COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

Basic Financial Statements, Supplementary Information and Independent Auditors' Report (With the Additional Reports Required by the Government Auditing Standards and the Uniform Guidance)

For the Fiscal Year Ended June 30, 2022

Honorable Julio Alicea Vasallo
Mayor

Municipality of Cataño
P.O. Box 428 Cataño, P.R. 00963-0428

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

	Pages
Independent Auditors' Report	1-5
Required Supplementary Information (Part I): (Unaudited)	
Management's Discussion and Analysis	6-15
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Governmental Funds Financial Statements:	
Balance Sheet – Governmental Funds and Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances and Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Notes to the Basic Financial Statements	20-74
Required Supplementary Information (Part II): (Unaudited)	
Budgetary Comparison Schedule - General Fund	75
Notes to Budgetary Comparison Schedule - General Fund	76
Other Supplementary Information:	
Schedule of Expenditures of Federal Awards	77
Notes to Schedule of Expenditures of Federal Awards	78-79

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MUNICIPALITY OF CATAÑO

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS (CONTINUED)

	Pages
Internal Control and Compliance with Laws and Regulations:	
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*	80-81
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	82-84
Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	85-91
Corrective Action	92-94
Schedule of Prior Years' Audit Findings	95-105

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Unmodified
Debt Service Fund	Unmodified
American Rescue Plan Act Fund	Unmodified
Coronavirus Relief Fund	Unmodified
Capital Projects Fund	Unmodified
FEMA Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on Governmental Activities

In our opinion, except for the effects of the matter described in the "*Basis for Qualified and Unmodified Opinions*" section of our report, the financial statements referred to above present fairly, in all material aspects, the financial position of the governmental activities of the **Municipality of Cataño's**, as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Each Major Fund and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the **Municipality of Cataño's**, Puerto Rico, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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

Matters Giving Rise to the Qualified Opinion on Governmental Activities

Noncompliance 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"*

The Retirement System Administration (ERS) has not provided the audited financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2022. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

Also, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Retirement System Administration (ERS) has not 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.

Emphasis of Matter

As described in **Note 2** and **Note 13** to the financial statements, in 2022, the government adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Municipality of Cataño'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in 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 of Cataño's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Municipality of Cataño's** ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information Omitted

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and in 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 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 this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on **pages 6–15** and **75–76** be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Cataño's** basic 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, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2023, on our consideration of the **Municipality of Cataño'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

Other Reporting Required by *Government Auditing Standards* (continued)

over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Municipality of Cataño'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 of Cataño's** internal control over financial reporting and compliance.

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 21, 2023

Stamp No. E486944 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

The **Municipality of Cataño's** (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 $145,498,106 which represents an increase of 3% compared with fiscal year 2021.

- At the end of fiscal year 2022, total liabilities amounted to $40,309,101. Out of said amount, $19,142,320 corresponded to long-term liabilities of which $5,574,457 represented the outstanding balance of bonds and notes issued. 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 $105,189,005 which represents an increase of 8% compared with fiscal year 2021.

- Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $54,881,672, derived from the following sources: $4,043,040 from charges for services; $347,681 from operating grants and contributions, and $50,490,951 from general revenues.

- Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $52,323,387.

- As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balance of $26,218,756.

- At the end of the current fiscal year, the Municipality's general fund balance amounted to $15,030,545 compared to prior year fund balance of $9,889,632.

- The actual General Fund budgetary activities resulted in a favourable balance of $457,551.

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 near-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 near-term financial decisions. Both, the governmental funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

USING THIS ANNUAL REPORT (CONTINUED)

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 Financial 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 $97.6 and $105.2 million at the end of 2021 and 2022, as restated, 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 $7,558,285 increase reflected in the Net Position figure.

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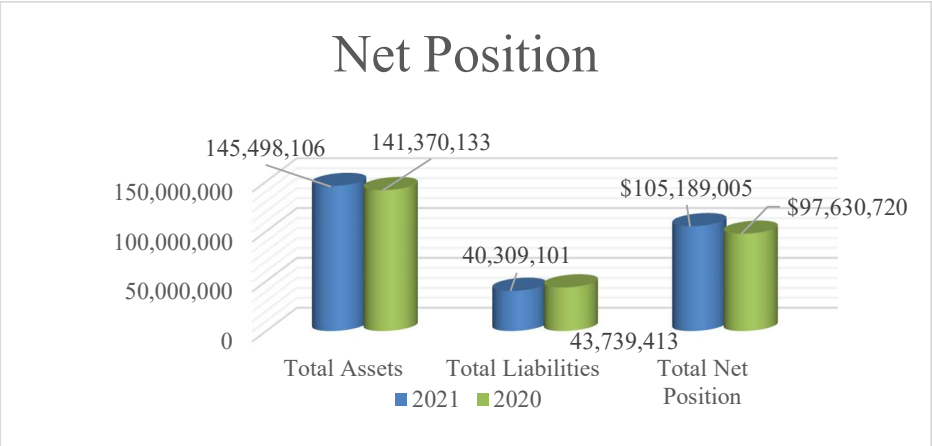
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

MUNICIPALITY OF CATAÑO
Condensed Statement of Net Position
June 30, 2022 and 2021

	2022	2021	Increase/Decrease	%
Assets:				
Current assets	$ 50,032,143	$ 40,551,894	$ 9,480,249	23%
Capital assets	95,465,963	100,818,239	(5,352,276)	-5%
Total assets	145,498,106	141,370,133	4,127,973	3%
Liabilities:				
Currrent liabilities	21,166,781	16,018,218	5,148,563	32%
Noncurrent liabilities	19,142,320	27,721,195	(8,578,875)	-31%
Total liabilities	40,309,101	43,739,413	(3,430,312)	-8%
Net Position:				
Invested in capital assets, net of related debt	89,891,506	92,953,782	(3,062,276)	-3%
Restricted	11,640,561	12,566,125	(925,564)	-7%
Unrestricted (deficit)	3,656,938	(7,889,187)	11,546,125	146%
Total net position	$ 105,189,005	$ 97,630,720	$ 7,558,285	8%



Changes in Net Position

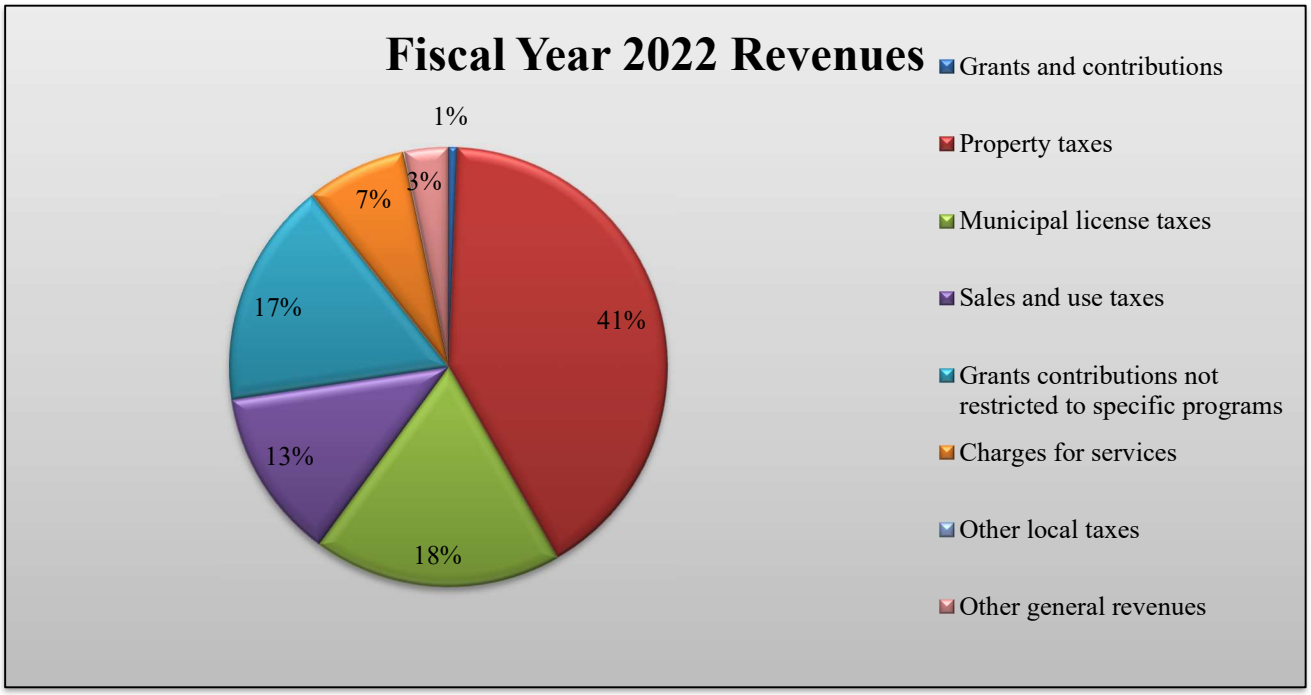
The Municipality's net position increased by $7,558,285. Approximately 1% of the Municipality's total revenues came from operating grants and contributions, while 92% resulted from general revenues, the remaining 7% correspond to charges for services. The Municipality's expenses cover a range of services. The largest expenses were for 1) general government, 2) health and welfare and 3) public works. 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, 2021 and 2022. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

