at beginning of year					14,200,472	811,018	15,011,490
Net position at end of year					**$ 28,521,692**	**$ 886,238**	**$ 29,407,930**

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Balance Sheet
June 30, 2022

	General Fund	Debt Service Fund	ARPA Fund	FEMA	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	$ -	$ 434,228	$ 3,105,605	$ 248,116	$ 6,548,903	$ 10,336,852
Cash with fiscal agent		1,774,267		-		1,774,267
Property taxes	811,706	-		-	-	811,706
Federal grants receivable	-	-		-	621,287	621,287
Due from agencies	-	-		3,319,548	-	3,319,548
Due from other funds	3,184,179	-		-	-	3,184,179
Lease receivable	265,220	-		-	-	265,220
Total assets	**$ 4,261,105**	**$ 2,208,495**	**$ 3,105,605**	**$ 3,567,664**	**$ 7,170,190**	**$ 20,313,059**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued liabilities	$ 918,084	$ -		$ 793,163	$ 148,366	$ 1,859,613
Due to other governmental units	151,736	-		-	242,310	394,046
Claims and assessments	30,000	-		-	-	30,000
Due to other funds	-	-		2,774,501	409,678	3,184,179
Matured bonds due and payable	-	240,000		-	-	240,000
Matured interest due and payable	-	81,111		-	-	81,111
Total liabilities	**1,099,820**	**321,111**	**-**	**3,567,664**	**800,354**	**5,788,949**
DEFERRED INFLOWS OF RESOURCES						
Unearned revenues:						
Municipal license tax	646,269	-		-	-	646,269
Property taxes	239,732	-		-	-	239,732
Federal grant revenues	-	-	3,105,605	-	56,656	3,162,261
Deferred inflows for lease agreements	255,668	-		-	-	255,668
Total deferred inflows of resources	**1,141,669**	**-**	**3,105,605**	**-**	**56,656**	**4,303,930**
FUND BALANCES						
Restricted	-	1,887,384	-	-	6,313,180	8,200,564
Unassigned	2,019,616	-	-	-	-	2,019,616
Total fund balances	2,019,616	1,887,384	-	-	6,313,180	10,220,180
Total liabilities, deferred inflows of resources and fund balances	**$ 4,261,105**	**$ 2,208,495**	**$ 3,105,605**	**$ 3,567,664**	**$ 7,170,190**	**$ 20,313,059**
Fund Balance Governmental Funds						10,220,180
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.						31,720,069
Lease liability						(136,587)
Deferred contribution to employee's plan						816,694
Unamortized investment employee's retirement plan						(138,640)
Deferred property tax						239,732
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the governmental funds.						(14,199,756)
Net position						**$ 28,521,692**

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2022

	General Fund	Debt Service Fund	ARPA Fund	FEMA	Other Governmental Funds	Total
REVENUES:						
Property taxes	$ 1,920,424	$ 1,423,465	$ -	$ -	$ -	$ 3,343,889
Municipal license tax	823,211	-	-	-	-	823,211
Sales tax	-	719,249	-	-	1,243,770	1,963,019
Licenses, permits and other local taxes	264,631	-	-	-	-	264,631
Charges for services	160,827	-	-	-	-	160,827
Interest, fines and penalties	10,808	-	-	-	-	10,808
Intergovernmental:						
Federal	-	-	1,561,012	455,713	2,611,286	4,628,011
Local	2,758,073	-	-	-	1,627,306	4,385,379
Other	2,309,459	-	-	-	-	2,309,459
Total revenues	**8,247,433**	**2,142,714**	**1,561,012**	**455,713**	**5,482,362**	**17,889,234**
EXPENDITURES:						
Current:						
General government	6,549,138	-	-	-	1,146,321	7,695,459
Public safety	218,173	-	-	-	-	218,173
Health and welfare	-	-	1,561,012	-	1,601,335	3,162,347
Public works	1,371,086	-	-	2,124,388	176,919	3,672,393
Culture and recreation	453,086	-	-	-	43,013	496,099
Community development	335,618	-	-	-	-	335,618
Urban development	84,203	-	-	-	-	84,203
Education	-	-	-	-	63,968	63,968
Capital outlays	185,036	-	-	-	3,188,546	3,373,582
Debt service:						-
Principal	5,554	258,500	-	-	-	264,054
Interest	1,722	162,102	-	-	-	163,824
Total expenditures	**9,203,616**	**420,602**	**1,561,012**	**2,124,388**	**6,220,102**	**19,529,720**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(956,183)	1,722,112	-	(1,668,675)	(737,740)	(1,640,486)
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds	692,811	-	-	-	577,924	1,270,735
Operating transfers to other funds	-	(1,270,735)	-	-	-	(1,270,735)
Other debt issued	185,036	-	-	-	-	185,036
Total other financing sources (uses)	877,847	(1,270,735)	-	-	577,924	185,036
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(78,336)	451,377		(1,668,675)	(159,816)	(1,455,450)
FUND BALANCES (DEFICIT), at beginning of year	**2,097,952**	**1,436,007**		**1,668,675**	**6,472,996**	**11,675,630**
FUND BALANCES, at end of year	**$ 2,019,616**	**$ 1,887,384**	**$ -**	**$ -**	**$ 6,313,180**	**$ 10,220,180**

Net change in fund balance governmental funds	$ (1,455,450)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	1,730,851
Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are deferred inflows of resources in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.	(31,606)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.	(4,026)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	14,081,451
Change in net position	$ 14,321,220

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF FINANCIAL POSITION - PROPRIETARY FUNDS
JUNE 30, 2022

ASSETS

Current Assets	
Cash	$ 126,503
Other current	13,757
Total current assets	140,260
Non-Current Assets	
Capital assets, net	336,153
Restricted deposits	435,005
Total non-current assets	771,158
Total assets	$ 911,418

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable and accrued expenses	$ 25,180
Total current liabilities	25,180
Net Position	886,238
Total liabilities and net position	$ 911,418

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF ACTIVITIES - PROPRIETARY FUNDS
JUNE 30, 2022

Revenues	
Rent	$ 401,858
Other	91
Total revenues	401,949
Expenses	
Administrative	133,029
Utilities	8,547
Operating and Maintenance	117,438
Taxes and Insurance	43,203
Depreciation	24,165
Total expenses	326,382
Operating income	75,567
Non Operating Revenues (Expenses)	
Financial revenues	529
Financial expenses	(876)
Total non operating revenues (expenses)	(347)
Change in net position	75,220
Net position, beginning of year	811,018
Net position, end of year	$ 886,238

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
JUNE 30, 2022

Cash flows from operating activities	
Cash Received	
Rental	$ 404,635
Other cash received	642
Total cash received	405,277
Cash used:	
Administrative	(32,943)
Utilities	(8,547)
Salaries and wages	(124,851)
Operating and maintenance	(57,067)
Property and liability insurance	(28,025)
Management fees	(28,800)
Miscellaneous taxes and insurance	(19,151)
Tenants deposits held in trust	(452)
Total cash used	(299,836)
Net cash provided by operating activities	105,441
Cash flows from noncapital financing activities:	
Miscellaneous financial	(876)
Cash flows from capital related financing activities:	
Purchases of fixed assets	(40,181)
Cash flows from investing activities:	
Interest on investments	529
Deposits to reserve for replacements and interest retained in account	(16,794)
Deposits and interest earned and retained for insurance escrow	(11,288)
Net cash used by investing activities	(27,553)
Net increase in cash	36,831
Cash at beginning of year	89,672
Cash at end of year	$ 126,503
Reconciliation of change in net assets to net cash provided by operating activities:	
Cash flows from operating activities:	
Change in net position:	$ 75,567
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	24,165
Bad debt expense	3,859
Decrease in accounts receivables	3,328
Decrease in cash restricted for tenants security deposits	(365)
Increase (decrease) in:	
Increase in accounts payable	3,152
Decrease in accrued liabilities	5,040
Increase in tenant security deposits held in trust	(87)
Total adjustments	29,874
Net cash provided by operating activities	$ 105,441

See notes to basic financial statements.