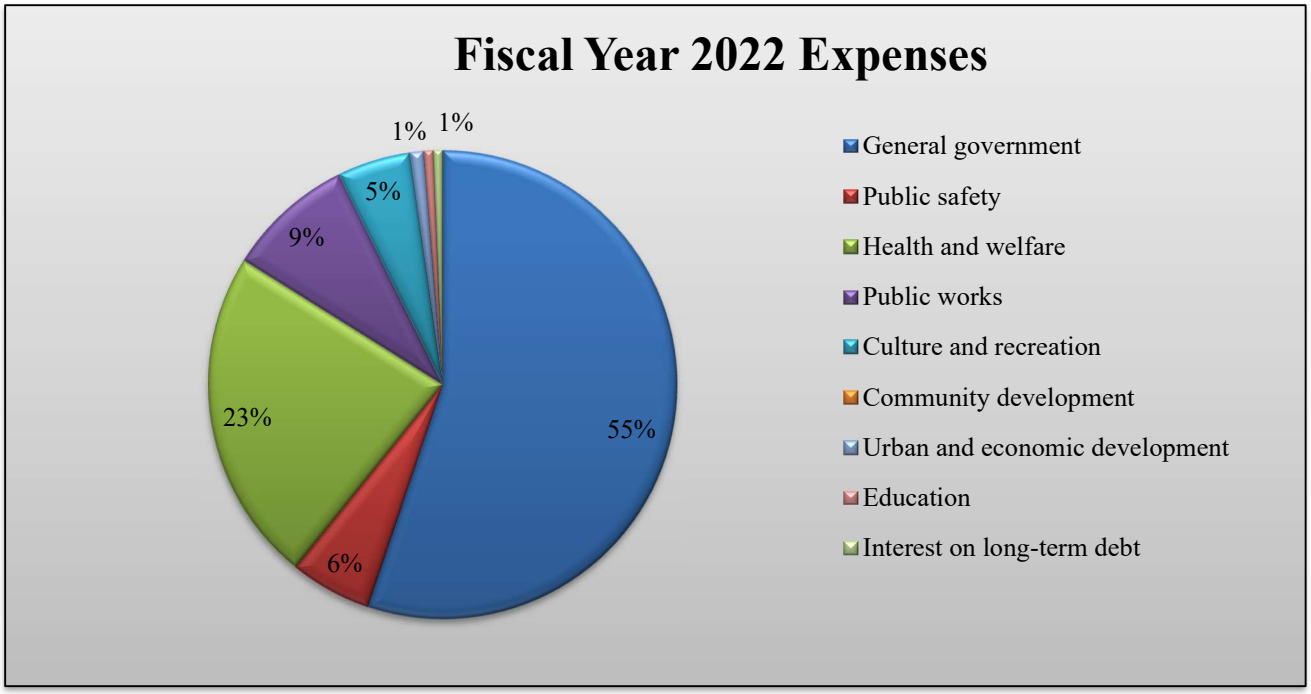
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

MUNICIPALITY OF CATAÑO
Condensed Statement of Activities
June 30, 2022 and 2021

	2022	2021	Increase/Decrease	%
Program revenues:				
Charges for services	$ 4,043,040	$ 3,127,232	$ 915,808	29%
Operating grants and contributions	347,681	522,209	(174,528)	-33%
General revenues:				
Property taxes	22,548,540	20,451,736	2,096,804	10%
Municipal license taxes	10,067,759	11,151,182	(1,083,423)	-10%
Sales and use taxes	6,893,015	6,604,261	288,754	4%
Grants and contributions not restricted to specific programs	9,146,670	6,991,336	2,155,334	31%
Licenses, permits and other local taxes	54,453	391,006	(336,553)	-86%
Rent	332,767	325,291	7,476	2%
Interest and investment earnings	20,287	55,982	(35,695)	-64%
Other	1,427,460	5,826,158	(4,398,698)	-75%
Total revenues	54,881,672	55,446,393	(564,721)	-1%
Expenses:				
General government	28,873,427	24,134,431	4,738,996	20%
Public safety	2,942,610	2,593,618	348,992	13%
Health and welfare	12,078,037	8,437,528	3,640,509	43%
Public works	4,611,404	6,405,824	(1,794,420)	-28%
Culture and recreation	2,643,735	3,196,487	(552,752)	-17%
Community development	530	153,436	(152,906)	-100%
Urban and economic development	503,945	1,815,436	(1,311,491)	-72%
Education	345,845	349,813	(3,968)	-1%
Interest on long-term debt	323,854	461,257	(137,403)	-30%
Total expenses	52,323,387	47,547,830	4,775,557	10%
Extraordinary items				
Cancelation of Community Disaster Loan	5,000,000	-	5,000,000	100%
Change in net position	7,558,285	7,898,563	(340,278)	-4%
Net position, beginning of year	97,630,720	89,732,157	7,898,563	9%
Net position, end of year	$ 105,189,005	$ 97,630,720	$ 7,558,285	8%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)





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.

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 $26.2 million compared to a fund balance of $22.2 million 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 fund balance of approximately $15 million. The fund balance increased by $5.1 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 amounts due to fiscal control measures established by the current Mayor. The actual General Fund budgetary activities resulted in a favorable balance of $457,551.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2022, amounts to $220.4 million, net of accumulated depreciation of $125 million, leaving a net book value of $95.4 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 $1.2 million for the year. Depreciation charges for the year totaled $7 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in their entirety for such purposes and cannot be used for any other purposes.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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.

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), as projected by the Financial Oversight and Management Board for Puerto Rico ("JSAF" by its Spanish acronym), 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 BUDGET

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Federal and State 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 fiscal year 2022-2023.

Economic Factors

Elimination of Commonwealth's subsidy transfer

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

Impact of COVID-19

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

entities and Commonwealth and Municipal governmental organizations to close or partially operate.

Businesses, the Commonwealth, Municipal governments, and people of Puerto Rico were granted with financial assistance in order to alleviate the economic impact of the virus. The Municipality was awarded with financial support from the Federal Government through the Coronavirus Relief Fund (passed-through the Puerto Rico Departments of Health and Treasury) and the Coronavirus State and Local Fiscal Recovery Funds (passed-through the Puerto Rico Fiscal Agency and Financial Advisory Authority).

Extraordinary fund for waste collection and disposal and implementation of recycling programs in municipalities Act No. 53-2021

Act No. 53, from October 26, 2021, states an extraordinary fund for waste collection and disposal and the implementation by the municipalities of recycling programs. This fund will be within the municipal equalization fund, but in a separate account.

This Act establishes that as the Government of Puerto Rico's Plan of Adjustment of the Debt includes reductions to the guaranteed debt, a portion of the economies generated will be made accessible to municipalities. This fund will have an annual appropriation from the Government's general fund, equivalent to 42% of the prior years' collection of the 1.03% Redemption Fund. This assignment will only be included in the fiscal year budget if the Medicaid funds received in the prior fiscal year exceeds the amounts projected in the Government's Fiscal Plan, certified by the Financial Oversight and Management Board.

This Act establishes that these funds will be used exclusively and specifically for the following purposes:

a) Waste collection and disposal

b) Solid waste collection and disposal

c) Debris collection and disposal

d) Implementation of a recycling program

Impact of Hurricane Fiona

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

A major disaster declaration, FEMA-4671-DR-PR, was signed by the President of the United States on September 21, 2022. Under this declaration, all 78 Municipalities of the Commonwealth of Puerto Rico have been designated adversely affected by the disaster and eligible for Public Assistance (PA), Hazard Mitigation Grant (HMGP) and Individual Assistance (IA) programs, implemented under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The Municipality has been designated for IA and PA for debris removal and emergency protective measures(Categories A and B) and permanent work (Categories C-G).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

Next year's budget

In addition to the fiscal factors discussed above, the Municipality's officials considered certain economic factors such as estimates for the growth or decline in population, personal income, housing statistics and unemployment rates when establishing the fiscal year's 2022-2023 budget. For year 2022-2023, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are $40,746,011, representing an increase of approximately 11% with respect to 2021-2022 fiscal year estimates. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

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 CATAÑO
Statement of Net Position
June 30, 2022

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 49,662,784
Accounts receivable:	
Municipal license taxes	14,047
Licenses and permits	8,069
Property taxes	116,028
Others	30,637
Due from:	
Federal government	75,578
Inventories and other assets	125,000
Capital assets, net of depreciation	95,465,963
Total assets	145,498,106
LIABILITIES:	
Accounts payable and accrued liabilities	2,905,463
Due to other governmental entities	1,756,903
Matured interest due and payable	162,013
Unearned revenues:	
Municipal license taxes	9,593,881
Local government	38,141
Federal government	6,710,380
Noncurrent liabilities:	
Due within one year	5,499,102
Due in more than one year	13,643,218
Total liabilities	40,309,101
NET POSITION:	
Invested in capital assets, net of related debt	89,891,506
Restricted:	
Capital projects	3,961,021
Debt service	7,679,540
Unrestricted	3,656,938
Total net position	$ 105,189,005

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Statement of Activities
For the Fiscal 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 (expense) revenue and changes in net position
Governmental Activities:					
General government	$ 28,873,427	$ 4,043,040	$ -	$ -	$ (24,830,387)
Public safety	2,942,610	-	-	-	(2,942,610)
Health and welfare	12,078,037	-	347,681	-	(11,730,356)
Public works	4,611,404	-	-	-	(4,611,404)
Culture and recreation	2,643,735	-	-	-	(2,643,735)
Community development	530	-	-	-	(530)
Economic development	503,945	-	-	-	(503,945)
Education	345,845	-	-	-	(345,845)
Interest on long-term debt	323,854	-	-	-	(323,854)
Total	$ 52,323,387	$ 4,043,040	$ 347,681	$ -	(47,932,666)

General revenues:	
Property taxes	22,548,540
Municipal license taxes	10,067,759
Sales and use taxes	6,893,015
Grants and contributions not restricted to specific programs	9,146,670
Licenses, permits and other local taxes	54,453
Rent	332,767
Fines and forfeitures	1,427,460
Interest	20,287
Total general revenues	50,490,951
Extraordinary items:	
Cancellation of Community Disaster Loan	5,000,000
Change in net position	7,558,285
Net position at beginning of year	97,630,720
Net position at end of year	$ 105,189,005

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Balance Sheet
June 30, 2022

	General Fund	Debt Service Fund	American Rescue Plan Act Fund	Coronavirus Relief Fund	Capital Projects Fund	FEMA Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:								
Cash and cash equivalents	$ 29,148,052	$ 10,296,553	$ 3,036,185	542,514	$ 4,207,840	$ 2,167,454	$ 264,186	$ 49,662,784
Accounts receivable:								
Municipal license taxes	14,047	-	-	-	-	-	-	14,047
Licenses and permits	8,069	-	-	-	-	-	-	8,069
Property taxes	116,028	-	-	-	-	-	-	116,028
Others	30,637	-	-	-	-	-	-	30,637
Due from:								
Federal government	-	-	-	-	-	-	75,578	75,578
Other funds	940,375	-	1,201,353	-	-	-	-	2,141,728
Inventories and other assets	125,000	-	-	-	-	-	-	125,000
Total assets	$ 30,382,208	$ 10,296,553	$ 4,237,538	$ 542,514	$ 4,207,840	$ 2,167,454	$ 339,764	$ 52,173,871
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT):								
LIABILITIES								
Accounts payable and accrued liabilities	$ 2,683,498	$ -	$ 114,098	$ 6,107	$ -	$ 68,760	$ 33,000	$ 2,905,463
Due to other governmental entities	1,756,903	-	-	-	-	-	-	1,756,903
Unearned revenues:								
Municipal license taxes	9,593,881	-	-	-	-	-	-	9,593,881
Local government	-	-	-	-	-	-	38,141	38,141
Federal government	-	-	4,123,440	-	-	2,098,694	488,246	6,710,380
Due to other funds	1,201,353	-	-	536,407	-	-	403,968	2,141,728
Matured bonds due and payable	-	2,455,000	-	-	-	-	-	2,455,000
Matured interest due and payable	-	162,013	-	-	-	-	-	162,013
Total liabilities	15,235,635	2,617,013	4,237,538	542,514	-	2,167,454	963,355	25,763,509
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues:								
Property taxes	116,028	-	-	-	-	-	-	116,028
Federal government	-	-	-	-	-	-	75,578	75,578
Total deferred inflows of resources	116,028	-	-	-	-	-	75,578	191,606
FUND BALANCES								
Nonspendable	125,000	-	-	-	-	-	-	125,000
Restricted	-	7,679,540	-	-	4,207,840	-	-	11,887,380
Assigned	1,447,302	-	-	-	-	-	-	1,447,302
Unassigned (deficit)	13,458,243	-	-	-	-	-	(699,169)	12,759,074
Total fund balances (deficit)	15,030,545	7,679,540	-	-	4,207,840	-	(699,169)	26,218,756
Total liabilities, deferred inflows of resources and fund balances	$ 30,382,208	$ 10,296,553	$ 4,237,538	$ 542,514	$ 4,207,840	$ 2,167,454	$ 339,764	$ 52,173,871

Fund Balance Governmental Funds	26,218,756
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.	95,465,963
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	191,606
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the governmental funds.	(16,687,320)
Net position	$ 105,189,005

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
For the Fiscal Year Ended June 30, 2022

	General Fund	Debt Service Fund	American Rescue Plan Act Fund	Coronavirus Relief Fund	Capital Projects Fund	FEMA Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Property taxes	$ 12,656,619	$ 9,775,893	$ -	$ -	$ -	$ -	$ -	$ 22,432,512
Municipal license taxes	10,067,759	-	-	-	-	-	-	10,067,759
Sales and use taxes	5,752,767	1,140,248	-	-	-	-	-	6,893,015
Licenses, permits and other local taxes	54,453	-	-	-	-	-	-	54,453
Rent	332,767	-	-	-	-	-	-	332,767
Charges for services	4,043,040	-	-	-	-	-	-	4,043,040
Miscellaneous	1,427,460	-	-	-	-	-	-	1,427,460
Interest	20,287	-	-	-	-	-	-	20,287
Intergovernmental:								
Federal government	-	-	1,463,891	2,663,222	121,222	147,136	746,921	5,142,392
Local government	4,082,954	-	-	-	-	-	228,436	4,311,390
Total revenues	38,438,106	10,916,141	1,463,891	2,663,222	121,222	147,136	975,357	54,725,075
EXPENDITURES:								
Current:								
General government	22,659,869	-	1,463,891	-	-	-	-	24,123,760
Public safety	2,900,906	-	-	-	-	-	17,265	2,918,171
Health and welfare	8,931,655	-	-	2,663,222	-	-	1,001,083	12,595,960
Public works	4,291,605	-	-	-	-	147,136	-	4,438,741
Culture and recreation	1,659,435	-	-	-	-	-	-	1,659,435
Community development	-	-	-	-	-	-	530	530
Education	236,087	-	-	-	-	-	109,758	345,845
Capital outlays	1,193,758	-	-	-	97,400	-	299,071	1,590,229
Debt service:								
Principal	263,462	2,455,000	-	-	-	-	-	2,718,462
Interest	-	323,854	-	-	-	-	-	323,854
Total expenditures	42,136,777	2,778,854	1,463,891	2,663,222	97,400	147,136	1,427,707	50,714,987
Excess (deficiency) of revenues over (under) expenditures	(3,698,671)	8,137,287	-	-	23,822	-	(452,350)	4,010,088
OTHER FINANCING SOURCES (USES):								
Transfers in	8,839,854	-	-	-	-	-	-	8,839,854
Transfers out	-	(8,839,854)	-	-	-	-	-	(8,839,854)
Total other financing sources (uses)	8,839,854	(8,839,854)	-	-	-	-	-	-
Net changes in fund balance	5,141,183	(702,567)	-	-	23,822	-	(452,350)	4,010,088
FUND BALANCES (DEFICIT), at beginning of year	9,889,362	8,382,107	-	-	4,184,018	-	(246,819)	22,208,668
FUND BALANCES (DEFICIT), at end of year	$ 15,030,545	$ 7,679,540	$ -	$ -	$ 4,207,840	$ -	$ (699,169)	$ 26,218,756

Net change in fund balance governmental funds	4,010,088
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 capital outlays exceeded depreciation in the current period.	(5,352,276)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	156,598
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.	8,743,875
Change in net position	$ 7,558,285

The accompanying notes to the basic financial statements are an integral part of this statement.

1. REPORTING ENTITY

The **Municipality of Cataño** (the Municipality) of the Commonwealth of Puerto Rico is a local government constituted in 1927 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 U.S. 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 U.S. GAAP.

GASB No. 76 improves financial reporting by (1) raising the category of GASB Implementation Guides in the U.S. 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 U.S. 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 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.

Required Supplementary Information – Management's Discussion and Analysis

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

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

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.

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.

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

Government-Wide and Fund Financial Statements (continued)

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.

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.

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

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 as of 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.

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: (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.

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

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

American Rescue Plan Act Fund - This fund accounts for revenue sources of the American Rescue Plan Act (ARPA) that is intended to help to combat the COVID-19 pandemic, including health and economic impacts.

Coronavirus Relief Fund - This fund is used to account for and report revenue sources from the U.S Department of Treasury to cover costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19.

Capital Projects Fund - Capital projects funds are governmental funds used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

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 Irma and Maria. Funds are received through the Central Office for Recovery, Reconstruction and Resiliency of P.R., the grantee for FEMA State Agreement DR-4339 (Hurricane Maria) and DR-4336 (Hurricane Irma).

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 kind 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

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

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

fund financial statements if its total assets plus deferred outflows of 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) the American Rescue Plan Act fund, (4) the coronavirus relief fund, (5) the capital projects fund, (6), FEMA (7), and other governmental funds.

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

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund. Management decided to omit required supplementary information in accordance with GASB Statement No. 73 and 75.

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.

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

Budgetary Control (continued)

The Mayor must submit for the fiscal year commencing on the next July 1, an annual budgetary resolution 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 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.

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.

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

Budgetary Accounting

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 adjusted bank balances in commercial banks of $49,662,784 in the general fund, debt service fund, american rescue plan act fund, coronavirus relief fund, capital projects fund, FEMA fund and other governmental funds were fully collateralized at 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 and Due From Governmental Entities

Receivables consist of all revenues earned but not collected at 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. Amounts due from Commonwealth and Federal governments reported in the financial statements represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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.

Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund and in the Statement of Net Position, as of June 30, 2022 the amount is $125,000.

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 $100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $100 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 is 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)

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.
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.

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, accrued legal claims and judgments if any and other long-term debt obligations as shown in **Note 12**.

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.

Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, "*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.

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

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.

Claims and judgments

In the GWFS, the liability and expense amounts for judgments and claims are recorded as incurred or when a loss is probable, and the amount reasonably estimated. In the FFS, amounts are recorded as liabilities and expenditures in the General Fund when they mature (when payment is due).

Accounting for pension costs and other postemployment benefits

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 Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) has not provided certain audited information and assistance, necessary for its implementation applicable to measurement date (year ending on June 30, 2021). 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 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 provided to the Municipality with the audited required 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").

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

Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

In the 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 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. **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 acronym), 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 as of June 30, 2022.

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

Adoption of new accounting pronouncements

During the year the Municipality adopted the provisions of the following accounting pronouncements:

1. **GASB Statement No. 87**, "*Leases*" The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

   During the fiscal year the Municipality management realized a complete assessment of all its lease agreements and commitments to determine the impact in the financial statement as shown in **Note 13**.

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

   The adoption of Statement No. 89 had no impact on the Municipality's current accounting practices nor its financial reporting.

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

Adoption of new accounting pronouncements (continued)

3. **GASB Statement No. 92**, "*Omnibus 2020*" Addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including Leases, Intra-Entity Transfers of Assets, Assets Accumulated for Defined Benefit Postemployment Benefits, Fiduciary Activities, Asset Retirement Obligations, Reinsurance Recoveries, Nonrecurring Fair Value Measurements, and Derivative Instruments.

   The adoption of Statement No. 92 had no impact on the Municipality's current accounting practices nor its financial reporting.

4. **GASB Statement No. 93**, "*Replacement of Interbank Offered Rates*" Establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as the *London Interbank Offered Rate* (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. However, Statement No. 99, "Omnibus 2022", discussed further below, offers an extension of the use of LIBOR which is effective immediately. Therefore, in accordance with both Statements 93 and 99, since LIBOR continues to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021, the use of LIBOR as the benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt is in force.

   The adoption of Statement No. 93 had no impact on the Municipality's current accounting practices nor its financial reporting.

5. **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*" Clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan.

   In Puerto Rico, with the issuance of Act No. 106-2017 terminated the previously existing pension programs for the ERS's participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Accordingly, this Statement had no impact on the Municipality's current accounting practices nor its financial reporting.

6. **GASB Statement No. 99**, "*Omnibus 2022"* Addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including the extension of the use of LIBOR, accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments as well as clarification of provisions in Statement No. 34 and terminology updates related to Statements No. 53 and 63. These requirements are effective upon issuance and had no material impact on the Municipality's financial statements. The Municipality has not completed the process of evaluating the remaining requirements of this Statement that is effective for subsequent fiscal years but does not expect it to have an impact on its financials.