1. REPORTING ENTITY

The **Municipality of Aguas Buenas** (the Municipality) of the Commonwealth of Puerto Rico is a local government constituted in 1838 with full legislative, fiscal and administrative powers to operate as a government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

The Municipality assumes either full or shared responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. On July l, 2015, the Municipality adopted the provisions of GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB No. 76). This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB No. 76 improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature.

As a result of the implementation of GASB No. 76, the Municipality has applied financial reporting guidance with less variation, which improves the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates.

Government-Wide and Fund Financial Statements

The accompanying government-wide financial statements are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental and business-type activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

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

The statement of net position presents the Municipality’s assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets, consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any.

- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable — amounts that cannot be spent because they are not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by law through constitutional provisions or enabling legislation.

- Committed — amounts that can be used only for the specific purposes imposed through formal resolutions by the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority of the municipality removes or changes the specified use by taking the same type of action (formal resolution) it employed to commit those amounts. Formal action to commits fund balance to 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.

- 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 Municipality's highest level of decision-making authority, the Municipal Legislature. 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 — it is the residual classification and includes all spendable amounts not restricted, committed or assigned. For all other governmental funds, the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to consider restricted - net position to have been depleted before unrestricted – net position is applied.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2022, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources on June 30, 2022.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is generally recognized when paid.
- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items, the former resulting from providing services in connection with principal ongoing operations.

For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

General Fund - The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund:

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

(1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

Debt Service Fund - The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2022, the financial activity accounted for in the debt service fund was specifically related to bonds and notes payable.

American Rescue Plan Act (ARPA) Fund - This fund is used to account for resources to help reverse the negative impacts of the pandemic, address its economic fallout, and lay the foundation for a strong and equitable recovery.

FEMA 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 natural disasters, the most significant Hurricane Maria. Funds are received through the Central Office for Reconstruction and Recovery of P.R., the grantee for FEMA State Agreement DR-4339 (Hurricane Maria).

Other Governmental Funds - Other governmental funds are governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of other governmental funds are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, other governmental funds to account for such kinds of transactions will be used only if legally mandated.

The focus of the fund financial statements is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the fund financial statements. Major individual governmental funds are reported individually as separate columns in the fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the fund financial statements if its total assets plus deferred outflows of

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

resources, liabilities plus deferred inflows of resources, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes mean all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying fund financial statements are: (1) the general fund, (2) the debt service fund, (3) other governmental fund and (4) fema fund.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements.

The accompanying fund financial statements are accompanied by the following schedules required by GAAP: (1) the reconciliation of the balance sheet - governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities.

The proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenditures and Changes in Fund Net position and a Statement of Cash Flows. The Municipality reports one major enterprise fund:

- The Espíritu Santo housing project was owned by the Municipality and provides adequate housing to low-income residents.

Budgetary Control

The Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Puerto Rico Office of Management and Budget and

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Control (Continued)

the Municipal Legislature no later than May 10 and May 15, respectively. The Puerto Rico Office of Management and Budget preliminary verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 30.

The Municipal Legislature has 10 business days, up to the immediately preceding June 30, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature.

The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level within the general and debt service funds, respectively.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Accounting (Continued)

Under the laws and regulations of the Commonwealth the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that unspent balance from the prior year be carried forward and made available for current spending. The accompanying Budgetary Comparison Schedule- General Fund provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2022.

Deposits and Investments

Under Commonwealth statutes, public funds deposited in commercial banks must be fully collateralized with securities for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

The Municipality's bank balances in commercial banks of $12,251,903 in the general fund, debt service fund, ARPA Fund, FEMA fund, and other governmental funds were fully collateralized on June 30, 2022.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demands deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Municipality is restricted by law to invest only in saving accounts and certificates of deposits with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD).

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Receivables consist of all revenues earned but not collected on June 30, 2022. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among governmental funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds".

Use of Estimates

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

Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying fund financial statements:

Inter-fund loans – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

Inter-fund transfers – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Operating transfers are reported as other financing uses in the governmental fund making transfers and as other financing uses in the governmental fund receiving transfers.

Inter-fund reimbursements — Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of $5,000 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $5,000 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets. Donated assets are recorded as capital assets at their acquisition value/entry price (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date).

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense are recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method. The estimated useful lives of major capital asset categories are:

Description	Years
Buildings	50
Infrastructure	10
Building and site improvements	25
Vehicles	10
Machinery and equipment	7

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service unit's approach.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Effective July 1, 2021, the Municipality changed its method of accounting for Leases with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

Lease Receivable

Lease receivable represents the value of lease payments anticipated to be received during the lease term.

Right of Use Lease Assets

Right of use assets are representative of the Authority's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

Lease Liability

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Unearned Revenues

In the fund financial statements, unearned revenue arises when one of the following situations occurs:

a) The Municipality receives resources before it has a legal claim to them such as advances of derived tax revenues.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenues (Continued)

b) Before applicable eligibility requirements are met: In case of certain federal expenditures-driven grants if resources are received before allowable expenditures are incurred. In subsequent periods, when the municipality has a legal claim to the resources, the liability for unearned revenues is removed and the revenues are recognized.

Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. I6, "*Accounting for Compensated Absences",* issued by GASB (GASB Statement No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2022 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered, or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee if not consumed. In addition, upon termination of employment, an employee does not receive compensation for compensatory time if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt

The long-term liabilities reported in the accompanying statement of net position include the Municipality's bonds payable, notes payable, accrued compensated absences, and accrued legal claims and judgments if any.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2022 are recorded as governmental fund liabilities in the fund financial statements (debt service fund) when resources are available in the debt service fund (June 30, 2022). In the fund financial statements, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

Accounting for Pension Costs and Other Postemployment Benefits ("OPEB")

The Municipality is unable to implement 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",* since the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) has not provided certain information and assistance, necessary for its implementation applicable to measurement year ending on June 30, 2022. 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. "PayGo" payments are recorded as expenditures\expenses in the financial statements.

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For the purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2021 basic financial statements (measurement date), nor has it provided to the Municipality with the required audited information to implement the referred accounting pronouncement. 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 ("PRDT").

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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

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 government-wide Statement of Net Position, the Municipality reports deferred outflows/inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** - Federal and state grants received before the beginning of the

2. **Implementation of GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"** – Amounts reported for changes in the calculation of the total pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

In the governmental funds Balance Sheet, the Municipality reports deferred inflows of resources that result from the following transactions:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts are recognized as ***unavailable revenue*** from the following sources: property taxes, sales and use taxes and intergovernmental revenues collected or to be collected after the availability period. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the FFS.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. 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. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). 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 consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost-reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated on June 30, 2022.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2022:

GASB Statement No. 101, Compensated Absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

GASB Statement No. 100, Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, Omnibus 2022. The requirements of this Statement are effective as follows:

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

Earlier application is encouraged and is permitted by topic.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The Municipality's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Municipality's basic financial statements.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2022:

- GASB Statement No. 98, *The Annual Comprehensive Financial Report.* The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The requirements of this Statement are effective as follows: The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately; The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021; All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by specific requirement as follows: Paragraph 4 of this Statement as it applies to arrangements other than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans; Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement). Questions 4.3 and 4.5 of Implementation Guide 2019-2, as amended, are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 84, as amended, has been implemented.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates.* The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 92, *Omnibus 2020.* The requirements of this Statement are effective as follows: (1) 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; (2) 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; (3) 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; (4) The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.

- GASB Statement No. 91, *Conduit Debt Obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.*

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- GASB Statement No. 87, *Leases.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

3. DEPOSIT IN COMMERCIAL BANKS

The Municipality maintains cash deposits in commercial banks located in Puerto Rico. 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. At year-end, the Municipality's bank balance of deposits in commercial banks amounting to $12,111,119 was covered by the FDIC and by pledged securities.