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

Future adoption of accounting pronouncements

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

1. **GASB Statement No. 91**, *"Conduit Debt Obligations"* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

   This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for periods beginning after December 15, 2020 (fiscal year ended June 30, 2022). Earlier application is encouraged. Effective date is postponed one year, as provided in ***GASB Statement No. 95.***

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

   This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, (fiscal year ended June 30, 2023) and all reporting periods thereafter. Earlier application is encouraged.

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

Future adoption of accounting pronouncements (continued)

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

4. **GASB Statement No. 98**, *"The Annual Comprehensive Financial Report"* The objective of this Statement is to address references in authoritative literature to the term comprehensive annual financial report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

   This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

   - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
   - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
   - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
   - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a

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

Future adoption of accounting pronouncements (continued)

subscription liability.

- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement are effective as follows:

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

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

6. **GASB Statement No. 100,** *"Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62"* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

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

Future adoption of accounting pronouncements (continued)

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

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

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

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

7. **GASB Statement No. 101,** *"Compensated Absences"* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Subsequent events

Subsequent events have been evaluated through March 21, 2023, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2022.

3. CASH

The Municipality maintains its deposits in various commercial banks located in Puerto Rico. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are under the custody of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Municipalities' fiscal agent) and held at a private bank. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure (the risk than an issuer or other counterparty to an investment will not fulfill its obligations) may be significant.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, 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) (up to $250,000). 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.

As of June 30, 2022, the Municipality's adjusted bank balances of deposits in commercial banks amounting to $49,662,784 were covered by the FDIC and by pledged securities.

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 at 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 banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates.

Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant.

4. PROPERTY TAXES

The personal property tax is self-assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center ("CRIM"), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building. The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible

4. PROPERTY TAXES (CONTINUED)

for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. 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. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, long term debt is recorded at June 30.

On January 26, 2000, Public Law No. 42 was enacted to authorize the CRIM to obtain a loan up to $200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico had with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted.

Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than $3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the

4. PROPERTY TAXES (CONTINUED)

Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to $50,000 of the assessed value to retailers having annual net sales of less than $150,000.

The annual tax rate for fiscal year 2021-2022 is 10.53% for real property and 8.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 3.50% represents the ad valorem tax restricted for debt service. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

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 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 $12,656,619 and $9,775,893, respectively, for the fiscal year ended June 30, 2022.

5. 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 Cataño. 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. At 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 for the fiscal year ended June 30, 2022 amounted to $10,067,759 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 $9,593,881 as of June 30, 2022. This amount represents the municipal license taxes corresponding to the 2022-2023 fiscal year collected on or before June 30, 2022.

6. SALES AND USE TAXES

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

Effective on February 1, 2014, the Commonwealth approved Act No. 18 and Act No. 19, as amended by Act No. 84 of 2016, 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 its credit capacity along with maintaining sufficient resources for operations. Act No. 18 known as the "Municipal Administration Fund Law" creates a special fund called "Municipal Administration Fund" ("FAM") currently administered by COFIM and under custody of a

6. SALES AND USE TAXES (CONTINUED)

commercial bank. The FAM permits the Municipalities to guarantee and pay long-term debt and provide funds for its general operations. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The **Municipality of Cataño** signed the agreement to be covered. Act No. 19 created the Municipal Finance Corporation ("COFIM"), a public corporation, to issue bonds and use other financing mechanisms to pay or refinance all or a portion of the municipalities' debt obligations payable from the 1% municipal SUT. The Act includes provisions for municipalities that do not want to be covered by Act No. 18. Special rules apply for those municipalities. As discussed above the **Municipality of Cataño** signed the agreement to be covered by Act No. 18.

The FAM is funded with an amount attributable to the .5% of the Commonwealth's SUT for the current fiscal year. The .5% is distributed as follows:

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

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 its 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.

Starting July 2016 all FAM's .2% SUT revenues belonging to the Municipal Redemption Fund and deposited in a private commercial bank designated by COFIM.

The debt service fund reported revenues of $1,140,248 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.

Pursuant to Act no. 19 as amended, the 1% municipal SUT (the "1% Municipal Transfer") is transferred by COFIM to the general fund of municipalities or to the IVU Municipal Redemption Fund as decided by the Municipality. For the fiscal year ended June 30, 2022 the Municipality recorded as revenues $5,752,767 in the general fund.

7. RECEIVABLES

The $14,047, $8,069, $116,028 and the $30,637 reported as accounts receivable in the General Fund corresponds to municipal licenses taxes, licenses and permits, property taxes and others account receivables respectively as of June 30, 2022.

8. INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Federal grants receivable in the accompanying government-wide and fund financial statements represents expenditures incurred not yet reimbursed by the federal agency or pass-through grantor. Following is a detail of the federal grants receivable:

Due from Federal government:		**Amount**
Community Development Block Grant – State's Program	$	75,578
Total	**$**	**75,578**

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

Due to governmental entities:		**Amount**
PR Employees Retirement System	$	151,490
PR Aqueduct and Sewer Authority		72,155
PR Department of Labor		164,501
PR Department of Treasury		590,150
PR Electric Power Authority		778,607
Total	**$**	**1,756,903**

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9. INTER-FUND TRANSACTIONS

Due to/from other funds:

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

Fund	Receivable Fund	Payable Fund
General Fund	$ 940,375	$ 1,201,353
American Rescue Plan Act:		
Coronavirus State and Local Fiscal Recovery Funds	-	536,407
Coronavirus Relief Fund:		
Coronavirus Relief Fund - AAFAF	1,201,353	-
Other Governmental Funds:		
Community Development Block Grant – State's Program	-	369,681
State and Community Highway Safety Program	-	12,869
Child Care and Development Block Grant Program	-	11,913
Community Service Block Grant	-	9,505
Total	**$ 2,141,728**	**$ 2,141,728**

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

Transfer in/out to other fund:

Following is a summary of inter-fund transfers for the year:

Transfer out	Transfer in	Purpose	Amount
Debt Service Fund	General Fund	Transfer of excess funds in sinking fund.	$ 8,839,854
		Total	**$ 8,839,854**

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10. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

Accounts payable, and accrued liabilities as of June 30, 2022 are summarized as follows:

Description	General Fund	American Rescue Plan Act Fund	Coronavirus Relief Fund	FEMA Fund	Other governmental funds	Total
Accounts payable	$2,333,452	$ 114,098	$ 6,107	$ 68,760	$ 33,000	$2,555,417
Accrued liabilities	350,046	-	-	-	-	350,046
Total	**$2,683,498**	**$ 114,098**	**$ 6,107**	**$ 68,760**	**$ 33,000**	**$2,905,463**

11. UNEARNED REVENUES

Unearned revenues of $9,593,881 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.

The amounts reported as unearned revenues in the other governmental funds as of June 30, 2022 are detailed as follows:

	Commonwealth Government	Federal Government
Major Funds:		
American Rescue Plan Act Fund	$ -	$ 4,123,440
Major Fund - FEMA Fund	-	2,098,694
Other Governmental Funds:		
Department of Labor – Law No. 52	38,141	-
Child and Adult Care Food Program	-	146,086
Child Care Program	-	177,652
Community Services Block Grant	-	43,285
Community Development Block Grant – Disaster Recovery	-	121,223
Total	**$ 38,141**	**$ 6,710,380**

12. LONG-TERM OBLIGATIONS

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

	Beginning Balance	Additions	Reductions	Balance	Due Within One Year
Bonds and notes payable	$ 7,864,457	$ -	$ (2,290,000)	$ 5,574,457	$ 2,455,000
Note payable to Community Disaster Loan	5,000,000	-	(5,000,000)	-	-
CRIM - Law 42	4,257,343	-	(263,462)	3,993,881	280,016
Claims and judgments	1,291,289	-	(552,266)	739,023	369,513
Property tax debt	759,360	-	-	759,360	759,360
PRASA repayment plan	1,100,500	-	(426,000)	674,500	426,000
Christmas bonus	515,365	518,503	(515,365)	518,503	518,503
Compensated absences	6,932,881	675,829	(948,954)	6,659,756	635,000
Department of Labor repayment plan	-	338,454	(115,614)	222,840	55,710
	$ 27,721,195	$ 1,532,786	$ (10,111,661)	$ 19,142,320	$ 5,499,102

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.

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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12. LONG-TERM OBLIGATIONS (CONTINUED)

b) Bonds and Notes Payable (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 as of June 30, 2022:

Description	Balance as of June 30, 2022
General obligation bond for infrastructure construction with an original amount of $18,825,000 due in installments of $260,000 to $1,635,000 through July 1, 2022, with interest ranging from 4.87% to 8.00%.	$ 1,635,000
2004 General obligation bond for construction or acquisition of capital assets with an original amount of $10,450,000 due in installments of $315,000 to $800,000 through July 1, 2024, with interest ranging from 4.17% to 5.28%.	2,285,000
2014 General obligation bond for operational expenses with an original amount of $3,415,000 due in installments of $55,000 to $245,000 through July 1, 2038, with interest ranging from 6.00% to 7.00%.	1,654,457
Total	**$ 5,574,457**

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12. LONG-TERM OBLIGATIONS (CONTINUED)

b) Bonds and Notes Payable (continued)

These bonds are payable from the special ad valorem property tax of 3.50%, which is restricted for debt service and retained by the AAFAF for such purposes.

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2022 follows:

Year ended June 30,	Principal	Interest
2023	$ 2,455,000	$ 261,562
2024	860,000	175,399
2025	905,000	126,642
2026	115,000	97,272
2027	125,000	88,272
2028-2032	580,000	247,337
2033-2034	534,457	53,336
Total	$ 5,574,457	$ 1,049,820

c) Property Taxes Debts (Law No.42) – These amounts represent the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2022. The outstanding amount is $3,993,881.

d) Compensated absences – The government-wide statement of net position includes $6,659,756 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.

e) Puerto Rico Aqueduct and Sewer Authority repayment plan – During the fiscal year 2018-2019, the Municipality entered into a financing agreement with the Puerto Rico Aqueduct and Sewer Authority for the payment of the Municipality's debt for water service billed. The balance as of June 30, 2022, of this agreement was $674,500.

f) Claims and judgments – These amounts represent the balance related to legal claims as of June 30, 2022. The balance as of June 30, 2022 is $739,023.

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12. LONG-TERM OBLIGATIONS (CONTINUED)

g) **Christmas bonus -** Represents the accrued portion corresponding to the fiscal year 2022 of the Christmas bonus to be paid in December 2022. The outstanding amount is $518,503.

h) **Payable to CRIM – property tax advances -** 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. 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. If advances exceed actual collections, a payable to CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The final settlements made by CRIM for the fiscal year 2021-2022 reported an excess of advances over actual collections. The resulting payable will be amortized through withholdings from the monthly advances to be received by the Municipality in that fiscal year. As of June 30, 2022, the outstanding amount is $759,360.

i) **Community Disaster Loan (CDL) -** The Community Disaster Loan was granted under Section 417 of the Stafford Act and FEMA Regulation 44 CFR 206.367 under major disaster declaration of September 20, 2017, for the Territory of Puerto Rico (FEMA-DR-4339-PR). The promissory note to the Municipality is for $5,000,000 at an interest rate of 2.75% (the rate for five-year maturities as determined by the Secretary of Treasury in effect on the date the Promissory Notes is executed, adjusted to the nearest 1/8 percent). The note is payable and secured by a pledge of the Municipality's revenues. Neither principal nor interest payments are required until maturity. The normal repayment term of a CDL is five years, where the full principal and accumulated interest are due all together at the end of the five-year term on whatever amount is not cancelled. FEMA may consider requests for an extension on the repayment of the loan, based on the local government's financial condition. However, the total term of a loan normally may not exceed 10 years. Notwithstanding, the terms of the loan provide that if the municipality has not recovered sufficiently to meet its operating budget after three full fiscal years, repayment of all or part of the loan may be cancelled. The Municipality has requisitioned $5,000,000 of the loan funds as of June 30, 2022. Accrued interest is $245,160.

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

13. LEASES

As a lessee, the government should recognize a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the government 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. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

13. LEASES (CONTINUED)

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

The government uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the government generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the government is reasonably certain to exercise.

As of July 1, 2021, the Municipality management evaluated all of its lease agreements as a lessee to determine whether any of them met the requirements of GASB 87 of the Government Accounting Standards Board. Based on the foregoing, the Municipality determined that none of its leases meets the criteria established by the GASB 87 because the term of its commitments are short-term leases by definition (has a maximum possible term under the lease contract of twelve (12) month or less, including any options to extend, regardless of their probability of being exercised). Accordingly, no lease assets or liabilities were recognized in the financial statements as of June 30, 2022. The outflow of resources related to these short-term leases are recorded as a rent expenditures/expense in the Municipality financial statements.

The Municipality monitors changes in circumstances that would require a remeasurement of its leases and will recognize in its financial statement the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease asset and liability.

As a lessor, the Municipality recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

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

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

The government uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is compose of fixed payments from the lessee.

As of July 1, 2021, the Municipality management evaluated all of its lease agreements as a lessor to determine whether any of them met the requirements of GASB 87 of the Government Accounting Standards Board. Based on the foregoing, the Municipality determined that none of its leases meets the criteria established by the GASB

13. LEASES (CONTINUED)

No. 87 because the term of its commitments are short-term leases by definition (has a maximum possible term under the lease contract of twelve (12) month or less, including any options to extend, regardless of their probability of being exercised). Accordingly, no lease receivable or deferred inflows of resources were recognized in the financial statements as of June 30, 2022. The inflows of resources related to these short-term leases are recorded as a rent revenue in the Municipality financial statements.

The Municipality monitors changes in circumstances that would require a remeasurement of its leases and will recognize in its financial statements the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable and deferred inflows of resources.

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14. 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 $100 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	$ 13,269,364	$ -	$ -	$ 13,269,364
Construction in progress	208,955	317,858	-	526,813
Total capital assets not being depreciated	**13,478,319**	**317,858**	**-**	**13,796,177**
Capital assets, being depreciated:				
Buildings and building improvements	96,270,725	894,959	-	97,165,684
Infrastructure	92,756,787	-	-	92,756,787
Furniture and fixtures	10,057,561	365,568	-	10,423,129
Work of art	29,000	-	-	29,000
Vehicles	6,262,844	11,844	-	6,274,688
Total capital assets being depreciated	**205,376,917**	**1,272,371**	**-**	**206,649,288**
Less accumulated depreciation for:				
Buildings and building improvements	(41,587,083)	(2,641,125)	-	(44,228,208)
Infrastructure	(61,216,914)	(3,646,567)	-	(64,863,481)
Furniture and fixtures	(9,706,704)	(337,381)	-	(10,044,085)
Work of art	(11,600)	(5,800)	-	(17,400)
Vehicles	(5,514,696)	(311,632)	-	(5,826,328)
Total accumulated depreciation	**(118,036,997)**	**(6,942,505)**	**-**	**(124,979,502)**
Total capital assets being depreciated, net	**87,339,920**	**(5,670,134)**	**-**	**81,669,786**
Governmental activities capital assets, net	**$ 100,818,239**	**$(5,352,276)**	**$ -**	**$ 95,465,963**

14. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	$	3,370,437
Public safety		37,681
Health and welfare		108,506
Public works		361,103
Culture and recreation		1,080,386
Community development		150,736
Economic development		1,800,955
Education		32,701
Total depreciation expense - governmental activities	$	6,942,505

15. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

	Commonwealth Government	Federal Government
General fund:		
CRIM – Property taxes	$ 116,028	$ -
Other governmental funds:		
Community Development Block Grant – State's Program	-	75,578
Total	**$ 116,028**	**$ 75,578**

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16. FUND BALANCE (DEFICIT)

The governmental fund balance (deficit) classifications and amounts as of June 30, 2022 are shown in the following table:

	General Fund	Debt Service Fund	Capital Project Funds	Other Governmental Funds	Total Governmental Funds
Non-spendable:					
Inventories and other assets	$ 125,000	$ -	$ -	$ -	$ 125,000
Restricted:					
Health and welfare	-	-	47,732	-	47,732
Public works	-	-	3,634,629	-	3,634,629
Culture and recreation	-	-	216,176	-	216,176
Education	-	-	309,303	-	309,303
Debt service	-	7,679,540	-	-	7,679,540
Unassigned (deficit)	14,905,545	-	-	(699,169)	14,206,376
Total fund balance (deficit)	**$15,030,545**	**$7,679,540**	**$4,207,840**	**$ (699,169)**	**$ 26,218,756**

The deficit presented in other government funds is due to various joint resolutions accounts are over drafted as result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures pending to be approved by the state. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

17. NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets component of the governmental activities' net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, mortgages or any other liabilities that are attributable to the purchase, construction, and improvement of those assets. The portion of the debt attributable to unspent proceeds should not be included in the calculation. As of June 30, 2022, the amount of net investment in capital assets is as follows:

Description	Amount
Capital assets, net	$ 95,465,963
Outstanding balance on capital related debt	(5,574,457)
Net investment in capital assets	**$ 89,891,506**

18. RETIREMENT PLAN

Pension system - prior to July 1, 2017

The Municipality was a participating employer in a retirement plan administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the

18. RETIREMENT PLAN (CONTINUED)

Pension system - prior to July 1, 2017 (continued)

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 and *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. Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan.
- *Act No. 305 of September 24, 1999* ("Act 305"), which amended Act 447 and Act 1, for members hired from January 1, 2000 up to June 3, 2013. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.
- *Act No. 3 of April 4, 2013* ("Act 3") effective on July 1, 2013 for members participating under Acts No. 447, 1 and 305 or members hired on or after July 1, 2013. Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees)under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrued under Act 3 plan. Contributions were maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

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.

In addition to retirement benefits, under Act 3 the System provides for termination benefits, deferred retirement, death and disability benefits. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to

18. RETIREMENT PLAN (CONTINUED)

Pension system - prior to July 1, 2017 (continued)

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. There are other "special laws and pensioner additional benefits for retired employees prior to July 1, 2013 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. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

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 reform of ERS's governance and administration and the creation and transition to a new defined contribution plan.

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 determined in accordance to 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 (1) the net proceeds of the sale of ERS's assets, (2) a pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT, (3) Commonwealth's legislative expenditure appropriations, (4) donations by any public or private entity, (5) 25% of first or periodic payments on public-private partnership contracts, (6) other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new "PayGo" model, effective on July 1, 2017. Under the "PayGo" funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner 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

18. RETIREMENT PLAN (CONTINUED)

Pension system – after July 1, 2017 (continued)

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 private commercial bank. It is expected that, as the ERS's assets become depleted, the "PayGo" charge will increase. Act 106 includes penalties and specific procedures for collection of unpaid "PayGo" charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2021-2022, the Municipality was billed and recorded as "PayGo" expenditures the amount of $1,860,435.

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

As discussed earlier, the retirement systems' reform included the creation and procedures for transition to a new defined contribution plan:

General - Effective August 23, 2017, a new defined contribution plan ("Act 106 Retirement Plan") was created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board is responsible for oversight of the Act 106 Retirement Plan; the PRDT currently serves as the trustee and custodian of the Act 106 Retirement Plan's assets, which are deposited in a private bank account. The transition to the new Act 106 Retirement Plan is currently in process. The Retirement Board appointed a plan administrator which will perform recordkeeping and management functions for the Act 106 Retirement Plan. The transition period includes the development and adoption of a plan document, the creation of a separate trust, the transfer of participant accounts and after December 19, 2019, the opportunity to the participants to gain on-line access to their accounts and select and manage their investment options.

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 December 19, 2019, the participants will have on-line access to their accounts and may manage their investment options.

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

18. RETIREMENT PLAN (CONTINUED)

Pension system – after July 1, 2017 (continued)

For participants of the Act 106 Retirement Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the "PayGo" system.

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 do not meet the requirements of ***GASB Statement No. 68*** as of July 1, 2017. As a consequence, the employers are 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 ERS has not provided to the Municipality the audited financial and technical 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 the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

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19. 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 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.

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 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.

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20. 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 stimulate 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.
- 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.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

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

- 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 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.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

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

- 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.
- 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.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

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.

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.