4. CREDIT RISK

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality on June 30, 2022:

	Deposit Balance					
	General	Debt Services	Other Governmental Funds	ARPA Fund	FEMA	Total
Deposits in commercial banks	$ -	$ 2,208,495	$ 6,548,903	$ 3,105,605	$ 248,116	$ 12,111,119

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio on June 30, 2022, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its bank's deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates.

5. 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. 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

5. PROPERTY TAXES (CONTINUED)

year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2022 are 8.33% for personal property and 10.33% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	3.50%
Total tax rate:	8.53%	10.53%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**8.33%**	**10.33%**

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than $3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with annual net sales of less than $150,000.

Collections from the Basic Tax, plus 35% of net revenues from the lottery system and 2.5% of net internal revenues from the Commonwealth's General Fund corresponding to the municipalities are deposited by the CRIM in a trust known as the *Municipal Matching Fund*, where AAFAF serves as trustee and a private bank serves as the custodian. Collections of this fund are distributed among the municipalities following specific rules and formulas set forth by law. Collections that correspond to the Commonwealth CAE Tax are transferred to the *Commonwealth General Obligation Redemption Fund* and those that correspond to the Municipal CAE Tax and any other revenues that are needed to service municipal general obligations are transferred to the *Municipal Public Debt Redemption Fund*.

The *Municipal Public Debt 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 Public Debt Redemption Fund* is composed of two Sub-Funds: (1) the *GDB Sub- Fund* and (2) the *MFA/Private Sector Sub-Fund*.

The *GDB Sub-Fund*, accounts for the Municipal CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued by GDB. Tax collections of the *GDB Sub-Fund* are deposited in a private commercial bank. The *MFA/Private Sector Sub-Fund* accounts for the Municipal CAE Tax revenues necessary to meet annual debt service on bonds, notes and loans issued

5. PROPERTY TAXES (CONTINUED)

or bought by the Municipal Finance Agency ("MFA"), the federal government or private banks. Tax collections of the MFA/Private Sector Sub-Fund are deposited in a commercial bank. Once a reserve equivalent to twelve months of debt service on all outstanding general obligations is funded, any surplus in the *Municipal Public Debt 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.

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.

Property tax revenues in the general and debt service funds amounted to $1,920,424 and $1,423,465 respectively, for the fiscal year ended June 30, 2022.

6. MUNICIPAL LICENSE TAXES

The Municipality is authorized to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Aguas Buenas.

This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. On June 30, 2022, the municipal license tax rates imposed by the Municipality were as follows:

Saving and Loans Associations	=	1.00 percent (1.00%)
Financial Institutions	=	1.50 percent (1.50%)
Other types of taxpayers	=	.50 percent (.50%)

Each taxpayer must assess the corresponding municipal license tax based on the volume of business shown in a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of $3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on or before 5 business days after April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on or before the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due. Municipal license tax revenues

6. MUNICIPAL LICENSE TAXES (CONTINUED)

for the fiscal year ended June 30, 2022 amounted to $ 823,211 in the accompanying financial statements.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues. Unearned municipal license tax revenues recorded in the accompanying government-wide and fund financial statements amounted to $646,269 on June 30, 2022. This amount represents the municipal license taxes corresponding to the 2022-2023 fiscal year collected on or before June 30, 2022.

7. SALES AND USE TAXES

As imposed by Commonwealth and Municipal laws and regulations, the citizens of Puerto Rico are subject to a sales and use tax ("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 Puerto Rico Department of Treasury) 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 Aguas Buenas render their tax return and payment through COFIM's web site, through a bank institution or by submission and payment at the Municipality's Collections Office.

Effective on February 1, 2014, the Commonwealth approved Act No. 18 and Act No. 19 to provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long- term debt issuances. As a result of these legislations, the municipalities of Puerto Rico may improve their credit capacity along with maintaining sufficient resources for operations.

Act No. 18 known as the "Municipal Administration Fund Law" improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation ("COFINA"), a component unit of the Commonwealth and a related entity of GDB and creates a special fund called "Municipal
Administration Fund" ("FAM") under custody of the GDB. The FAM permits the Municipalities to guarantee and pay long-term debt and provide funds for their general operations. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities.

The FAM will be funded in all fiscal years with an amount attributable to the .5% of the Commonwealth's SUT for the current fiscal year once all required deposits by law have been made to COFINA from the 10% Commonwealth's SUT. The .5% is distributed as follows:

a) .2% deposited in the Municipal Development Fund to be distributed to the municipalities to finance operational costs,

7. SALES AND USE TAXES (CONTINUED)

b) .2% deposited in a Municipal Redemption Fund or may be deposited in the municipalities' general fund. The municipalities have the option to maintain funds in the Municipal Redemption Fund to increase their debt margin and,

c) .1% deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

To the extent the amount of Commonwealth SUT collections available for deposit into the FAM during any fiscal year is less than the amount attributable to 0.5% of the Commonwealth sales and use tax for such fiscal year, the Commonwealth's General Fund is required to cover any such shortfall.

Effective July 22, 2016, the Commonwealth approved Act No. 84 of 2016 which amends Acts 18 and 19 of 2014 to establish, among other provisions, that the FAM, and accordingly, the Municipal Development Fund, Municipal Redemption Fund and the Municipal Improvements Fund, are no longer under the custody of GDB, but instead are under the custody of a private commercial bank designated by COFIM. Starting July, 2017 all FAM's .2% SUT revenues belonging to the Municipal Redemption Fund, deposited in a private commercial bank designated by COFIM, is used to service all principal and interest payments on bonds, notes and loans, guaranteed with SUT revenues.

The debt service fund reported revenues of $588,426 corresponding to the IVU Municipal Redemption Fund under the custody of a private commercial bank. Once a reserve equivalent to twelve months of debt service on all outstanding general obligations is funded, any surplus in the IVU Municipal Redemption Fund is placed at the disposal of the Municipality. Upon request, these surplus funds, known as "excess IVU funds" are distributed to the Municipality at any time and whenever requested. Generally, these funds are transferred to the Municipality's general fund. The Municipality recorded these excess IVU funds as transfers-out in the debt service fund and as transfers-in the general fund.

Act No. 19 created the Municipal Finance Corporation ("COFIM"), a public corporation and a component unit of the GDB 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 first collections of the 1% municipal SUT are deposited into the COFIM's sinking fund until the greater of: .3% of the 1% municipal SUT or an Annual Rental Fee ("RFA"). The RFA for fiscal year 2020-2021 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess amount of 1% municipal SUT remaining after the required deposit to the COFIM's sinking fund (the "1% Municipal Transfer") is transferred to the general fund of municipalities or to the IVU Municipal Redemption Fund as decided by the municipality. If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

8. INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Intergovernmental receivable and payables recorded in the accompanying government-wide and fund financial statements are as follows:

	Amount
Municipal Revenue Collection Center ("CRIM") - property taxes	$ 811,706

Federal grants receivable in the FEMA fund represents expenditures incurred not yet reimbursed by the federal agency or pass-through grantor. As of June 30, 2022, the Municipality has a Federal grant receivable from FEMA amounting to $3,319,548.

The amounts due to other governmental entities in the general fund include the following:

Description	Commonwealth Government
P.R. Acueduct and Sewer Authority (PRASA)	$ 16,077
P.R. Employees Retirement System (ERS)	20,436
Pay Go (Act 29)	75,791
P.R. Department of Treasury	3,937
Commonwealth of P.R. Employee's Association	26,871
Department of Labor of P.R.	8,624
	$ 151,736

9. INTER-FUND TRANSACTIONS

Inter-fund receivables and payables on June 30, 2022 are summarized as follows:

Fund	Receivable Fund	Payable Fund
General Fund	$ 3,184,179	$ -
Fema Fund	-	2,774,501
Other Governmental Fund	-	409,678
	$ 3,184,179	$ 3,184,179

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable on June 30, 2022.