20. TAX ABATEMENTS

Commonwealth of Puerto Rico Agreements (continued)

F. Act 20 of 2012 - "Law to Promote the Export of Services"

Purpose: In order to provide the environment and the appropriate opportunities to develop Puerto Rico as an international service center, promote the permanence and return of local professionals and attract foreign capital, thus promoting the economic development and social improvement of Puerto Rico; to add a new Article 61.242 to Act No. 77 of June 19, 1957, as amended, known as the "Puerto Rico Insurance Code"; and for other purposes.

Tax Benefits/Exemptions:

- In the operation of the activity of export of services, shall enjoy a ninety percent (90%) exemption on municipal and state contributions during the exemption period established in Article 8 of this Law.
- The eligible business shall be one hundred percent (100%) exempt from real and personal property tax during the first five (5) years from the beginning of operations.

G. Act 159 of June 24, 2004 – Amendment to Article 5.01 of Act 83 of 1991: "Municipal Property Tax Act of 1991"

Purpose: To provide tax benefits that stimulate the industrial activity and the exportation of goods, through a mechanism to grant a personal property tax exemption exclusively to the inventory of goods to be used as raw materials and to the total inventory of products and equipment of those businesses whose operations are located in Foreign Trade Zones or Subzones.

Tax Benefits/Exemptions:

- Total exemption of personal property tax, including inventory and equipment, of those businesses that maintain operations within Foreign Trade Zones or Subzones of Puerto Rico duly accredited per the "Foreign Trade Zone Act of 1934, as amended" (19U.S.C. 81 C (a)).
- Sixty (60) percent tax exemption on the assessed value of all the privately-owned real property located within Foreign Trade Zones or Subzones of Puerto Rico duly accredited per the "Foreign Trade Zone Act of 1934, as amended" (19U.S.C. 81 C (a)).

H. Municipal Agreements

From time-to-time the **Municipality of Cataño** enters into economic development incentive agreements with entities that propose to locate businesses within the Municipality, or expand businesses within the Municipality, which are expected to provide a stimulus to the Municipality's

20. TAX ABATEMENTS

Commonwealth of Puerto Rico Agreements (continued)

H. Municipal Agreements (continued)

economy and tax base. Generally, the agreements provide for a rebate of taxes paid to the Municipality according to formulas contained in the agreements. Some agreements provide for a rebate of sales, use or occupational taxes based on the payment of taxes above a base line and others provide for a sharing of the taxes (percentage rebates) above certain amounts. The agreements have limited terms. The Municipality generally expects to receive increased revenue as a result of the agreements. These incentive agreements require approval by the Mayor and Municipal Legislature. Some agreements provide for the repayment to the Municipality of the rebated amount if the entity ceases to operate its business for a certain length of time or fails to produce a certain level of employment. The amount of taxes rebated during fiscal year 2022 was approximately $3,498,301.

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20. TAX ABATEMENTS

For the fiscal year ended June 30, 2022, the Municipality abated the following taxes based on the imposition of Municipal Legislature and State laws governing the agreements entered into by the Commonwealth and the entities:

Act's Name	Tax Category	Percent Abated	Amount Abated FY 2021-2022
Act 135 of 1998, as amended – "Tax Incentive Act"	Real property tax	90%	$ 88,613
	Personal property tax	90%	2,301,303
	Municipal license tax	50-60%	167,585
			$ 2,557,501
Act 73 of 2008, as amended – "Economic Incentive Act for the Development of Puerto Rico"	Real property tax	90%	$ 1,599,151
	Personal property tax	90%	2,783,873
	Municipal license tax	60-100%	1,036,604
			$ 5,419,628
Non-for-Profit Organization	Real property tax	100%	$ 13,675
	Personal property tax	100%	3,627
			$ 17,302
Act 255 of October 28, 2002, as amended – "Cooperative Saving and Credit Unions Act of 2002"	Real property tax	100%	$ 1,763
	Personal property tax	100%	7,346
	Municipal license tax	100%	10,682
			$ 19,791
Act 225 of 1995, as amended – "Agricultural Tax Incentives Act"	Personal property tax	100%	**$ 360,430**
Act 20 of 2012 – "Law to Promote the Export of Services"	Personal property tax	100%	$ 91
	Municipal license tax	60%	4,836
			$ 4,927
Act 159 of June 24, 2004 – Amendment to Article 5.01 of Act 83 of 1991: "Municipal Property Tax Act of 1991"	Real property tax	60%	$ 195,675
	Personal property tax	100%	2,139,165
			$ 2,334,840
Municipal Ordinances	Personal property tax	100%	$ 335,700
	Municipal license tax	40-100%	3,162,601
			$ 3,498,301
Total of tax abatements			**$ 14,212,720**

21. INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND AND DISASTER GRANTS FUND

A. Intergovernmental revenues in the general fund are comprised of the following:

Description	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	$1,634,268
Amount of municipal equalization fund sent by CRIM	2,407,246
Joint Resolutions	32,214
Other State Assignments	9,226
Total	**$4,082,954**

The Municipality reported as electric power revenues and expense the CELI and the municipal public lightning as reported by PREPA, as estimated during the Municipality's budget process. PREPA's revised Fiscal Plan was certified by the Oversight Board on April 19, 2018. As part of the implementation of the Fiscal Plan and applicable legislation (Act No. 57 of 2014 and Act No. 4 of 2016) one of the primary goals is the full recovery by PREPA of CILT and public lighting costs. Measures include moving all the municipal public lighting to the subsidies' rider in the customer bill, removal of all municipal for-profit entities from receiving an electric service credit from the CILT, establishing a maximum consumption cap on the municipal CILT (which will also be reduced by 15% in a three-year period) providing that the municipalities will pay for any excess. During the fiscal year the Municipality PREPA expenditures for energy consumption amounted $1,634,268.

B. Charges for services revenues reported in the general fund are comprised of the following:

Description	Amount
Medical emergency services	$ 4,043,040
Total fees and charges for services	**$ 4,043,040**

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22. COMMITMENTS AND CONTINGENCIES

A. Federal and Commonwealth grants:

The Municipality participates in a number of Federal and Commonwealth Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996 through June 30, 2022, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

With respect to pending and threatened litigation, the Municipality has reported liabilities of $739,023 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

It is the management's 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 resources for its payment.

23. FISCAL AND ECONOMIC CONDITIONS

The Municipality faces fiscal and economic risks and challenges due to different conditions including, among others, the economic and fiscal crisis of the Commonwealth, lack of financing alternatives from commercial banking, the impact of COVID-19, and implementation of Eight Amendment:

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23. FISCAL AND ECONOMIC CONDITIONS (CONTINUED)

Elimination of Commonwealth's subsidy transfer

On May 3, 2017, a petition of relief was filed by the Oversight Board on behalf of the Commonwealth under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan. The Commonwealth provide to the Municipalities subsidy transfers of funds from the 35% of net revenues from the lottery system and 2.5% of net internal revenues from the Commonwealth's General Fund. The latest revised Fiscal Plan provides for the reduction and eventual elimination of the 2.5% Commonwealth transfer. Starting in fiscal year 2017-2018, the total municipal appropriations were reduced by $150 million, bringing a new baseline of $220 reduction in the Commonwealth's subsidies to the municipalities. The reduction will be gradually implemented by 20% on each successive year starting at $44M in fiscal year 2018-2019. However, due to the COVID-19 pandemic, the transfer of fiscal year 2020-2021 was kept to provide financial support to the municipalities during the crisis. The reduction will resume in fiscal year 2021-2022 to fiscal year 2023-2024, before ultimately phasing-out in fiscal year 2024-2025.

The Fiscal Plan propose incentivizing consolidations of municipal services and a property tax reform to help the Municipalities to offset the reduction and become more solvent.

The Municipality cannot adequately estimate the possible effects of the elimination of the 2.5% Commonwealth transfer on its operations in future fiscal years.

Lack of financing alternatives from commercial banking

As a result of significant fiscal challenges, 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 such entities. However, given GDB's situation it is no longer in a position to provide such financings.

While certain mid-sized and small municipalities may be able to obtain financing from commercial financial institutions to continue funding their public work programs and operations, those institutions have strengthened their requirements for financing. In order to mitigate the impact of this events, the municipalities are obtaining other alternatives of long-term financing including federal loans from Rural Development, HUD (Section 108) and FEMA. Notwithstanding, the lack of additional financing alternatives limits the capacity of the municipalities of performing capital projects and improvements including buildings, recreational facilities and infrastructure.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of a new coronavirus (COVID-19) as a pandemic that continues to spread. The United States Government declared a nationwide public health emergency in order to make efforts to contain the virus and provide measures to mitigate the

23. FISCAL AND ECONOMIC CONDITIONS (CONTINUED)

negative effect on the economy. Also starting on March 2020, the Governor of the Commonwealth of Puerto Rico issued various executive orders which, among other things, imposed an overnight curfew, ordered schools, non-essential businesses, nonprofit entities and Commonwealth and Municipal governmental organizations to close or partially operate.

As a result of the impact of the spread of the outbreak and these executive order measures, the Municipality experienced reductions in certain operating (tax) revenues and receipts for fiscal year 2020-2021, causing cash flow problems at year-end. The Municipality at this time cannot predict with any certainty the actual impact COVID-19 may have on revenues in the coming fiscal years. While the impact on the Municipality is uncertain at this time, the Municipality is monitoring the impact and taking several measures to ensure continuity of services of the general public while protecting employees from this virus. The occurrence and extent of such an impact will depend on future developments, including the duration and future spread of the outbreak.

Businesses, the Commonwealth, Municipal governments, and people of Puerto Rico were granted with financial assistance in order to alleviate the economic impact of the coronavirus. The Municipality was awarded with financial support from Commonwealth Government and Federal Government through Emergency Measures Support Package including Cares Act funds.

On March 11, 2021, the U.S. President signed into law the American Rescue Plan Act (ARPA). Section 9901 of ARPA amended Title VI of the Social Security Act 17 (the Act) to add section 602, which establishes the Coronavirus State Fiscal Recovery Fund, and section 603, which establishes the Coronavirus Local Fiscal Recovery Fund (together, known as the Coronavirus State and Local Fiscal Recovery Funds, "CSLFRF"). The CSLFRF are intended to provide support to State, local, and Tribal governments in responding to the impact of COVID–19 and in their efforts to contain COVID–19 on their communities, residents, and businesses. Through Section 603 of the Act, funds were allocated through three different units of government: counties, metropolitan cities and to non-entitlement units.