10. UNEARNED REVENUES

Unearned revenues of $ 886,001 in the general fund consist of the municipal license taxes collected in the fiscal year 2021-2022 that correspond to the fiscal year 2022-2023 for the amount of $ 646,269 and of property taxes for the amount of $ 239,732.

11. LONG-TERM OBLIGATIONS

a) The general long-term debt activity for the fiscal year ended June 30, 2022 is as follows:

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, federal cost disallowances and any other long-term liabilities other than bonds and notes payables.

Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable	$ 3,275,594	$ -	$ (243,500)	$ 3,032,094	$ 243,500
Community Disaster Loan	3,972,175	-	(3,972,175)	-	-
CRIM - Law 42	57,263	-	(57,263)	-	-
CRIM - Law 146	48,491	-	(48,491)	-	-
Claims and assessments	192,128	-	(90,000)	102,128	120,000
Compensated absences	1,571,800	-	(97,575)	1,474,225	50,000
Water and Sewer Authority	247,500		(90,000)	157,500	90,000
OPEB Liability	-	308,070	-	308,070	
Net pension liability	19,141,255	-	(9,775,516)	9,365,739	-
Total	$ 28,506,206	$ 308,070	$ (14,374,520)	$ 14,439,756	$ 503,500

b) Bonds and Notes Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth of Puerto Rico provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

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11. LONG-TERM OBLIGATIONS (CONTINUED)

For financial reporting purposes, the outstanding balances of bonds and notes payables represent the total principal to be repaid. Bonds and notes payable is composed as follows on June 30, 2022:

$2,285,000 General Obligation Bonds, Serial 2005-2006 payable in annual installments ranging from $75,000 to $175,000, through July 1, 2030. Interest at 1.25% over LIBOR rate payable in semiannual installments.	$ 458,681
$119,800 General Obligation Note, POGM 2012 payable in annual installments ranging from $15,000 to $19,200 plus interest at 3.125% through January 1, 2023.	19,200
$4,145,000 Special Obligation Bond, Serial 2012-11 payable in annual installments ranging from $90,000 to $345,000 through July 1, 2035. Interest at 1.5% over LIBOR prime rate due in semiannually installments.	2,554,213
	$ 3,032,094

AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which was finally closed and executed on November 29, 2018. As part of the process, any bond, note and/or loan balances were reduced by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB on the Closing Date and by the remaining municipal deposits held at GDB as of the Closing Date on a dollar-for-dollar basis. The municipality restructured its total long-term debt issued by GDB. Considering the execution of the RSA, the annual requirement to amortize general and special obligation bonds and notes as of June 30, 2022 follows:

Year Ending June 30,	Principal	Interest
2023	$ 259,200	$ 217,567
2024	260,000	198,217
2025	275,000	178,155
2026	288,681	182,204
2027	180,000	139,441
2028-2032	1,130,000	463,580
2033-2035	639,213	55,353
	$ 3,032,094	$ 1,434,516

c) Compensated Absences

The government-wide statement of net position includes $1,474,225 of accrued sick leave benefits and accrued vacation benefits and related employer payroll costs, representing the Municipality's commitment to fund such costs from future operations.

11. LONG-TERM OBLIGATIONS (CONTINUED)

d) Claim and Assessments

Represents estimated losses of legal cases to be paid subsequently to June 30, 2022. The awarded amount, if any, will be paid with unrestricted funds.

e) Lease Liability

Future principal and interest lease payments as of June 30, 2022, were as follows:

Fiscal year	Principal	Interest
2023	$ 51,065	$ 6,748
2024	47,627	3,836
2025	32,189	1,081
2026	5,706	144
	$ 136,587	$ 11,809

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12. CAPITAL ASSETS

Capital assets, those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of $5,000 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in the current year follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Capital asset, not being depreciated:				
Land	$ 2,722,693	$ -	$ -	$ 2,722,693
Construction in progress	6,906,227	-	-	6,906,227
Total capital assets not being depreciated	9,628,920	-	-	9,628,919
Capital assets, being depreciated:				
Buildings and building improvements	25,948,391	279,049	-	26,227,440
Infrastructure	12,749,781	2,769,863	-	15,519,644
Equipment	1,514,765	51,412	-	1,566,177
Vehicles	3,919,343	88,222	-	4,007,565
Right of use asset - equipment	-	185,036	-	185,036
Total capital assets being depreciated	44,132,280	3,373,582	-	47,505,862
Less accumulated depreciation for:				
Buildings and building improvements	(17,233,824)	(776,111)	-	(18,009,935)
Infraestructure	(2,392,311)	(387,991)	-	(2,780,303)
Equipment	(1,194,873)	(75,228)	-	(1,270,101)
Vehicles	(3,083,534)	(218,365)	-	(3,301,899)
Right of use asset - equipment	-	(52,476)	-	(52,476)
Total accumulated depreciation	(23,904,542)	(1,510,171)	-	(25,414,713)
Total capital assets being depreciated, net	20,227,737	1,863,412	-	22,091,149
Governmental activities capital assets, net	$ 29,856,657	$ 1,863,412	-	$ 31,720,069

12. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

Depreciation Schedule by Governmental Activity

Governmental activities:	
General government	$ 687,500
Public safety	10,938
Public works	577,252
Culture and recreation	227,250
Health and welfare	7,230
Total depreciation expense - governmental activities	$ 1,510,171

13. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

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

14. FUND BALANCE (DEFICIT)

The governmental fund balance classifications and amounts on June 30, 2022 are shown in the following table:

	General	Debt Service	Other Governmental Funds	Fema	Total
Restriced	$ -	$ 1,887,384	$ 6,474,510	$ -	$ 8,361,894
Unassigned	$ 2,019,616	$ -	$ -	$ 97,801	$ 2,117,417
Total fund balances	**$ 2,019,616**	**$ 1,887,384**	**$ 6,474,510**	**$ 97,801**	**$10,479,311**

15. PENSION PLAN

General Description

The Municipality was a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a trust created by the Commonwealth's Legislature. 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. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,

- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employers defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000, there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Effective on July 1, 2013, Act No. 3 of 2013 ("Act 3") amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include: (1) retirement benefits accrued and savings account balances under the provisions of Act 447, Act 1 and System 2000 as of June 30, 2013; (2) contributions made by all members of ERS after June 30, 2013; and (3) the investment yield for each semester of the fiscal year.

Benefits Provided

Eligibility for retirement: Act 3 establishes the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

15. PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

Accrued benefits: All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan.

These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits ("Coordinated Plan"). Under this option, participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age.

For all members, if the balance of the defined contribution individual account is less than $10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013, the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is $500.

Termination benefit: Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than $10,000.

Deferred retirement: Members are eligible, at the applicable retirement eligibility age, to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits: For non-retired members, their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013, the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age 25 if pursuing studies for non-disabled children.

For pensioned members retired after June 30, 2013, payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.

15. PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

Disability benefits: Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447. A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the participant.

Special laws and pensioner additional benefits: The Municipality is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of $100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of $200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of $1,200 for healthcare insurance plan.

These healthcare benefits are provided through insurance companies whose premiums are paid by the retired employees with the matching share financed by the Municipality. These costs are billed by ERS and paid by the Municipality through the "PayGo" system.

Pension System – After July 1, 2017

Act No. 106 of August 23, 2017 ("Act 106") was enacted 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 creation and transition to a new defined contribution plan and the reform of ERS's governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 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. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were

15. PENSION PLAN (CONTINUED)

Pension System – After July 1, 2017 (Continued)

determined in accordance with the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

Also, effective July 1, 2017, retirement benefits for retirees of the Commonwealth, the Municipalities and other participants of the ERS will be 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. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. Payments are made by the employers (the Municipality) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a commercial bank. During the fiscal year 2020-2021, the Municipality recorded as "PayGo" expenditures the amount of 617,153, of this amount, $38,070 was recorded as due to Commonwealth Government as of June 30, 2021.

Creation and Transition to a New Defined Contribution Plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is 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 (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

15. PENSION PLAN (CONTINUED)

Creation and Transition to a New Defined Contribution Plan (Continued)

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 are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

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 DC 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 DC 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.

Reform of ERS's Governance and Administration

Act 106 creates 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. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73

As discussed above, pursuant to Act 106, 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. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that does not meet the requirements of GASB Statement No. 68 as of July 1, 2017. Instead, the employers may be subject to 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".

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2022. As a result, management has not been able to implement the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that do not comply with the criteria set forth in the GASB Statement No. 73. The effects of this departure from U.S. generally accepted accounting principles in

15. PENSION PLAN (CONTINUED)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73 (Continued)

the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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 ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits Provided

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

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. 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's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. 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. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2022 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", as of June 30, 2022. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

17. TAX ABATEMENTS

For the year ended June 30, 2022 the Municipality implemented Statement No. 77 of the Governmental Accounting Standards Board, "*Tax Abatement Disclosures*". A tax abatement is a reduction in tax revenues 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 after the agreement has been entered into that contributes to economic development or otherwise benefits the Municipality or its citizens.

Commonwealth of Puerto Rico Agreements

A. *Act 135 of 1998, as amended – "Tax Incentives Act"*

Purpose: To provide a tax incentives program that stimulates the creation of local capital; promotes the development of aerial and marine harbor infrastructure; promote the exportation of products manufactured in Puerto Rico; stimulate the development of strategic industries; promote the creation of small and medium businesses; promote the establishment of regional and central corporate offices and distribution centers in Puerto Rico; promote the creation of jobs and the development of human resources; and to the stimulated the development and distribution of technology in Puerto Rico.

Tax Benefits/Exemptions:

- Tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of seven percent (7%) on their net industrial development income (excluding the revenue earned from investments described in item (j) of Section 2 of this Act), with other provisions that would lower the tax rate.

- Tax-exempt businesses under this Act that manufacture textiles, clothing items produced with fabrics or other materials, articles made of leather or faux leather and shoes and/or dedicated to the canning of fish, shall be subject to a fixed income tax rate of four percent (4%), with other provisions that would lower the tax rate.

17. TAX ABATEMENTS (CONTINUED)

A. *Act 135 of 1998, as amended – "Tax Incentives Act" (Continued)*

- Tax-exempt businesses under this Act whose operations are located in Vieques or Culebra or in a municipality with similar economic and/or employment situations shall be totally exempt from the payment of income taxes on the revenues from the industrial development activity during the first ten (10) years beginning on year of the commencement of operations. After the ten-year period, the tax-exempt business shall be subject to a fixed income tax rate of two percent (2%)

- Tax-exempt businesses that are service units that hold a decree under paragraph sixteen (16) of item (i) of Section 2 of this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income from operations that exclusively cover markets in Central and South America, or to a two percent (2%) fixed rate on their net industrial income from operations that cover markets from North America through South America or the global market.

- Shareholders or partners of tax-exempt businesses that hold a decree under this Act that are individuals will have the right to an income tax credit equal to thirty percent (30%) of their proportional participation in the fix tax rate on the net industrial development income paid by the tax-exempt business.

- Tax-exempt businesses that hold a decree under this Act, are dedicated to manufacturing and generate a net industrial development income, calculated without taking into account the benefits of the special deductions provided by this Act, of less than $30,000 per production job, shall enjoy a special payroll deduction equal to a fifteen percent (15%) of the production payroll of the tax-exempt business, up to fifty percent (50%) of the net industrial development income computed without taking into account this special deduction.

- Special deduction equal to the amount of job training expenses incurred to improve productivity and quality control, to promote total quality management and to better the communication skills of their employees, incurred in excess of the average annual amount incurred in these expenses during the three (3) tax years ending after the effective date of this Act.

- Special deduction that equals the amount of expenses incurred in the research, experimentation and development of new products or industrial processes, or in the improvement of existing ones, that is deductible in the tax year under Subtitle A of the Puerto Rico Internal Revenue Code.

- Tax-exempt businesses that hold a decree under this Act shall have the choice to deduct in the tax year in which they are incurred the amounts invested in the construction and/or purchase of buildings, structures, machinery and equipment, instead of capitalizing the expenses made as required by the Puerto Rico Internal Revenue Code, as long as the assets have not being previously used by another person or business in Puerto Rico and they are

17. TAX ABATEMENTS (CONTINUED)

A. *Act 135 of 1998, as amended – "Tax Incentives Act" (Continued)*

utilized for the manufacturing of products or for providing the services for which the benefits under this Act were granted.

- Special deduction for the purchase of products manufactured in Puerto Rico that equals fifteen percent (15%) of purchase amount, reduced by the average of the purchases made of these products during the year 2000. This deduction is granted only for purchases of products that have been manufactured by companies not related to the tax-exempt business.

- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance or resolution. However, tax-exempt businesses described in paragraph (2) of item (a) of Section (3) of this Act shall be granted a seventy-five (75%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes; and for those described in paragraph (3) of item (a) of Section (3) pf this Act, the exemption will be ninety percent (90%).

- Complete exemption on state excise taxes following the terms indicated in item (c) of Section (6).

B. *Act 73 of 2008 – "Economic Incentives Act for the Development of Puerto Rico"*

Purpose: To provide the adequate environment and opportunities to continue developing local industries; to offer an attractive tax proposal to attract direct foreign investment and to promote economic development and social betterment in Puerto Rico.

Tax Benefits/Exemptions:

- The tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income, with other provisions that would lower the tax rate. Also, they will have a 100% exemption on the income earned from eligible investments.

- A special deduction for investment in buildings, structures, machinery and equipment in the taxable year during which these were incurred, in lieu of any capitalization of expenses.

- A tax credit for purchasing products manufactured in Puerto Rico equal to twenty-five percent (25%) of the purchases of such products.

17. TAX ABATEMENTS (CONTINUED)

B. *Act 73 of 2008 – "Economic Incentives Act for the Development of Puerto Rico" (Continued)*

- A tax credit to reduce the cost of electric power of up to 10% of the payments made to the Puerto Rico Electric Power Authority for the net electric power consumption.

- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance or resolution.

- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

C. *Not-for-profit Organizations*

Not-for-profit organizations are entities, incorporated or not, dedicated to the offering of services that, under the Puerto Rico Internal Revenue Code, qualify for an exemption from the payment of state income taxes. For example, entities created for charitable, literary, scientific and educational purposes; professional organizations and certain clubs and fraternal associations can request this exemption subject to their compliance with the requirements stated in the Puerto Rico Internal Revenue Code. Generally, these organizations are 100% exempt from the payment of property taxes, municipal license taxes and municipal construction excise taxes. Title V, Article 5.01, items (e) through (g) of ***Act 83 of 1991 – "Municipal Property Tax Act", as amended,*** states the types of organizations that are exempt from the payment of personal and real property taxes. For municipal license taxes, Section 9 – *"Exemptions"* of ***Act 113 of 1974 – "Municipal License Taxes Act", as amended,*** establishes the organizations that are exempt from the payment of municipal license taxes. Finally, municipal ordinances and resolutions state the percentage of construction excise taxes, if any, that these types of organizations must pay.

D. *Act 255 of October 28 of 2002, as amended "Cooperative Savings and Credit Unions Act of 2002"*

Purpose: To promote the growth and strengthening of cooperatives, savings and credit unions organized under this law.

Tax Benefits/Exemptions:

- 100% exemption on income, real and personal property and municipal taxes.

E. *Act 225 of 1995, as amended – "Agricultural Tax Incentives Act"*

Purpose: To establish public policy in the agricultural sector and other related economic sectors. Also, to establish the requirements to qualify as "bona fide farmers" and to provide them with all kinds of exemptions for the payment of income taxes, property taxes (real and personal), municipal licenses, construction excise taxes and any other state or municipal taxes or rights.