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

Implementation of Eight Amended POA

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

a) In relation to the Commonwealth:

   i. The Eight Amended POA reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's

23. FISCAL AND ECONOMIC CONDITIONS (CONTINUED)

maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%.

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

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

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

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

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

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

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

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

24. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 21, 2023, which is the date the financial statements were available to be issued and determined that no other material subsequent events require disclosure or an estimate to be recorded as of June 30, 2022.

CRIM Debt Settlement Agreement - Act No. 146-2001 and Act No. 42-2000

Pursuant to Section 207 of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") must approve all debt transactions by the Government of Puerto Rico or its instrumentalities. In connection with this responsibility, on August 1, 2022, the Oversight Board approves the Debt Transaction described therein (the "Debt Transaction"). The Debt Transaction, consists of a Settlement Agreement (the "Settlement") between the Municipal Revenue Collection Center ("CRIM," for its Spanish acronym) and the Government Development Bank ("GDB") Debt Recovery Authority (the "DRA") providing for the consensual settlement of: (i) the term loan in the original principal amount of $166,500,000 granted pursuant to a Loan Agreement by and between GDB and CRIM dated June 28, 2001, as amended, to cover the deficit that resulted from the payment of excess remittances to municipalities over several fiscal years (the "2001 Term Loan"), and (ii) the term loan in the original principal amount of $105,000,000 granted pursuant to a Loan Agreement by and between GDB and CRIM dated March 18, 2002, as amended, to repurchase certain municipal property tax liens that had been sold to the Puerto Rico Public Finance Corporation in 1998 (the "2002 Term Loan" and, together with the 2001 Term Loan, the "CRIM Loans"). The CRIM Loans were subsequently transferred by GDB to the DRA pursuant to the terms of the Master Transfer Agreement between GDB and the DRA in connection with GDB's debt restructuring process under Title VI of PROMESA.

The Settlement brings resolution to approximately $130,906,530 of legacy debt dating back to the early 2000s. It provides much needed cash flow relief by fully settling the outstanding balances of 59 municipalities, in addition to agreeing to 3-year and 5-year shortfall notes for 13 municipalities (the "Shortfall Notes").

The Municipality has evaluated subsequent events through March 21, 2023, which is the date the financial statements were available to be issued. Management is not aware of any additional subsequent events that requires adjustment or disclosure in the financial statements or its related notes.

Municipalities inflation fund

In June 30, 2022, the Financial Oversight and Management Board certified the Government of Puerto Rico's 2022-23 fiscal year budget.

In its general fund an amount of $40 million was assigned under a non-recurring fund for operational costs due to inflation. The amount assigned to each municipality is based on the following criteria: fiscal year budget and property valuation. The amount to be distributed to the **Municipality of Cataño** as a one-time economic support is $123,904.

End of Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Budgetary Comparison Schedule – General Fund
For the Fiscal 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	$ 11,913,282	$ 11,913,282	$ 11,913,282	$ -
Municipal license taxes	9,900,000	9,900,000	10,274,355	374,355
Sales taxes and use	4,900,000	4,900,000	5,736,054	836,054
Licenses, permits and other local taxes	525,000	525,000	154,524	(370,476)
Charges for services	1,600,000	1,600,000	1,701,000	101,000
Interest, fines and penalties	100,000	100,000	114,142	14,142
Intergovernmental	3,972,575	3,972,575	4,041,514	68,939
Other	3,831,073	3,831,073	515,374	(3,315,699)
Total revenues	36,741,930	36,741,930	34,450,245	(2,291,685)
EXPENDITURES:				
General government	19,342,125	19,342,125	18,304,608	1,037,517
Public safety	3,434,660	3,434,660	2,909,829	524,831
Public works	5,360,081	5,360,081	4,849,476	510,605
Culture and recreation	2,124,319	2,124,319	1,975,791	148,528
Health and welfare	6,110,696	6,110,696	5,715,959	394,737
Education	370,049	370,049	237,031	133,018
Total expenditures	36,741,930	36,741,930	33,992,694	2,749,236
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 457,551	$ 457,551

Explanation of differences:

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 34,450,245
Differences - budget to GAAP:	
Non-budget revenues and GAAP adjustments	3,987,861
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 38,438,106
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 33,992,694
Differences - budget to GAAP:	
Non-budgeted expenditures and GAAP adjustments.	7,087,252
Prior year encumbrances recorded as current year expenditures for GAAP basis.	2,504,133
Current year encumbrances recorded as expenditures for budgetary purposes.	(1,447,302)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances.	$ 42,136,777

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 is 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 as of June 30, 2022 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2022.

End of Notes to Budgetary Comparison Schedule

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2022

Federal Grantor/Pass Through Grantor Program or Cluster Title	Federal ALN	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
US DEPARTMENT OF AGRICULTURE				
Indirect Program:				
Pass-through P.R. Department of Education:				
Child and Adult Care Food Program	10.558	N/AV	$ -	$ 48,734
Total US Department of Agriculture			-	**48,734**
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Indirect Programs:				
Pass-through P.R. Department of Housing:				
Community Development Block Grants/State's Program	14.228	N/AV	-	555,393
Total US Department of Housing and Urban Development			-	**555,393**
US DEPARTMENT OF TRANSPORTATION				
Indirect Program:				
Pass-through P.R. Traffic Safety Commission:				
State and Community Highway Safety	20.600	N/AV	-	78,195
Total US Department of Transportation			-	**78,195**
US DEPARTMENT OF TREASURY				
Direct Program:				
Coronavirus State and Local Fiscal Recovery Funds - Non-entitlement/County	21.027	N/A	-	1,392,195
Indirect Programs:				
Pass-through the P.R. Health Department:				
Coronavirus Relief Fund (CRF) - Testing and Contact Tracing Program	21.019	N/AV	-	220,610
Pass through the P.R. Treasury Department - Fiscal Agency and Finacial Advisory Authority ("AAFAF"):				
Coronavirus Relief Fund (CRF)	21.019	N/AV	-	2,442,612
Coronavirus State and Local Fiscal Recovery Funds - Municipal Strengthening Fund	21.027	N/AV	-	71,696
Total US Department of Treasury			-	**4,127,113**
US ENVIRONMENTAL PROTECTION AGENCY				
Direct Program:				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	-	33,281
Total US Environmental Protection Agency			-	**33,281**
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Indirect Programs:				
Pass-through P.R. Office for Socioeconomic and Community Development ("ODSEC"):				
Community Services Block Grant	93.569	N/AV	-	9,505
Pass-through P.R. Family Department - Administration for the Care and Comprehensive Development of Children ("ACUDEN"):				
Child Care and Development Grant Program	93.575	N/AV	-	130,089
Total US Department of Health and Human Services			-	**139,594**
US DEPARTMENT OF HOMELAND SECURITY				
Direct Program:				
Community Disaster Loan Program	97.030	N/A	-	33,540
Indirect Program:				
Pass-through P.R. Central Office for Recovery, Reconstruction and Resiliency (COR3):			-	
Disaster Grants - Public Assistance (Presidentially Diclared Disasters)	97.036	FEMA 4339-DR-PR	-	147,136
Total US Department of Homeland Security			-	**180,676**
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	**$ 5,162,986**

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 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:

Description	Amount
General Fund	$42,136,777
Debt Service Fund	2,778,854
American Rescue Plan Act	1,463,891
Coronavirus Relief Fund	2,663,222
Capital Projects Fund	97,400
FEMA Fund	147,136
Other Governmental Funds	1,427,707
Less:	
Non-Federal Expenditures	(46,944,196)
Total expenditures in Schedule of Expenditures of Federal Awards	**$ 5,162,986**

NOTE 4 – ASSISTANCE LISTING NUMBER AND PASS-THROUGH ENTITY IDENTIFYING NUMBER

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

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

NOTE 5 – INDIRECT COST RATE

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

NOTE 6 – ASSISTANCE LISTING NUMBER 21.027 CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

On March 11, 2021, was signed into law the American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides $350 billion for states, municipalities, counties, tribes, and territories, including $130.2 billion for local governments split evenly between municipalities and counties. The **Municipality of Cataño** started receiving the funds and incurring in expenditures on fiscal year 2021-2022.

End of Notes to Schedule of Expenditures of Federal Awards.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor
and the Municipal Legislature
Municipality of Cataño
Cataño, 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 Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cataño, Puerto Rico**, (**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 and have issued our report thereon dated March 21, 2023. Our report included emphasis of matter paragraphs regarding Municipality's adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective July 1, 2021. Also, our report on the governmental activities was qualified because management has not recorded the liabilities and pension expenses, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB as required by GASB Statement No. 73 & 75, also, do not include the required disclosures.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Municipality of Cataño'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 of Cataño's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Cataño'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 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. 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 weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item **2022-001** that we consider to be material weakness.

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* (CONTINUED)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Cataño'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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as **2022-001**.

Municipality of Cataño's Response to Findings

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

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.

We noted other matters that we reported to the management of the **Municipality of Cataño** in a separate letter dated March 21, 2023.

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 21, 2023

Stamp No. E486945 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **Municipality of Cataño's** compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of **Municipality of Cataño's** major federal programs for the year ended June 30, 2022. **Municipality of Cataño'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 of Cataño's** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance Section of our report.

We are required to be independent of the **Municipality of Cataño** 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 of Cataño's** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

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

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 of Cataño'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 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 of Cataño'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 of Cataño'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 of Cataño'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 of Cataño'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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2022-002** and **2022-003.** Our opinion on each major federal program is not modified with respect to these matters.

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2022-002** and **2022-003** to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on the **Municipality of Cataño's** response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The **Municipality of Cataño's** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The 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.

LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 21, 2023

Stamp No. E486946 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CATAÑO
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2022

Section I – Summary of Auditors' Results

Financial Statements

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Unmodified
Debt Service Fund	Unmodified
American Rescue Plan Act Fund	Unmodified
Coronavirus Relief Fund	Unmodified
Capital Projects Fund	Unmodified
FEMA Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:		
Material weakness(es) identified?	☒ Yes	☐ No
Significant deficiency(ies)?	☐ Yes	☒ No
Noncompliance material to financial statements noted?	☒ Yes	☐ No

Federal awards

Internal Control over major programs:		
Material weakness(es) identified?	☐ Yes	☒ No
Significant deficiency(ies)?	☒ Yes	☐ No
Type of auditors' report issued on compliance for Major Federal Programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516 (a) of the Uniform Guidance?	☐ Yes	☒ No

Identification of Major Federal Programs:

ALN	Name of Federal Program or Cluster
21.019	Coronavirus Relief Fund
21.027	Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between Type A and Type B programs	$750,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

Section II – Financial Statements Findings

Finding Reference 2022-001

Requirement: **Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)**

Type of finding: **Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding(s) ***2019-001, 2020-001 & 2021-001.***

Statement of Condition The Municipality has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.

Also, the Municipality did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Criteria GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II – Financial Statements Findings

Finding Reference 2022-001 (continued)

Criteria (continued) Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

Cause of Condition The Retirement System Administration (ERS) has not provided the audited financial and technical information necessary for the implementation of GASB Statement 73 and GASB Statement No. 75 as of June 30, 2022.

Effect of Condition The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality for the fiscal year ended June 30, 2022. Also, the required supplementary information has been omitted.

Recommendation We recommend the Municipality maintains a constant communication with the Retirement System Administration (ERS), in order to obtain the necessary audited financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Cost None.

Views of Responsible Officials and Planned Corrective Action The **Municipality of Cataño** is aware that the finding is recurring, however, so far the Retirement Systems Administration has not provided the necessary information to close this procedure. The Municipality will maintain communication with the Retirement Systems.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2022-002

Federal Agency:	**U.S. Department of the Treasury**
Pass-through Agency:	**Puerto Rico Fiscal Agency and Financial Advisory Authority & Puerto Rico Department of Health**
Program:	**Coronavirus Relief Fund (Assistance Listing No. 21.019)**
Compliance Requirement:	**Reporting – Special Reporting (L)**
Type of Finding:	**Significant Deficiency in Internal Controls (SD), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding(s) ***2021-003.***

Statement of Condition

During the fiscal year the Municipality administered funds from the Coronavirus Relief Program, this allocation was granted through two government agencies, Puerto Rico Fiscal Agency and Financial Advisory Authority & Puerto Rico Department of Health, respectively. In our Reporting Test, we found that the Municipality did not comply with the monthly compliance reporting requirements established by the Department of Health.

Criteria

The Transfer Agreements, Clause 5.1, the transferee shall submit reports as the transferor determines are needed to verify use of the funds and compliance with conditions that are imposed on the transfer, and such reports shall be in such form, with such content, as specified by the transferor in the transfer plan and future program instructions directed to all recipients.

Transferor will transfer emergency assistance fund to transferee for necessary expenditures related to the COVID-19 emergency by making a transfer on the basis set out in this Agreement and in the Transfer Plan attached as **Exhibit A**. The reports must be due on the 15th day of each month, the transferee will submit a use of funds transfer report for the prior month's expenses.

Cause of Condition

There is a lack of knowledge and training to personal assigned. Additionally, the Municipality does not have an adequate monitoring for the activity and the reports.

Effect of Condition

The program is not in compliance with the Reporting Requirements as established in agreement.

Recommendation

We recommend training for the authorized personnel to work with the program where they can understand and know how to develop the required reports by the pass-through agency. Also, the Municipality should establish a monitoring system to ensure compliance with established requirements, such as: submit the reports during the 15th day of each month, where the fund expenses of the previous month will be reported. This will ensure better control for the program.

Questioned Cost

None.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2022-002 (continued)

Views of Responsible Officials and Planned Corrective Action	We concur with the finding. The Municipality has taken corrective measures for faithful compliance with the established reporting dates. Compliance oversight will be strengthened for this program or any other required funds.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2022-003

Federal Agency:	**U.S. Department of the Treasury**
Pass-through Agency:	**Puerto Rico Fiscal Agency and Financial Advisory Authority Program: Coronavirus State and Local Fiscal Recovery Funds (Assistance Listing No. 21.027)**
Compliance Requirement:	**Reporting – Special Reporting (L)**
Type of Finding:	**Significant Deficiency in Internal Controls (SD), Instance of Noncompliance (NC)**

Statement of Condition

During the fiscal year, the Municipality administered funds from the Coronavirus State and Local Fiscal Recovery Funds, this allocation was granted directly from the Federal government and through Puerto Rico Fiscal Agency and Financial Advisory Authority, respectively. In our Reporting Test, we found that the Municipality did not comply with the monthly compliance reporting requirements established by the Puerto Rico Fiscal Agency and Financial Advisory Authority. Also, the Municipality reported as expense the amounts obligated, instead of the amounts accrued.

Criteria

The Municipal Strengthening Fund Transfer Agreement, Clause 5.1, states that the Transferee shall submit reports as the Transferor determines are needed to verify use of the funds and compliance with conditions that are imposed on the Transfer, and such reports shall be in such form, with such content, as specified by the Transferor in the Transfer Plan and future program instructions directed to all Recipients.

The Transfer Plan, on Exhibit A, establishes that starting on the 15th day of the month following receipt of the funds, and by the 15th day of each month, the Transferee will submit a Use of Funds Report for the prior month's expenses.

Also, on the Municipal Strengthening Fund Program Guidelines, the Puerto Rico Fiscal Agency and Financial Advisory Authority specified on the Reporting Requirements Section that the recipients are required to submit monthly financial reports using the reporting template provided by the program.

During the fiscal year 2021-2022, in addition to the contract agreement with the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Municipality signed an agreement with the US Department of Treasury to receive funds direct funds as a Non-entitlement and County Unit. Those transfer agreements also established reporting requirements that we determined that the Municipality was in compliance.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2022-003 (continued)

Cause of Condition	There is a lack of knowledge and training to personnel assigned. Additionally, the Municipality does not have an adequate monitoring for the activity and the reports.
Effect of Condition	The program is not in compliance with the Reporting Requirements as established in agreement.
Recommendation	We recommend training for the authorized personnel who administer the program, to better understand the reporting requirements and develop complete and accurate reports. The Municipality should establish a monitoring system to ensure compliance with requirements established by the pass-through agency such as: submitting the reports during the 15th day of each month, where the fund expenses of the previous month will be reported as incurred. This will ensure better control for the program.
Questioned Cost	None.
Views of Responsible Officials and Planned Corrective Action	We concur with the finding. The Municipality has taken corrective measures for faithful compliance with the established reporting dates. Training and supervision of compliance personnel for this program or any other required funds will be reinforced.

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CATAÑO
Corrective Action Plan
For the Fiscal Year Ended June 30, 2022

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Statement of Concurrence or Nonconcurrence	Corrective Action
2022-001	We concur with the finding.	The Municipality of Cataño is aware that the finding is recurring, however, so far, the Retirement Systems Administration has not provided the necessary information to close this procedure. The Municipality will maintain communication with the Retirement Systems. Implementation Date: Fiscal year 2023-2024 Responsible Person: Mrs. María Pérez - Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Statement of Concurrence or Nonconcurrence	Corrective Action
2022-002	We concur with the finding.	We concur with the finding. The Municipality has taken corrective measures for faithful compliance with the established reporting dates. Compliance oversight will be strengthened for this program or any other required funds. Implementation Date: Fiscal year 2022-2023 Responsible Person: Mrs. María Pérez - Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Statement of Concurrence or Nonconcurrence	Corrective Action
2022-003	We concur with the finding.	We concur with the finding. The Municipality has taken corrective measures for faithful compliance with the established reporting dates. Training and supervision of compliance personnel for this program or any other required funds will be reinforced. Implementation Date: Fiscal year 2022-2023 Responsible Person: Mrs. María Pérez - Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2021-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Municipality has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single	The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard. At this date the Municipality	None	A similar situation took place during fiscal year 2021-2022. See current year finding **2022-001.** The reason for the recurrence of the finding is that the ERS do not provide to Municipality with the required audited information. Pending of final action of the Municipality's Management.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2021-001 (continued)		employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Also, the Municipality did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2021, to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2021-001 (continued)		Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor
Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CATAÑO
Schedule of Prior Years Audit Findings
For the Fiscal Year Ended June 30, 2022

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2021-002	Coronavirus Relief Fund ALN 21.019 Allowable Cost/Cost Principles (B) (SD) & (NC)	In our Payroll Test, we found that the Municipality did not comply with the limit labor hours by employee position as established by the pass-through agency.	The Municipality of Cataño is committed to maintaining continuous monitoring of the guidelines and procedures of the Municipal Case Investigation and Contact Tracing System. This in conjunction with the Office of Human Resources to keep track of records of hours worked by program employees, with the purpose of maintaining adequate supervision and preventing these findings from being repeated.	None	Full corrective action was taken.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor
Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2021-003	Coronavirus Relief Fund ALN 21.019 Reporting (L) – Special Reporting (SD) & (NC)	In our Reporting Test, we found that the Municipality did not comply the monthly compliance reporting requirements established by the pass-through agency.	The Municipality is committed to effectively monitor the preparation and submission of all reports required by the Municipal Case Investigation and Contact Tracing System, thus complying with the deadlines established in the program guides.	None	A similar situation took place during fiscal year 2021-2022. See current year finding **2022-002.** The Municipality still having submission issues. The municipality will hire external advice to comply with the reports.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2020-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Municipality has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single	The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard. At this date the Municipality	None	A similar situation took place during fiscal year 2021-2022. See current year finding **2022-001.** The reason for the recurrence of the finding is that the ERS do not provide to Municipality with the required audited information. Pending of final action of the Municipality's Management.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2020-001 (continued)		employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Also, the Municipality did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019, to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2020-001 (continued)		Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

Contact Person: Mrs. María Pérez, Finance Director Phone: (787) 788-0404

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2019-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Municipality has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-	The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.	None	The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse. The reason for the recurrence of the finding is that the ERS do not provide to Municipality with the required audited information.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
		employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Also, the Municipality did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018, to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.			Pending of final action of the Municipality's Management.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CATAÑO
Schedule of Prior Years Audit Findings
Fiscal Year Ended June 30, 2022

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022 Fiscal Year: 2021-2022

Principal Executive: Hon. Julio Alicea Vasallo, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2019-001 (continued)		Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Julio Alicea Vasallo, Mayor

March 21, 2023
Date