17. TAX ABATEMENTS (CONTINUED)

E. *Act 225 of 1995, as amended – "Agricultural Tax Incentives Act"*

Tax Benefits (Exemptions):

- Exemption of ninety percent (90%) of income taxes for revenues earned from agricultural business.
- Tax credit up to fifty percent (50%) of the total eligible investment.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used intensively for agricultural businesses and purposes.

Act's Name	Tax Category	Percent Abated	Amount abated as of June 30, 2022
Act 168 of 1968, as amended - "Act to Grant Tax Exemptions to Hospitals"	Personal property tax	100%	**$ 11,255**
Act 225 of 1995, as amended - "Agricultural Tax Incentive Act"	Real property Tax	100%	$ 6,964
	Personal property tax	100%	2,916
			$ 9,880
Act 135 of 1998, as amended - "Tax Incentives Act"	Real property tax	90%	$ 21,861
	Personal property tax	90%	50,955
			$ 72,816
Act 255 of 2002 - "Savings and Loans Associations Act, as amended"	Real property tax	100%	**$ 147,692**
	Personal property tax	100%	3,576
			$ 151,268
Act 73 of 2008, as amended - "Economic Incentives Act for the Development of Puerto Rico"	Personal property tax	100%	**$ 31,472**
Not-for Profits Organizations	Real property tax	100%	$ 136,529

18. COMMITMENTS AND CONTINGENCIES

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is management's

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality receives financial assistance from the federal government of the United States of America and the Commonwealth of Puerto Rico in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality. The management believes that any required reimbursement would not be material.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2023, which is the date the financial statements were available to be issued, for events recording or disclosure in the financial statements for the year ended June 30, 2022. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2022.

Hurricane Fiona

On September 17, 2022, Hurricanes Fiona devastated the Municipality of Aguas Buenas and Puerto Rico, respectively. The Hurricane Fiona caused economic and infrastructure-related damage temporarily disrupting the daily lives of substantially all residents of Puerto Rico.

Hurricane Fiona left substantially all Puerto Rico without electric service. As a result of the lack of power, the water system partially collapsed leaving a significant portion of the population without access to potable water.

Hurricane Fiona caused massive flooding, affecting both residents and businesses in Puerto Rico. Thousands of people, homes, and businesses have been impacted per reports from the Federal Emergency Management Agency (FEMA) and news agencies.

Heavy rains and flash floods brought on by the storm exacerbated widespread devastation, turning streets into rivers full of debris.

The Government of the Municipality of Aguas Buenas temporarily shut down operations and emphasized its activities to the life-saving activities and immediate recovery efforts for the benefits of its residents.

The President of the United States of America, Hon. Joseph R. Biden, Jr., issued a presidential declaration of major disaster for Puerto Rico on September 21, 2022 as a result of the damage caused by the Hurricane Fiona, making the Municipality and the residents of Aguas Buenas eligible

19. SUBSEQUENT EVENTS (CONTINUED)

to receive public and individual assistance, respectively, from the Federal Emergency Management Agency (FEMA). The presidential declaration, as amended, made federal funding available for debris removal and emergency protective measures, including direct federal assistance under the Public Assistance program at 100 percent of the total eligible costs for a period of 60 days from the start of the incident period.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2022

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Positive
	Original	Final	(See Note 1)	(Negative)
REVENUES:				
Property taxes	$ 1,502,662	$ 1,502,662	$ 1,920,424	$ 417,762
Municipal license tax	744,990	744,990	823,211	78,221
Licenses, permits and other local taxes	111,462	111,462	264,631	153,169
Charges for services	188,229	188,229	160,827	(27,402)
Interest, fines and penalties	5,000	5,000	10,808	5,808
Intergovernmental	2,711,234	2,711,234	2,758,073	46,839
Other	1,743,703	1,743,703	2,309,459	565,756
Total revenues	**7,007,280**	**7,007,280**	**8,247,433**	**1,240,153**
EXPENDITURES:				
General government	4,706,925	4,706,925	6,236,930	(1,530,005)
Public safety	1,444,304	1,444,304	218,173	1,226,131
Public works	221,581	221,581	1,371,086	(1,149,505)
Culture and recreation	634,470	634,470	453,086	181,384
Community development	-	-	335,618	(335,618)
Urban Development	-	-	84,203	(84,203)
Education	-	-	-	-
Principal	-	-	5,554	(5,554)
Total expenditures	**7,007,280**	**7,007,280**	**8,704,650**	**(1,697,370)**
EXCES OF REVENUES OVER EXPENDITURES	**$ -**	**$ -**	**$ (457,217)**	**$ (457,217)**

Explanation of differences:

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 8,247,433
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 8,704,650
Differences - budget to GAAP:	
Other adjustment to convert from budgetary basis to GAAP	498,966
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 9,203,616

See notes to Budgetary Comparison Schedule.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund and debt service fund.

For budgetary purposes, encumbrance accounting in used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance on June 30, 2022 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2022.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
FINANCIAL DATA SCHEDULE - RQ-082
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
JUNE 30, 2022

Balance Sheet

Line Item Number	Description	Housing Choice Vouchers	Cares Act Funding	Section 8 Moderate	Total
Assets					
111	Cash - unrestricted	$ 222,555	$ -	$ 12,270	$ 234,825
113	Cash - other restricted	103,842	108	48,701	152,651
115	Cash - restricted for current liabilities	15,383			15,383
100	Total cash	341,780	108	60,971	402,859
128	Fraud recovery	400			400
120	Total account receivable, net	400	-	-	400
150	Total account current assets	342,180	108	60,971	403,259
164	Machinery and equipment	40,814			40,814
166	Accumulate depreciation	(22,704)			(22,704)
160	Total capital assets, net	18,110	-	-	18,110
290	Total assets	$ 360,290	$ 108	$ 60,971	$ 421,369
Liabilities and equity					
312	Accounts payable	28,545			28,545
333	Accounts payable - other	34,950			34,950
342	Unearned revenues		108	28,000	28,108
300	Total liabilities	63,495	108	28,000	91,603
Equity					
508.4	Net investment in capital assets	18,110			18,110
511.4	Restricted net position	22,911		20,701	43,612
512.4	Unrestricted net position	255,774		12,270	268,044
513	Total equity - net position	296,795	-	32,971	329,766
600	Total liabilities and equity	$ 360,290	$ 108	$ 60,971	$ 421,369

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See notes to the Financial Data Schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
FINANCIAL DATA SCHEDULE - RQ-082
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2022

Income Statement

Line Item Number	Description	Housing Choice Vouchers	Cares Act Funding	Section 8 Moderate	Total
Revenues					
70600	HUD PHA operating grants	$ 1,002,563	$ 8,562	$ 46,870	$ 1,057,995
71100	Investment income	234			234
71500	Other revenues	47,131			47,131
70000	Total revenues	1,049,928	8,562	46,870	1,105,360
Expenses					
91100	Administrative salaries	50,653			50,653
91500	Employee benefit contributions	6,596			6,596
96900	Total operating expense	57,249	-	-	57,249
96200	Other general expenses	27,061	8,562		35,623
96000	Total other general expense	27,061	8,562	-	35,623
96900	Total operating expense	84,310	8,562	-	92,872
97000	Excess of operating revenues over expenses	965,618	-	46,870	1,012,488
97300	Housing assistance payments	892,514		20,299	912,813
97350	HAP portability-in	35,215			35,215
97400	Depreciation expense	9,613			9,613
90000	Total expenses	1,021,652	8,562	20,299	1,050,513
10000	*Excess (deficiency) of total revenues over (under) total expenses*	$ 28,276	$ -	$ 26,571	$ 54,847

See notes to the Financial Data Schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
FINANCIAL DATA SCHEDULE - RQ-082
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2022

	Memo Account Information				
11030	Beginning equity	$ 268,519	$ -	$ -	$ 268,519
11040	Prior period adjustment	$ -	$ -	$ (6,400)	$ (6,400)
11170	Administrative fee equity	$ 296,795	$ -	$ 32,971	$ 329,766
11180	Housing assistance payments equity	$ 22,911	$ -	$ -	$ 22,911
11190	Unit months available	161		-	
11210	Number of unit months leased	154		-	

See notes to the Financial Data Schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Notes to the Financial Data Schedule
Fiscal Year Ended June 30, 2022

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1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule ("FDS") is a trial balance of the financial statements of the Section 8 Housing Choice Voucher Program administered by the Municipality of Aguas Buenas. The FDS was created in order to standardize the financial information reported ("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 the net position of the Municipality.

2. 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 by using the modified accrual basis of accounting.

See notes to the Schedule of Expenditures Awards.

MUNICIPALITY OF AGUAS BUENAS
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2022

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Pass-Through to subrecipients	2022 Expenditures
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Section 8 Housing Choice Voucher	14.871			1,096,798
Section 8 Housing Choice Voucher- Covid 19	14.871			8,562
Continuum of Care Program	14.231			6,747
Indirect Programs:				
Passed through P.R. Department of the Family				
Emergency Solutions Grant Program	14.231			34,387
Passed through P.R. Office of Municipal Affairs				
State Block Grant Program	14.228	N/A		364,101
Total US Department of Housing and Urban Development				1,510,595
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs:				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044			29,779
Indirect Programs:				
Passed through P.R. Department of the Family				
Child Care and Development Grant Program	93.575	N/A		549,252
Total US Department of Health and Human Services				579,031
US DEPARTMENT OF HOMELAND SECURITY				
Indirect Programs:				
Passed through P.R. Central Recovery and Reconstruction Office (COR3)				
Disaster Grant Public Assistance	97.036	N/A		2,124,388
Total US Department of Homeland Security				2,124,388
US DEPARTMENT OF AGRICULTURE				
Indirect Program:				
Passed through PR Department of Education				
Child and Adult Food Program	10.558	N/A		44,513
US DEPARTMENT OF THE TREASURY				
Direct Programs:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A		1,561,012
Indirect Programs:				
Passed through PR Fiscal Agency and Financial Advisory Authority				
Coronvirus Relief Fund	21.019	N/A		837,203
Passed through PR Department of Health				
Coronvirus Relief Fund	21.019	N/A		273,223
Total US Department of the Treasury				2,671,438
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 6,929,965

See notes to the Schedule of Expenditures Awards.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2022

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Aguas Buenas and is presented on the modified-accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting. Expenditures for public assistance grants (FEMA) are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred. The Assistance Listing Numbers included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Assistance Listing Number.

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 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

A reconciliation of total expenditures related to federal programs included in the statement of revenues, expenditures, and changes in fund balances – governmental funds to total expenditures included in the schedule of expenditures of federal awards is as follows:

Other Governmental Funds	$ 6,220,102
FEMA	2,124,388
ARPA	1,561,012
Less:	
State Grants	(2,975,537)
Total expenditures in schedule of expenditures of federal awards	$ 6,929,965

NOTE 4 – INDIRECT COST RATE

The Municipality elected not to use the ten (10) percent of the minimum indirect cost rate allowed under the Uniform Guidance.

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Certified Public Accountants and Business Advisors

Orlando L. Ortiz Cabrera, CPA, CFF, CFE, CBA
CPA Marco Antonio Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
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AICPA's Private Companies Practice Section (PCPS)
Puerto Rico Board of Certified Public Accountants

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
Municipal Legislature
Municipality of Aguas Buenas
Aguas Buenas, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Aguas Buenas, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 31, 2023. The report on the governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the amounts reported as the deferred outflows/inflows of resources and, liability and expense related to the employee retirement pension and post-employment benefits plan.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

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weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weakness. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ortiz, Rivera, Rivera & Co., LLC

San Juan, Puerto Rico
March 31, 2023

The stamp E525356 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico

Report on Compliance for each Major Federal Program

Opinion on Each Major Federal Program

We have audited Municipality of Aguas Buenas' compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2022. Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of

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laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Municipality's federal programs.

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

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

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

Report on Internal Control over Compliance

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

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weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Ortiz, Rivera, Rivera & Co., LLC

San Juan, Puerto Rico
March 31, 2023

The stamp E525357 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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FINDINGS AND QUESTIONED COSTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:

Opinion Unit	Type of Opinion
Government wide financial statements	Qualified
Governmental funds financial statements	Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	_____	Yes	X	No
Reportable condition(s) identified that are not considered to be material weakness?	_____	Yes	X	None reported
Noncompliance material to financial statements noted?	_____	Yes	X	No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	_____	Yes	X	No
Significant deficiency (ies) identified?	_____	Yes	X	None reported

Type of auditors' report issued on compliance for major programs: **Unmodified opinion**

Any audit findings disclosed that are required to be reported in accordance with the 2 CFR 200.516(a)?	_____	Yes	X	No

Identification of major programs:

Assistance Listing Numbers

21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Fund
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disaster)

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Audited qualified as low-risk auditee? _____ Yes ___X___ No

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

- **2022-001 – Accounting Records – Recognition and Reporting of Net Pension Liability and Postemployment Benefit Other Than Pensions - Material Weakness**

Condition

The Municipality has partially implemented the requirements 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 Statement 67 and 68 and Statement N.75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The amount by which this departure would affect the deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Municipality's governmental activities has not been determined.

Criteria

GASB Statement No. 73 state the accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to employees of the state and local governmental employers and are not within the scope of Statement 68. This statement requires that the Municipality report in its financial statements the net pension liability and related expenses.

GASB Statement No. 75 state the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses /expenditures.

Cause

The actuarial report made as of June 30, 2021 (measurement date) has not been audited by a CPA firm.

Effect

The Municipality's Government-Wide Financial Statements do not present fairly the financial position of the government activities, and changes in financial position of the Municipality.

Recommendation

We recommend the Municipality that they should engage a CPA firm to determine the total pension liability and related expense.

Management Response and Corrective Action

The Municipality it will be trying to obtain a CPA firm to comply with this requirement.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Finding Number	Program/Financial Statement	Finding/Non Compliance	Status
2021-001	Government-wide Financial Statement	The Municipality has not implemented the requirements of Statement No. 73 and Statement No. 75.	Condition partially corrected.
2021-002	14.228 Community Development Block Grant/States's Program and Non-Entitlement Grants in Hawaii	Reports were submitted after its due date.	Condition corrected.
2020-001	Government-wide Financial Statement	The Municipality has not implemented the requirements of Statement No. 73 and Statement No. 75.	Condition partially.

CORRECTIVE ACTION PLAN

March 31, 2023

Cognizant or Oversight Agency for Audit:

The Municipality of Aguas Buenas respectfully submits the following corrective action plan for the year ended June 30, 2022.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2022.

The findings from the June 30, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENTS AUDIT

Finding 2022-001: Accounting Records- Recognition and Reporting of Net Pension Liability and Postemployment Benefit Other Than Pensions

Reportable Condition: See Condition 2022-001

Recommendation

We recommend the Municipality that they should completely implement and determine the total pension liability and related expense.

Action Taken

The Municipality is waiting for the Puerto Rico Retirement System Administration if they are going to audit and determinate the total pension liability and related expenses for the Municipalities or if not the Municipality will be trying to engage an audit to determine the total pension liability and related expenses.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please contact us at (787) 732-4700.

Cordially,

Juan Ortiz Rivera
Finance Director

MUNICIPALITY OF AGUAS BUENAS

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2022

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CPA Marco Antonio Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
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AICPA's Private Companies Practice Section (PCPS)
Puerto Rico Board of Certified Public Accountants

March 31, 2023

To the Honorable Mayor and
Municipal Legislature
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Aguas Buenas as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Aguas Buenas internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 controls that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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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. We consider the following deficiencies in internal control to be significant deficiencies:

A. Inactive Cash Balances

Based on our review of cash balances we noted that there are cash accounts and reconciliations that have been inactive for many years, the following are:

Account Number	Account Name
045-237697	Construcción Pista Atletica
045-315396	Cuenta Transportación Escolar
045-220638	Cuenta Especial Vivienda

Recommendation

We recommend the Municipality to investigate and review these balances and take the appropriate action to close these old balance amounts out.

B. Outstanding Checks

At the time of our audit, there were several large checks that have been outstanding for several months for the following accounts:

Account Number	Name	Amount
045-018235	Alimento "Child Care"	$ 499.04
045-243344	Cuenta Corriente	1,661.09
045-868220	Centro Rafael Lasa	2,420.40

Recommendation

We suggest that an accurate outstanding check list be kept for each bank account and a periodic review of the list(s) be performed on a timely basis. If necessary, stop payments notices should be sent to the bank.

The information in this letter is intended solely for the use of those charged with governance of Municipality of Aguas Buenas and is not intended to be and should not be used by anyone other these specified parties.

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We sincerely appreciate the opportunity to provide services to Municipality of Aguas Buenas and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let us know.

Cordially,

Ortiz, Rivera, Rivera & Co., LLC

Ortiz, Rivera, Rivera & Co., LLC

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FORM SF-SAC (09-16-2022) 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 2022

PART I: GENERAL INFORMATION

REPORT ID: **982004** VERSION: **1**

1. Fiscal Period

a. Start Date: 7/1/2021 (MM/DD/YYYY)

b. End Date: 6/30/2022 (MM/DD/YYYY)

2. Type of Uniform Guidance Audit

- [X] Single audit
- [ ] Program-specific audit
- [ ] Alternative Compliance Examination Engagement

3. Audit Period Covered

- [X] Annual
- [ ] Biennial
- [ ] Other: Number of Months

4. Auditee Identification Numbers

a. Auditee Employer Identification Number (EIN): 66-0433571

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: 13-068-3493

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

g. Auditee Unique Entity Identification Number (UEI): NRRAKJN4AHK5

h. Are multiple UEIs covered in this report? [ ] Yes [X] No

i. If Part I, Item 4h is Yes, complete the attached Auditee UEI Continuation Sheet

5. Auditee Information

a. Auditee Name: MUNICIPALITY OF AGUAS BUENAS

b. Auditee Address

Number and Street: PO BOX 128

City: AGUAS BUENAS State: PR Zip Code: 00703

c. Auditee Contact

Name: JUAN A. ORTIZ

Title: FINANCE DIRECTOR

d. Auditee Contact Telephone: (787)732-1073

e. Auditee Contact E-mail: JORTIZ@AGUASBUENASPR.NET

6. Primary Auditor Information

a. Audit Firm/Organization Name: ORTIZ, RIVERA, RIVERA & CO., LLC.

b. Audit Firm/Organization EIN: 66-0468103

c. Audit Firm/Organization Address

Number and Street: SUITE 152 PO BOX 70250

City: SAN JUAN State: PR Zip Code: 00936-7250

d. Auditor Contact

Name: CPA MARCO RIVERA

Title: AUDIT PARTNER

e. Auditor Contact Telephone: (787)756-8524

f. Auditor Contact E-mail: MRIVERA@CPAORR.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

SUBMITTED

FORM SF-SAC

Report ID: **982004** Version: **1**

PART II: FEDERAL AWARDS

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

1. Federal Awards Expended During Fiscal Period

Schedule of Expenditures of Federal Awards

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	14	871		SECTION 8 HOUSING CHOICE VOUCHERS	$1,096,798	HOUSING VOUCHER CLUSTER	$1,105,360	$1,105,360	N		Y			N		N		0
2	14	871	COVID 19	SECTION 8 HOUSING CHOICE VOUCHERS	$8,562	HOUSING VOUCHER CLUSTER	$1,105,360	$1,105,360	N		Y			N		N		0
3	14	231		EMERGENCY SOLUTIONS GRANT PROGRAM	$6,747	N/A	$41,134		N		Y			N		N		0
4	14	231		EMERGENCY SOLUTIONS GRANT PROGRAM	$34,387	N/A	$41,134		N		N	PR DEPARTMENT OF THE FAMILY	N/A	N		N		0
5	14	228		COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	$364,101	N/A	$364,101		N		N	PR DEPARTMENT OF HOUSING	N/A	N		N		0
6	93	044		SPECIAL PROGRAMS FOR THE AGING_TITLE III, PART B_GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS	$29,779	N/A	$29,779		N		Y			N		N		0
7	93	575		CHILD CARE AND DEVELOPMENT BLOCK GRANT	$549,252	CCDF CLUSTER	$549,252	$549,252	N		N	PR DEPARTMENT OF THE FAMILY	N/A	N		N		0
8	97	036		DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	$2,124,388	N/A	$2,124,388		N		N	PR CENTRAL RECOVERY AND RECONSTRUCTION OFFICE (COR3)	N/A	N		Y	U	0
9	10	558		CHILD AND ADULT CARE FOOD PROGRAM	$44,513	N/A	$44,513		N		N	PR DEPARTMENT OF EDUCATION	N/A	N		N		0

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10	21	027		CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	$1,561,012	N/A	$1,561,012		N		Y			N		Y	U	0
11	21	019		CORONAVIRUS RELIEF FUND	$837,203	N/A	$1,110,426		N		N	PR FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY	N/A	N		N		0
12	21	019		CORONAVIRUS RELIEF FUND	$273,223	N/A	$1,110,426		N		N	PR FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY	N/A	N		N		0
				Total Federal Awards Expended =	$6,929,965													

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))

NOTE 1 BASIS OF PRESENTATION - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Aguas Buenas and is presented on the modified-accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting. Expenditures for public assistance grants (FEMA) are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred. The Assistance Listing Numbers included inthis schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Assistance Listing Number. State or local government redistributions of federal awards to the Municipality, known as passthrough 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 passthrough 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 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS - A reconciliation of total expenditures related to federal programs included in the statement of revenues, expenditures, and changes in fund balances governmental funds to total expenditures included in theschedule of expenditures of federal awards is as follows: Other Governmental Funds $ 6,220,102, FEMA 2,124,388, ARPA 1,561,012 Less: State Grants (2,975,537), Total expenditures in schedule ofexpenditures of federal awards $ 6,929,965 NOTE 4 INDIRECT COST RATE -The Municipality elected not to use the ten (10) percent of the minimum indirect cost rate allowed under the Uniform Guidance.

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

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
- [X] 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? [ ] Yes [X] No

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

e. Is a material noncompliance disclosed? [ ] Yes [X] 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))*

Sub

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

5. Text of the Audit Findings

a. Audit Finding Reference Number	b. Audit Finding Text
YYYY-###	30,000 characters
YYYY-###	30,000 characters

Submitted Data

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PART IV: CORRECTIVE ACTION PLAN	
1. Audit Finding Reference Number	2. Text of the Corrective Action Plan
YYYY-###	10,000 characters
YYYY-###	10,000 characters

Submitted Data

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

3/31/2023

(MM/DD/YYYY)

Name of certifying official

JUAN ORTIZ

Title of certifying official

FINANCE DIRECTOR

Auditor Signature Date

3/31/2023

(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.	

SUBMITTED DATA

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.	

SUBMITTED DATA

FORM SF-SAC			Report ID:	Version:
Part 1: GENERAL INFORMATION - Continued				
4.i. Auditee UEI 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.
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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.

SUBMITTED DATA DRAFT

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Part 1: GENERAL INFORMATION - Continued

6.h. Secondary Auditors' Contact Information Sheet

i	ii	iii	iv	v	vi	vii	viii	ix	x
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

Submitted Data

FORM SF-SAC	Report ID: 982004	Version: 1
FAC Determined Data		
Type of Entity	Local government	
Current Year Direct Findings	No	
Current Year Indirect Findings	No	
Cognizant (C) or Oversight (O) Agency	Oversight	
Cognizant or Oversight Federal Agency Name	21 - Department of Treasury	
Type of Audit Report on Major Program (MP) Compliance *(All MP compliance opinions combined)*	Unmodified	

ed Data